



# Shanghai Fudan Microelectronics Company Limited

*(a joint stock limited company incorporated in the People's Republic of China)*

## Placing of H Shares

Lead Manager and Sponsor



BOCI Asia Limited

**IMPORTANT**

**If you are in any doubt** about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



**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)*

**Placing of H Shares  
and  
Listing on the Growth Enterprise Market of  
The Stock Exchange of Hong Kong Limited**

**Number of Shares** : 125,000,000 H Shares (subject to  
the Over-allotment Option)  
**Issue price** : HK\$0.80 per H Share  
**Par value** : RMB 0.10 per H Share  
**Stock code** : 8102

**Lead Manager and Sponsor**



**BOCI Asia Limited**

**Underwriter**



**BOCI Asia Limited**

**Co-Managers**

**Grand Cathay Securities  
(Hong Kong) Limited**

**Kingsway SW Securities Limited**

**Sinpac Securities  
(Hong Kong) Co., Limited**

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and Documents available for inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission in Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the documents referred to above.

The Company is incorporated, and its businesses are located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in the section headed "Risk Factors" and the "Summary of principal legal and regulatory provisions and Articles of Association" in Appendix V to this prospectus.

*\* for identification purpose only*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”)**

The 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 the 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM.

The principal means of information dissemination on the 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 in order to obtain up-to-date information on GEM-listed issuers.

## EXPECTED TIMETABLE

2000

Allocation to placees on or before . . . . . Thursday, 3rd August

Announcement of the level of indication of interests in the

Placing to be published on the GEM website on or before . . . . . Thursday, 3rd August

H share certificates available on or before (*Note 1*) . . . . . Thursday, 3rd August

Dealings in the H Shares on the GEM to commence on or about . . . . . Friday, 4th August

*Note:*

1. The H Share certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on or about 3rd August, 2000 for credit to the respective CCASS participants' stock accounts designated by the placees. No temporary documents of title will be issued.
  
2. Details of the structure of the Placing and conditions of the Placing are set out in the section headed "Structure and Conditions of the Placing" in this prospectus.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not included in this prospectus must not be relied on by you as having been authorised by the Company, the Underwriters, any of their respective directors or affiliates or any other person involved in the Placing.*

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## SUMMARY OF THIS PROSPECTUS

*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed “Risk Factors”. You should read this section carefully before you decide to invest in the H Shares.*

### BUSINESS

The Company is an application specific integrated circuit (or ASIC) design and system integration company based in the PRC and is mainly engaged in the design and sale of IC for industrial applications. Currently, its products include various types of IC for telecommunication products, smart cards, motor vehicle electronic products, power supply electronic products and consumer electronic products.

The Company operates on a “fables” basis in that it undertakes only the design of its products and engages independent OEM manufacturers to carry out production. The Directors are of the view the “fables” basis of operation is presently most suitable for the Company as it allows the Company to operate without the burden of the substantial investment costs associated with “fab” operations. The Company currently engages 8 OEM manufacturers, of whom 7 are located in the PRC and 1 in Singapore. The “fables” method of operation allows the Company to concentrate on product design and to select the manufacturers whom it considers most technically competent and cost effective to undertake the production of its products. The Company requires most of the OEM manufacturers it engages to undertake to maintain strict confidentiality in respect of the design of its products and all technical information made available to such manufacturers. The Company also adopts strict quality control measures to monitor and check the quality of the products before delivery to customers.

Since its establishment, the Company has successfully designed and marketed the following IC products:

<b>Industrial Application</b>	<b>IC Products</b>
Smart cards	8K Bits memory card circuit
Power supply electronic products	earth leakage current detector circuit electricity power metering circuit
Telecommunication products	low voltage transmission circuit with dialer interface low voltage transmission circuit with dialer interface with EMC hand-free speaker controller circuit dual tone multi-frequency decoding circuit
Motor vehicle electronic products	high reliability motorcycle ignition controller circuit liquid level alarm circuit magnetic pickup ignition controller circuit Hall effect pickup ignition controller circuit automotive flashlight controller circuit high power motorcycle ignition controller circuit security system circuit
Consumer electronic products	low voltage stereo power amplifier circuit

## SUMMARY OF THIS PROSPECTUS

The Company started commercial operation in July 1998. For the two years ended 31st December, 1999, the Company achieved a turnover of RMB2,637,000 and RMB14,083,000 respectively and incurred a net loss of RMB964,000 and RMB65,000 respectively. The Company experienced a growth in turnover of approximately 434% from 1998 to 1999.

The Company currently has 103 staff, of whom 2 hold doctorate degrees, 6 hold master degrees and 49 hold bachelor degrees mostly in electronic engineering and computer science. Of the Company's staff, 38 are engaged in research and development, 23 in management, administration and finance, 23 in quality control and product testing and 19 in sales and marketing.

### COMPETITIVE STRENGTHS

While the Company has a relatively short history, the Directors believe it has already established a notable market presence in the PRC. The Directors believe that the Company is well-positioned to benefit from the further growth in the IC design and system integration business in the PRC.

The Directors attribute the Company's success to the following:

- the Company's strong technical expertise in IC design and system integration;
- the Company's "fabless" method of operation;
- the implementation of strict quality control measures;
- the Company's close relationship with Fudan University which gives it access to valuable research resources and young talents in electronic and computer engineering;
- the designation of the Company as a "new and advanced technology enterprise" by the Shanghai New Advanced Technology Enterprise Assessment Office (an entity under the administration of the Shanghai Municipal Government) which entitles the Company to preferential policies such as tax relief;
- the Company's experienced and well-qualified technical and management staff; and
- the Company's ability to retain key staff, particularly those engaged in product design which requires a high level of technical know-how, through shareholding interest in the Company and performance incentive arrangements.



# SUMMARY OF THIS PROSPECTUS

## TRADING RECORD

The following is a summary of the results of the Company for the two years ended 31st December, 1999 extracted from the accountants' report, the text of which is set out in Appendix I of this prospectus.

	<b>Year ended 31st December, 1998</b>	<b>1999</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,637	14,083
Cost of inventories sold	<u>(1,557)</u>	<u>(8,404)</u>
Gross profit	1,080	5,679
Other revenue	36	57
Selling expenses	(245)	(1,143)
Administrative expenses	<u>(1,792)</u>	<u>(4,518)</u>
Profit/(Loss) on the operating activities	(921)	75
Finance costs	<u>(43)</u>	<u>(140)</u>
Loss before taxation	(964)	(65)
Taxation	<u>—</u>	<u>—</u>
Net loss attributable to shareholders	<u><u>(964)</u></u>	<u><u>(65)</u></u>
Loss per share ( <i>Note</i> )	<u><u>(0.51) cent</u></u>	<u><u>(0.02) cent</u></u>

*Note:*

The calculation of the loss per share is based on the weighted average of 188,509,615 Domestic Shares and 320,913,462 Domestic Shares in issue during the two years ended 31st December, 1998 and 1999, respectively, as if (i) the 3,700,000 Domestic Shares issued to Fudan High Tech by the Company on its incorporation had been in issue on 1st January, 1998; and (ii) the 245,000,000 Domestic Shares to be issued to the existing shareholders of the Company pursuant to the Capitalisation Issue upon the completion of the Placing had been in issue from the respective dates on which the related existing Domestic Shares were issued.

**The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such a requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Company since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I of this prospectus.**

# SUMMARY OF THIS PROSPECTUS

## BUSINESS POTENTIAL

As living standards continue to improve in the PRC, the Directors believe that there remains significant market potential for telecommunication products, intelligent household electrical appliances, smart cards, motor vehicle electronic products and consumer electronic products. In particular, as information technology continues to undergo rapid development in the PRC in the coming years, the Directors envisage significant market opportunities for the development of IC products for use in the telecommunication industry.

- *Telecommunication products*

The Company intends to start developing a wider range of telephone IC with particular focus on IC for use in mobile telephones and internet applications as the Directors believe that these areas have significant growth potential in the PRC. The Company also intends to start developing IC for digital cordless telephones and pagers.

- *Intelligent household electrical appliances*

In the light of the increasing attention to power efficiency in the design of household electrical appliances, the Company intends to start developing IC products for use in microprocessors in household electrical appliances.

- *Smart cards*

There has been significant growth in the usage of smart cards in the PRC in recent years. The Company considers smart cards to be an area with significant development potential. Hence, the Company will continue to broaden its range of IC card products. The Company is now in the course of designing the IC for bank account cards.

- *Motor vehicle electronic products*

The Company also intends to focus on improving its existing range of IC for motor vehicle electronic products. This will include the development of a digital control IC for engine ignition which will replace the analog control IC.

- *Consumer electronic products*

The Directors expect that there will be a continued increase in the production of consumer electronic products by PRC manufacturers. Hence, the Company intends to expand the range and type of its IC designs for different consumer electronic products. The Company also intends to develop IC designs for digital audio-visual products.

## BUSINESS OBJECTIVES AND STRATEGIES

The Company's overall business objective is to capture a significant share of the IC design and system integration business in the PRC and to become one of the leading ASIC design companies in the world.

## SUMMARY OF THIS PROSPECTUS

In recent years, there has been a significant increase in the demand for IC products in the PRC. However, the PRC market has relied, to a significant extent, on imported IC products to satisfy demand. The Directors believe that this situation has been brought about by the shortage in supply of local IC products which are of comparable quality to imported products. The Directors believe that the Company's strong technical expertise will enable it to compete against products produced by foreign suppliers. Based in the PRC, the Company has the advantage of lower operating costs and hence, more flexibility in product pricing when competing against foreign suppliers.

To enable it to achieve its business objectives, the Company proposes to adopt the following key strategies:

- *To further strengthen its technical expertise*

The Company believes that its experienced and well-qualified technical and management staff is the most valuable asset of the Company. The Company will continue to place significant emphasis on retaining key staff and providing performance incentives for them as well as continue to recruit and train new staff with outstanding technical abilities.

- *To apply its expertise in areas of greatest business potential*

Given the rapid pace of technological development in the IC industry and the relatively short life cycle of IC products, the Company appreciates the importance of applying its knowledge, expertise and marketing abilities to the development of new products which are anticipated to have the highest growth potential.

- *To target the PRC as the key market for its business expansion*

Given the favourable market conditions currently prevailing in the IC industry in the PRC, the Company intends first to develop and consolidate its leading position in the IC design and system integration business in the PRC and at an appropriate time in the future, to expand its sales beyond the PRC into the South East Asian and North American markets.

### USE OF PROCEEDS

The net proceeds from the Placing, after deducting the relevant expenses, are estimated to be about HK\$85,000,000. At present, it is expected that such proceeds will be applied as follows:

- about HK\$33,000,000 will be used for the design, research and development of new products and upgrading of existing products (it is expected that about HK\$24,000,000 will be used to develop new products, HK\$3,000,000 will be used to upgrade existing products and HK\$6,000,000 will be used to establish an office in Silicon Valley in the United States);
- about HK\$16,000,000 will be used for the expansion and upgrading of the Company's product design capabilities, including the purchase of additional computer hardware and software (it is expected that about HK\$11,500,000 will be used to purchase IC design software, HK\$3,000,000 will be used to purchase hardware equipment and the balance will be used to purchase other related equipment);

## SUMMARY OF THIS PROSPECTUS

- about HK\$13,000,000 will be used for marketing and distribution of the Company's products (it is expected that about HK\$7,500,000 will be used for the expansion of the Company's marketing activities and about HK\$5,500,000 will be used for the establishment of distribution and logistics centers in the PRC); and
- the balance will be used as additional working capital (of which up to approximately HK\$20,000,000 may be used for the development of new IC products in addition to those stated in the Company's business plans up to 31st December, 2002 in the light of market conditions).

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$14,000,000 will be applied by the Company as general working capital.

**The Company's detailed business plans up to 31st December, 2002 are set out in the section headed "Business objectives" in this prospectus. According to current estimates, the Directors expect that the proceeds from the Placing will be sufficient to finance the implementation of the Company's business plans up to 31st December, 2001 and additional funding in the region of HK\$56 million will be required to finance its business plans in 2002. The Directors anticipate that after the listing of the H Shares on the GEM, the Company may be able to obtain such additional funding from, among other sources, internal resources generated by the Company's business operations, bank financings or a combination of these sources. If, however, the Company is unable to raise such additional funding, it may have to make material modifications to its business plans in 2002 and/or the intended use of proceeds described in the section headed "Financial information" in this prospectus. It could also adversely affect the Company's business development. If any such modification has to be made, an appropriate announcement will be made by the Company.**

### SHARE ISSUE STATISTICS

Market capitalisation of H Shares . . . . . HK\$100,000,000

Adjusted net tangible asset value per Share (*Note 1*) . . . . . HK\$0.19

#### *Note:*

1. The adjusted net tangible asset value per share has been arrived at after making the adjustments set out under the paragraph "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 500 million Shares in issue and to be issued as mentioned herein (assuming that the Over-allotment Option is not exercised).

### RESTRICTIONS ON DISPOSAL OF DOMESTIC SHARES

In accordance with the GEM Listing Rules, any person who is (or group of persons who together are) entitled to exercise, or control the exercise of, 5% or more of the voting power at general meetings of the Company and who is (or are) able, as a practical matter, to direct or influence the management of the Company immediately prior to the date of this prospectus constitutes an initial management shareholder of the Company.

Each of the Staff Shareholding Association, Fudan High Tech, Fudan University (which, through Fudan High Tech, has an indirect shareholding interest in the Company), Shanghai Commerce and

## SUMMARY OF THIS PROSPECTUS

Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, the executive Directors (being Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia and Wang Su) and the non-executive Directors (being Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu) constitutes an initial management shareholder of the Company.

The GEM Listing Rules require each of the initial management shareholders to undertake to the Company and the Stock Exchange not to dispose of any of its (or his) direct or indirect interest in Relevant Securities for a period of two years after the Listing Date. The Company, on behalf of the initial management shareholders referred to above, has applied for, and the Stock Exchange has granted, a waiver in respect of the non-disposal restriction under the GEM Listing Rules so that the lock-up period is reduced to six months after the Listing Date (see section headed “Waivers in respect of the GEM Listing Rules” in this prospectus).

Each of the Staff Shareholding Association, Fudan High Tech, Fudan University, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Quoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu has undertaken to the Stock Exchange, the Company and the Underwriters as follows:

- (i) for a period of six months from the Listing Date, it (or he) will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its (or his) direct or indirect interest in Relevant Securities; and
- (ii) it (or he) will comply with the requirements of Rule 13.20 of the GEM Listing Rules in respect of its (or his) holding of Relevant Securities (which requires the Company to be notified in the event of the creation of any charge or pledge over any direct or indirect interest in Relevant Securities or the disposal of Relevant Securities pursuant to such charge or pledge).

In addition, the Staff Shareholding Association, Fudan High Tech and Fudan University have further undertaken to the Stock Exchange, the Company and the Underwriters that for the second six-month period falling after the Listing Date, none of them will dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Relevant Securities if such disposal would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company.

Each of the Supervisors and the Senior Management Members, as a result of his (or her) indirect shareholding interest in the Company through the Staff Shareholding Association, has undertaken to the Company, the Stock Exchange and the Underwriters that for a period of six months from the Listing Date, he (or she) will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his (or her) direct or indirect interest in Relevant Securities. The Supervisors are Li Wei, Ding Shengbiao and Xu Lenian. The Senior Management Members are Shi Jin, Zhou Ting, Ji Lanhua and Zhao Meijin.

## SUMMARY OF THIS PROSPECTUS

Under the Company Law, the transfer of Domestic Shares in the Company by the Promoters, the Directors, the Supervisors and the general manager of the Company is subject to the following restrictions:

- (i) none of the Promoters may transfer its (or his) Domestic Shares during a period of three years after the incorporation of the Company (whether such Domestic Shares are acquired on or subsequent to incorporation), such three-year period being due to expire on 10th July, 2001;
- (ii) none of the Directors, Supervisors or general manager of the Company may transfer his Domestic Shares during such time as he remains in office.

According to the advice of the Company's PRC legal adviser, the prohibition on the transfer of Domestic Shares under the Company Law applies to both the Domestic Shares directly held by the Promoters, Directors, Supervisors or general manager of the Company and the Domestic Shares in which any of them is indirectly interested through the Staff Shareholding Association.

The Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing and Shi Lei, as Promoters; Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu, as Directors; and Li Wei, Ding Shengbiao and Xu Lenian, as Supervisors, are subject to the transfer restrictions under the Company Law described above. As Fudan University is not a Promoter and none of the Senior Management Members is a Promoter, Director, Supervisor or general manager of the Company, none of them is subject to the transfer restrictions under the Company Law described above.

As there is a difference in length between the lock-up period imposed under the GEM Listing Rules and the prohibition on transfer period under the Company Law, the parties who are subject to both sets of restrictions, being the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing, Shen Xiaozu, Li Wei, Ding Shengbiao and Xu Lenian, will not be able to dispose of their respective Relevant Securities until the expiry of the longer of the two restriction periods (see table set out on pages 9 to 13).

If, after the date of this prospectus, any subsequent change in the restrictions on the transfer of Domestic Shares under the Company Law should result in any of the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing, Shen Xiaozu, Li Wei, Ding Shengbiao or Xu Lenian being able to transfer its (or his) Domestic Shares before the expiry of the lock-up period under the GEM Listing Rules, such party would remain bound by its (or his) non-disposal undertaking to the Stock Exchange, the Company and the Underwriters until the expiry of such lock-up period.

## SUMMARY OF THIS PROSPECTUS

The following table sets out the respective shareholding interests of the initial management shareholders of the Company, the Supervisors and the Senior Management Members and the restrictions on disposal or transfer of Domestic Shares to which they are subject:

Shareholder	Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Lock-up period under GEM Listing Rules (from the Listing Date)	Period within which transfer of Domestic Shares prohibited under Company Law
<b>Initial management shareholders (who are also Promoters)</b>					
Staff Shareholding Association <i>(Note 1)</i>	144,230,000	28.85	27.80	6 months (and thereafter, a further period of 6 months during which no disposal is allowed if it would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company)	3 years from incorporation (up to 10th July, 2001)
Fudan High Tech <i>(Note 2)</i>	106,730,000	21.35	20.57	6 months (and thereafter, a further period of 6 months during which no disposal is allowed if it would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company)	3 years from incorporation (up to 10th July, 2001)
Shanghai Commerce and Investment <i>(Note 3)</i>	95,200,000	19.04	18.35	6 months	3 years from incorporation (up to 10th July, 2001)
Shanghai Pacific <i>(Note 4)</i>	34,620,000	6.92	6.67	6 months	3 years from incorporation (up to 10th July, 2001)

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Shareholder	Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Lock-up period under GEM Listing Rules (from the Listing Date)	Period within which transfer of Domestic Shares prohibited under Company Law
Ningbo Lirong <i>(Note 5)</i>	14,420,000	2.89	2.78	6 months	3 years from incorporation (up to 10th July, 2001)
Shanghai Gaozhan Consultancy <i>(Note 6)</i>	14,420,000	2.89	2.78	6 months	3 years from incorporation (up to 10th July, 2001)
<b>Initial management shareholders (who are also Promoters and executive Directors)</b>					
Jiang Guoxing <i>(Note 7)</i>	8,652,300	1.73	1.67	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
Shi Lei <i>(Note 8)</i>	20,190,000	4.04	3.89	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
<b>Other initial management shareholders</b>					
Yu Jun <i>(Note 9)</i>	10,961,530	2.19	2.11	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
Cheng Junxia <i>(Note 9)</i>	8,076,920	1.61	1.56	6 months	3 years from incorporation (up to 10th July, 2001) or so long as she remains in office as Director, whichever is the longer period



## SUMMARY OF THIS PROSPECTUS

Shareholder	Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Lock-up period under GEM Listing Rules (from the Listing Date)	Period within which transfer of Domestic Shares prohibited under Company Law
Wang Su <i>(Note 9)</i>	7,211,530	1.44	1.39	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
Chen Xiaohong <i>(Note 9)</i>	7,211,530	1.44	1.39	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
Zhang Qianling <i>(Note 9)</i>	1,733,650	0.35	0.33	6 months	3 years from incorporation (up to 10th July, 2001) or so long as she remains in office as Director, whichever is the longer period
He Lixing <i>(Note 9)</i>	1,442,300	0.29	0.28	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period
Shen Xiaozu <i>(Note 9)</i>	1,442,300	0.29	0.28	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Director, whichever is the longer period

## SUMMARY OF THIS PROSPECTUS

Shareholder	Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Lock-up period under GEM Listing Rules (from the Listing Date)	Period within which transfer of Domestic Shares prohibited under Company Law
Fudan University <i>(Note 10)</i>	106,730,000	21.35	20.57	6 months (and thereafter, a further period of 6 months during which no disposal is allowed if it would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company)	not applicable
<b>Supervisors</b>					
Li Wei <i>(Note 11)</i>	6,057,690	1.21	1.17	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Supervisor, whichever is the longer period
Ding Shengbiao <i>(Note 11)</i>	7,211,530	1.44	1.39	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Supervisor, whichever is the longer period
Xu Lenian <i>(Note 11)</i>	865,380	0.17	0.17	6 months	3 years from incorporation (up to 10th July, 2001) or so long as he remains in office as Supervisor, whichever is the longer period

## SUMMARY OF THIS PROSPECTUS

Shareholder	Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Lock-up period under GEM Listing Rules (from the Listing Date)	Period within which transfer of Domestic Shares prohibited under Company Law
<b>Senior Management Members</b>					
Shi Jin <i>(Note 12)</i>	3,317,300	0.66	0.64	6 months	not applicable
Zhou Ting <i>(Note 12)</i>	6,057,690	1.21	1.17	6 months	not applicable
Ji Lanhua <i>(Note 12)</i>	6,057,690	1.21	1.17	6 months	not applicable
Zhao Meijin <i>(Note 12)</i>	865,380	0.17	0.17	6 months	not applicable

*Notes:*

- The Staff Shareholding Association is a social organisation legal person (社團法人) under PRC law. It is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory. Each member provided the Staff Shareholding Association with the subscription money in respect of a specific number of the Domestic Shares held by the Association and is entitled to the economic benefits derived from those shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). The voting rights attached to the Domestic Shares held by the Association are, however, exercised collectively by the manager of the management committee of the Association and not individually by or at the direction of each member. See further details under the paragraph headed "Performance incentive arrangements" in the section headed "Business of the Company" of this prospectus.
- Fudan High Tech is a state-owned enterprise wholly-owned by Fudan University.
- Shanghai Commerce and Investment is a state-owned enterprise wholly-owned by the Shanghai Municipal Government. Of the 95,200,000 Domestic Shares in which Shanghai Commerce and Investment is interested, 46,160,000 are held in its own name, 34,620,000 are held by Shanghai Pacific, its wholly-owned subsidiary, and 14,420,000 are held by Ningbo Lirong, its subsidiary (owned as to 74.3%). The 46,160,000 Domestic Shares held in its own name will represent approximately 9.22% (or if the Over-allotment Option is exercised in full, 8.90%) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing.
- Shanghai Pacific is a wholly-owned subsidiary of Shanghai Commerce and Investment.
- Ningbo Lirong is a subsidiary of Shanghai Commerce and Investment in which it has an ownership interest of 74.3%. Of the remaining 25.7% ownership interest in Ningbo Lirong, 25% is owned by 香港申港實業有限公司 and 0.7% by 寧波榮基有限公司.
- Shanghai Gaozhan Consultancy is a Sino-foreign equity joint venture which is owned as to 20% by Shanghai Pacific and 80% by Hong Kong Gaozhan International Company Limited (香港高湛國際有限公司).

## SUMMARY OF THIS PROSPECTUS

7. Of the 8,652,300 Domestic Shares in which Jiang Guoxing is interested, he holds 7,210,000 in his own name and is interested in 1,442,300 through the Staff Shareholding Association. The 7,210,000 Domestic Shares held by Jiang Guoxing in his own name will represent approximately 1.44% (or if the Over-allotment Option is exercised in full, 1.39%) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing.
8. Of the 20,190,000 Domestic Shares in which Shi Lei is interested, he holds 7,210,000 in his own name and is interested in 12,980,000 through the Staff Shareholding Association. The 7,210,000 Domestic Shares held by Shi Lei in his own name will represent approximately 1.44% (or if the Over-allotment Option is exercised in full, approximately 1.39%) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing.
9. Each of Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu is interested in the Domestic Shares through the Staff Shareholding Association.
10. The 106,730,000 Domestic Shares in which Fudan University is interested are all held through Fudan High Tech. As Fudan University is not a Promoter, it is not subject to the restrictions on transfer of Domestic Shares applicable to the Promoters under the Company Law.
11. Each of Li Wei, Ding Shengbiao and Xu Lenian is interested in the Domestic Shares through the Staff Shareholding Association.
12. Each of Shi Jin, Zhou Ting, Ji Lanhua and Zhao Meijin is interested in the Domestic Shares through the Staff Shareholding Association.

# SUMMARY OF THIS PROSPECTUS

## COSTS OF INVESTMENT

The following table sets out a breakdown of the costs at which each of the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, Jiang Guoxing and Shi Lei (being all the Promoters and shareholders of the Company immediately prior to the completion of the Placing) acquired their respective shareholdings in the Company:

Promoters	Number of Domestic Shares held after the Capitalisation Issue and the Placing	Percentage of registered share capital (if Over-allotment Option not exercised)	Percentage of registered share capital (if Over-allotment Option exercised in full)	Number of Domestic Shares subscribed on 10th July, 1998 at RMB1.00 per share	Subscription amount paid on 10th July, 1998 (in RMB)	Number of Domestic Shares subscribed on 16th August, 1999 at RMB1.02 per share	Subscription amount paid on 16th August, 1999 (in RMB)
Staff Shareholding Association	144,230,000	28.85	27.80	2,000,000 <i>(Note 1)</i>	2,000,000	3,000,000 <i>(Note 1)</i>	3,060,000
Fudan High Tech	106,730,000	21.35	20.57	3,700,000 <i>(Note 1 and 2)</i>	1,320,000 <i>(Note 2)</i>	—	—
Shanghai Commerce and Investment	46,160,000	9.22	8.90	1,600,000 <i>(Note 1)</i>	1,600,000	—	—
Shanghai Pacific	34,620,000	6.92	6.67	1,200,000 <i>(Note 1)</i>	1,200,000	—	—
Shanghai Gaozhan Consultancy	14,420,000	2.89	2.78	500,000 <i>(Note 1)</i>	500,000	—	—
Ningbo Lirong	14,420,000	2.89	2.78	500,000 <i>(Note 1)</i>	500,000	—	—
Jiang Guoxing	7,210,000	1.44	1.39	250,000 <i>(Note 1)</i>	250,000	—	—
Shi Lei	7,210,000	1.44	1.39	250,000 <i>(Note 1)</i>	250,000	—	—
	<u>375,000,000</u>	<u>75.00</u>	<u>72.28</u>	<u>10,000,000</u>	<u>7,620,000</u>	<u>3,000,000</u>	<u>3,060,000</u>

*Notes:*

- At the time when the subscriptions were made on 10th July, 1998 and 16th August, 1999 respectively, the Domestic Shares had a nominal value of RMB1.00 each. Pursuant to the Capital Reorganisation, the Domestic Shares were sub-divided from one share of RMB1.00 each to ten shares of RMB0.10 each. Each shareholder was also issued with further Domestic Shares by the Company pursuant to the Capitalisation Issue.
- The Domestic Shares held by Fudan High Tech were issued in return for the transfer of IC development know-how together with a cash amount of RMB1.32 million to the Company.

# SUMMARY OF THIS PROSPECTUS

## RISK FACTORS

The Directors consider that the operation of the Company is subject to a number of risk factors which can be categorised into: (i) risks relating to the Company; (ii) risks relating to the IC design industry; (iii) risks relating to the PRC; and (iv) risks relating to the Placing. Set out below is a summary of the risks above. For details, please refer to the section headed “Risk Factors” in this prospectus.

### **Risks relating to the Company**

- Funding for business plans
- Short operating history
- Reliance on key personnel
- “Fables” mode of operation
- Confidentiality
- Product liability
- Short term sales contract from customers
- Credit risk
- PRC taxation
- Staff Shareholding Association
- Press reports on the Company

### **Risks relating to the IC design industry**

- Competition
- Technological development
- Industry information

### **Risks relating to the PRC**

- Political and economic factors
- Foreign exchange risks
- WTO
- Legal and other regulatory considerations

### **Risks relating to the Placing**

- No prior public market for the H Shares

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“Articles of Association”	the articles of association of the Company, adopted on 19th July, 2000 and as amended from time to time
“Board”	the board of Directors
“BOCI Asia”	BOCI Asia Limited, a dealer in securities registered with the Securities and Futures Commission under the Securities Ordinance
“Capital Reorganisation”	the sub-division of the Domestic Shares in issue from one Domestic Share of nominal value RMB1.00 each to ten Domestic Shares of nominal value RMB0.10 each as further described in the paragraph 1(j) in the section headed “The Company” in Appendix VII to this prospectus
“Capitalisation Issue”	the capitalisation issue referred to in the paragraph 1(j)(viii) in the section headed “The Company” in Appendix VII to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CIETAC”	China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
“Company Law”	the Company Law of the PRC (中華人民共和國公司法) enacted by the Standing Committee of the Eighth National People’s Congress on 29th December, 1993, and which became effective on 1st July, 1994, as amended, supplemented or otherwise modified from time to time
“Company” or “Fudan Microelectronics”	Shanghai Fudan Microelectronics Company Limited (上海復旦微電子股份有限公司), a joint stock limited company incorporated in the PRC
“CSRC”	China Securities Regulatory Commission 中國證券監督管理委員會
“Director(s)”	the director(s) of the Company
“Domestic Shares”	domestic shares of nominal value RMB1.00 each (prior to the implementation of the Capital Reorganisation) or RMB0.10 each (after the implementation of the Capital Reorganisation) in the share capital of the Company which are subscribed for in Renminbi

## DEFINITIONS

“Fudan High Tech”	Shanghai Fudan High Tech Company (上海复旦高技術公司), a company incorporated in the PRC in April 1993 and wholly-owned by Fudan University, and which holds a shareholding of 28.46% in the Company before the Placing and 21.35% immediately after the completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised)
“Fudan University”	Shanghai Fudan University which wholly-owns Fudan High Tech and University Laboratory
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the Council of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“GEM website”	the internet website operated by the Stock Exchange for the purpose of GEM
“H Shares”	overseas listed foreign invested shares of nominal value RMB0.10 each in the share capital of the Company, which are to be listed on the GEM and subscribed for and traded in Hong Kong dollars
“HKIAC”	Hong Kong International Arbitration Centre
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Government”	the government of Hong Kong
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Issue Price”	the issue price of HK\$0.80 per Placing Share
“Latest Practicable Date”	24th July, 2000, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing Date”	the date on which the H Shares commence trading on the GEM
“Macau”	the Macau Special Administrative Region of the PRC
“Major Shareholders”	the substantial, significant and management shareholders as referred to in the section headed “Substantial, Significant and Management Shareholders”
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款) promulgated by the Securities Commission and the SCRES on 27th August, 1994, as amended, supplemented or defined from time to time



## DEFINITIONS

“Ningbo Lirong”	Ningbo Lirong Co., Ltd. (寧波利榮有限公司), a Sino-foreign equity joint venture established in the form of a limited company in the PRC in April, 1993 and whose principal business is trading, exporting, warehouse construction and technology development
“OEM”	original equipment manufacturer
“Over-allotment Option”	the option granted by the Company to the Underwriters and exercisable by BOCI Asia in its absolute discretion (on behalf the Underwriters) pursuant to which the Company may be required to issue up to an additional 18,750,000 H Shares to cover over-allocations in the Placing
“Placing”	the conditional placing of the Placing Shares at the Issue Price with certain investors as further described in the section headed “Structure and Conditions of the Placing”
“Placing Shares”	the 125,000,000 H Shares initially being offered for subscription under the Placing subject to the exercise of the Over-allotment Option as described in the section headed “Information about this prospectus and the Placing”
“PRC” or “China”	the People’s Republic of China, which, unless where the context otherwise states, does not include Hong Kong, Macau and Taiwan
“Promoters”	Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, the Staff Shareholding Association, Jiang Guoxing and Shi Lei, all of them being the promoters of the Company
“Relevant Securities”	has the meaning as defined in Rule 13.15(4) of the GEM Listing Rules, which in relation to any initial management shareholder of the Company, includes the Domestic Shares held by such initial management shareholder immediately prior to the Listing Date
“SAEC”	State Administration for Exchange Control of the PRC 中國國家外匯管理局, the governmental authority responsible for matters relating to foreign exchange administration
“SCRES”	State Commission for Restructuring the Economic System of the PRC (中國國家經濟體制改革委員會) (dissolved in March 1998 and became an office of the State Council for restructuring the economic system)
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Commission”	the former Securities Commission of the State Council (前中國國務院證券委員會)

## DEFINITIONS

“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法) enacted by the Standing Committee of the National People’s Congress on 29th December, 1998 and which became effective on 1st July, 1999, as amended, supplemented or otherwise modified from time to time
“Securities Ordinance”	the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
“Senior Management Members”	Shi Jin, Zhou Ting, Ji Lanhua and Zhao Meijin
“Shanghai Commerce and Investment”	Shanghai Commerce and Investment Co., (上海商業投資公司) a state-owned enterprise established in the PRC in June 1992 and whose principal business is the management of investments in commercial properties and buildings in Shanghai
“Shanghai Gaozhan Consultancy”	Shanghai Gaozhan Business Consultancy Company Limited (上海高湛商務諮詢有限公司), a Sino-foreign equity joint venture established in the form of a limited company in the PRC in December 1993 and whose principal business is to provide investment and business consultancy services
“Shanghai Pacific”	Shanghai Pacific Commercial Trust Company (上海太平洋商務信託公司), a wholly-owned subsidiary of Shanghai Commerce and Investment established in the PRC in June 1993 and whose principal business is trust and asset management
“Share Repurchases Code”	the Code on Share Repurchases issued by the Hong Kong Securities and Futures Commission, as amended, supplemented or otherwise modified from time to time
“Shares”	Domestic Shares and H Shares
“Special Regulations”	the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (中華人民共和國國務院關於股份有限公司境外募集股份及上市的特別規定) issued by the State Council of the PRC on 4th August, 1994, as amended, supplemented or otherwise modified from time to time
“Staff Shareholding Association” or “Association”	the Staff Shareholding Association of the Company (上海復旦微電子股份有限公司職工持股會), a social organisation legal person (社團法人) and an independent legal entity with limited liability established under the laws of the PRC
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisors”	the members of the supervisory committee of the Company

## DEFINITIONS

“Takeovers Code”	the Code on Takeovers and Mergers issued by the Hong Kong Securities and Futures Commission, as amended, supplemented or otherwise modified from time to time
“Underwriters”	BOCI Asia, Grand Cathay Securities (Hong Kong) Limited, Kingsway SW Securities Limited and Sinpac Securities (Hong Kong) Co., Limited
“Underwriting Agreement”	an underwriting agreement dated 28th July, 2000 entered into between, inter alia, the Company and the Underwriters relating to the Placing, details of which are set out in the section headed “Underwriting” in this prospectus
“University Laboratory”	ASIC System State-Key Laboratory of Fudan University
“US” or “USA” or “United States”	the United States of America
“WTO”	World Trade Organisation
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“US\$” or “US dollars”	United States dollars, the lawful currency of the US
“km”	kilometre(s)
“sq.ft.”	square feet
“sq.km.”	square kilometre(s)
“sq.m.”	square metre(s)

*In this prospectus, unless otherwise specified, conversions of Renminbi into Hong Kong dollars are based on the rate of RMB1.06 to HK\$1.00, and conversions of U.S. dollars into Hong Kong dollars are based on the rate of US\$1.00 to HK\$7.79.*

*All figures are converted (where relevant) for the purposes of this prospectus from square metres to square feet at 1 square metre = 10.7639 square feet.*

*Note:* The English name of a company appearing herein is only an English translation of its Chinese official name.

## GLOSSARY OF TECHNICAL TERMS

“amplifiers”	general purpose analog devices which include operational amplifiers, instrumentation amplifiers, buffers, general purpose video amplifiers
“analog circuit”	a type of circuit which only has continuous internal signals
“ASIC”	application specific integrated circuit, an IC designed for use with specific applications
“bits”	binary digital
“bytes”	8 binary digital group
“CAD”	computer aided design
“circuit netlist”	the list file which describes the circuit connections of the components in an IC design
“comparators”	analog ICs designated as voltage comparators
“CPU”	central processing unit
“digital circuit”	a type of circuit which only has two-state internal signals
“digital signal processors” or “DSP”	special forms of MPUs which, unlike other processors which are usually embedded in some digital microcomputer system, are most commonly used in systems to process real time data
“DRAM”	dynamic random access memory is a device in which bit words(1 bit or longer word length) can be written, stored and read in any desired sequence, but the memory information is volatile and is lost when the power supply is disconnected and sequence refreshing is required to keep the memory information
“DTMF”	dual tone multi-frequency
“EDA”	electronic design automation, a method of utilization of computer programming to achieve automation in the design of IC
“electronic commerce card”	one application of IC card used as a stored value cash card
“EMC”	electro magnetic compatibility
“fabless”	a method of operation adopted by certain IC design companies which involve only the design and not the production of IC products
“fabrication”	one stage of the production process for integrated circuits which involves the manufacture of wafers by using masks
“field programmable logic”	devices in this classification are standard catalog logic circuits consisting of one or more switch matrices which can be configured into higher level logic patterns, some of which may allow only “one time” programming through the use of built-in fusible links, while others may use software and hardware allowing multiple programming

## GLOSSARY OF TECHNICAL TERMS

“FLASH”	a type of non-volatile memory in which the memory pattern is erased by large arrays of bits rather than by small fractions
“gate arrays”	devices in this classification are logic circuits consisting of fixed and regular arrangement of transistor cells forming a matrix of logic gates of various standard densities
“general purpose logic”	devices that are standard and/or catalog parts for use in a wide range of equipment and applications
“HDL” or “hardware description language”	computer input language used for circuit modelling and circuit design
“IC” or “integrated circuit”	circuits that integrate many electric devices and produced with the semiconductor technology
“IC cards”	cards embedded with an IC chip which are now commonly used in the form of bank account cards and credit cards
“IC chip”	packaged intergrated circuits
“IC memory card”	one application of IC card used for data storage and simple security protection
“ignition process”	the process of fuel ignition of automotive engines controlled by ignition control IC
“internet”	a gobal network of interconnected, separately administered public and private computer networks
“MCU”	microcontroller units, devices which perform dedicated or embedded computer functions within an overall electronic system without the need of other support circuits; like MPU, MCU includes an instruction decoder, arithmetic logic unit, register and support logic, but unlike MPU, MCU contains some form of ROM, EPROM or EEPROM which are programmed to store customer supplied instructions and the chips also incorporate microperipheral units, read-write memory (RAM) for temporary storage
“microelectronics”	integrated circuits and related electronic products
“microprocessors”	an IC that performs processing, logic and control functions
“MPR”	logic devices used with MPU or MCU to augment or enhance the overall CPU system performance and usually require a CPU for initialization or run time support; MPR aids system and input/output functions as controlled by operating system or application software

## GLOSSARY OF TECHNICAL TERMS

“MPU”	microprocessor units, devices which execute external instructions and perform system control functions through software programming with the assembly language instructions retrieved from external memory with data read from and written to external RAM devices to perform system functions; this set up allows the MPU to receive a variety of input commands, manipulate data, direct storage of data and initiate application commands
“other linear circuits”	all analog circuits not otherwise classified
“packaging”	the process of packaging IC with plastic or ceramic materials and connecting the IC’s inputs and outputs onto the pins of packages
“ROM”	read only memory are non-volatile circuits which have single transistor memory cells that are locked on or off in a pre-determined pattern by means of a masking procedure during the fabrication process
“schematics entry”	the traditional design entry method by drawing
“semiconductor”	the material whose conductivity is between conductor and isolator, like gernanium and silicon, which will change to become a conductor in certain conditions
“smart card”	IC cards with an internal CPU
“SRAM”	static random access memory is a device which is similar to DRAM except that SRAM is based on a minimum of four transistor memory cells which are configured into a flip-flop circuit and SRAM does not need to have the memory cells refreshed
“standard cells”	devices in this classification are circuits consisting of user-specified arrangements of predefined and fixed sub-circuits of any function
“system integration”	integration of IC, other circuits and related software into a system to perform a function
“system on chip” or “SOC”	a new design technique which allows a complex electric system (which, in the past, had to be made up of a number of electric boards) to be intergrated into a chip
“voltage regulators and references”	a device or control device for the circuit which provides a constant output voltage to the load irrespective of variations in output current or input voltage
“wafer”	silicon circle slice on which ICs are fabricated
“workstation”	high performance computer which usually uses the UNIX operation system and is a common design platform for CAD

## RISK FACTORS

In evaluating an investment in the H Shares, prospective investors should consider carefully all the information contained in this prospectus, including the risk factors set out below.

### RISKS RELATING TO THE COMPANY

#### Funding for business plans

The Company's detailed business plans up to 31st December, 2002 are set out in the section headed "Business objectives" in this prospectus. According to current estimates, the Directors expect that the proceeds from the Placing will be sufficient to finance the implementation of the Company's business plans up to 31st December, 2001 and additional funding in the region of HK\$56 million will be required to finance its business plans in 2002. The Directors anticipate that after the listing of the H Shares on the GEM, the Company may be able to obtain such additional funding from, among other sources, internal resources generated by its business operations, bank financings or a combination of these sources. If, however, the Company is unable to raise such additional funding, it may have to make material modifications to its business plans in 2002 and/or the intended use of proceeds described in the section headed "Financial information" in this prospectus. It could also adversely affect the Company's business development. If any such modification has to be made, an appropriate announcement will be made by the Company.

#### Short operating history

The Company was established in July 1998. Its business was founded in 1993 by Fudan High Tech, one of the Promoters. Prior to the establishment of the Company, Fudan High Tech was primarily engaged in technological research and product development and commercial sales of IC products did not start until the Company was established in July 1998. Hence, the Company has only a limited operating history upon which an evaluation of its prospects can be based. Such prospects must be assessed in the light of the risks, expenses and difficulties normally encountered by any new company. These risks include the ability of the Company to complete the research and development of new products, its ability to establish its market share and to compete successfully against its main competitors, and its ability to achieve profitability on the basis of its available resources.

The Company has incurred net losses attributable to shareholders since its establishment in 1998. The Company's ability to achieve further increases in turnover and to achieve profitability will primarily depend on the growth of its business and the successful implementation of its business plans. Given the Company's limited operating history, however, the Directors consider it difficult to make a prediction of the Company's future operating results. Investors should note that there can be no assurance that the Company will be able to achieve further increases in turnover at the same or a better rate than before. There can also be no assurance that the Company will not continue to incur losses in the foreseeable future.

#### Reliance on key personnel

The Company depends, to a significant extent, on the services of a number of key personnel, being the executive Directors and certain senior management and technical staff. The Company has

## RISK FACTORS

entered into service agreements with each of these key personnel. Such service agreements have a term of between 1 to 3 years (subject to the right of termination in certain circumstances such as material breach of obligations). If the Company should lose the services of any of these key personnel, there could be a material adverse effect on its operations.

The continued success of the Company is also dependent on its ability to keep pace with the rapid technological developments in the IC industry and a key factor in this respect is the Company's ability to continue attracting experienced, qualified and talented IC professionals to work for the Company. The Company realises the shortage in the supply of IC professionals in the PRC and the keen competition for their services. The Company's operation could be adversely affected if it should encounter any serious difficulty in retaining or recruiting suitable IC professional personnel.

### **“Fabless” mode of operation**

The Company adopts the “fabless” mode of operation whereby it undertakes only the design of its products and engages independent OEM manufacturers to carry out production. The principal stages of the IC production process involve mask production, fabrication and packaging. There is a high degree of division of labour for each stage of the production process and there are manufacturers who specialise in each of the different stages of such production process. The Company currently engages 8 OEM manufacturers to undertake the production of its products, of whom 7 are located in the PRC and 1 in Singapore.

In selecting its OEM manufacturers, the Company places heavy emphasis on factors such as their ability to meet design specifications and quality standards required by the Company's customers and their production capacity, pricing and delivery time. As the actual production process is not carried out by or under the direct control of the Company, there remains the risk that an OEM manufacturer may fail to meet the requirements specified by the Company's customers, whether as to design specifications, quality standard, delivery schedule or otherwise. If such failure results in any material breach by the Company of its contractual obligations to its customers, it could have an adverse effect on the Company's business.

For the two years ended 31st December, 1999, the Company's purchases from its five largest OEM manufacturers accounted for approximately 90% and 98% respectively of the Company's total cost of purchase. There is no assurance that disputes may not arise between the Company and its OEM manufacturers. Given the Company's dependence on its OEM manufacturers, if any material dispute arises between the Company and any of its OEM manufacturers or if any of them ceases to provide services to the Company and a suitable replacement cannot be found in a timely manner, it could lead to material disruption to production and as a result, the Company's business may be adversely affected.

### **Confidentiality**

The Company places significant emphasis on protecting the confidentiality of its product designs. The Company requires all senior management and product design staff as well as most of its OEM manufacturers to enter into confidentiality undertakings. Investors should appreciate that these measures cannot entirely preclude the risk of unauthorised disclosure of confidential product information.

All IC designs, insofar as they are original designs, are protected by copyright under the Copyright Law of the PRC. The Copyright Law allows the registration of original software designs



## **RISK FACTORS**

with the Copyright Bureau of the PRC although registration is not a pre-requisite for copyright protection. IC designs, if they satisfy the requirements for patent registration, may also be registered under the Patent Law of the PRC. The Company has not applied for any copyright or patent registration in respect of any of its product designs. This is because copyright registration in the PRC requires the disclosure and public publication of design details which, in the Directors' opinion, may not be in the best interest of the Company. Applications for patent registrations in the PRC could take more than three years to complete. Given the pace of technological developments in IC design, the Directors do not consider that patent registration is an effective means of protecting its product designs. Investors should appreciate that there remains a significant risk of copyright infringement and significant uncertainty as to the effective enforcement against copyright infringers in the PRC. Given the rapid technological changes in IC products, any material infringement of the Company's product designs, particularly in relation to new and technologically innovative products, could have an adverse effect on the Company's sales and hence, its results of operations.

### **Product liability**

The Company does not currently maintain any product liability insurance. The Company has, so far, not experienced any third party claim in respect of its products. As the Company does not maintain any product liability insurance, any material product liability claim could have an adverse effect on the Company's business.

### **Short term sales contract from customers**

The Directors believe that the rapid technological developments and keen competition of the IC design industry have resulted in a general tendency for customers of IC products to deal with suppliers by way of short term sales contracts or on an order by order basis. All sales are currently undertaken by the Company on an order by order basis. Should any of its major customers cease to purchase from the Company, the Company's business and profitability may be adversely affected.

### **Credit risk**

A substantial portion of the Company's sales is made on a credit basis. For the year ended 31st December, 1999, credit sales accounted for approximately 91% of the Company's total sales whereas its accounts receivable as at 31st December, 1999 represented approximately 43% of its current assets. Although the Company has, so far, not experienced any significant bad debts, there is no assurance that this will remain to be the case or that the Company's financial position may not be adversely affected if there should be any material deterioration in the credit-worthiness of its customers.

### **PRC taxation**

Pursuant to the laws and regulations relating to income tax in the PRC, the Company is subject to income tax at a basic rate of 33%. However, the Company obtained a tax concession from the local municipal finance bureau and was exempted from income tax for the period from July 1998 to June 1999. Further, pursuant to an approval document dated 2nd February, 2000 issued jointly by the local municipal tax bureau and finance bureau, the Company has been designated a high technology enterprise and is further exempted from income tax for the period from 1st January, 1999 to 31st December, 2000.

## RISK FACTORS

Investors should note, however, that there is no assurance that the Company will, after the expiry of the current financial year in December 2000, receive any further exemption from, or preferential treatment in respect of, PRC income tax.

### Staff Shareholding Association

The Staff Shareholding Association is a social organisation legal person (社團法人) under PRC law. It is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory. It will have a shareholding of 144,230,000 Domestic Shares, representing approximately 28.85% (or if the Over-allotment Option is exercised in full, approximately 27.80%) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing. The relationship between the Staff Shareholding Association and its members is governed by its articles of association (see further details in the paragraph headed "Performance incentive arrangements" in the section headed "Business of the Company" and Appendix VI of this prospectus).

The PRC legal and regulatory provisions governing the Staff Shareholding Association are limited in scope. The articles of association of the Staff Shareholding Association are relatively simple and may not be sufficiently comprehensive in many respects. The articles, for instance, do not contain detailed provision in relation to the disposal of the Domestic Shares held by the Association. The articles do not specify whether any such disposal can be made at the decision of the management committee of the Association or whether it requires the majority approval of its members or whether each member has the right to require the disposal of the Domestic Shares in which he is interested. While the articles provide for the Association to have the right to purchase a member's interest in the Domestic Shares held by the Association when he leaves the employment of the Company, there is no provision for the determination of pricing in such circumstance.

### Press reports on the Company

Prior to the date of this prospectus, certain newspapers in Hong Kong have published information concerning the Company which the Directors believe has been extracted or quoted from research reports issued by securities brokers who are independent of the Company. Such information, which included statements as to revenue forecasts on turnover of the Company, has not been reviewed or verified by the Company, the reporting accountants, the Sponsor, the Underwriters or the legal advisers to the Company or to the Underwriters. Neither the Company nor the Sponsor or any of the Underwriters has authorised, consented, participated or involved in any way in the preparation or release of such information. None of the Company, the reporting accountants, the Sponsor, the Underwriters or the legal advisers to the Company or to the Underwriters has taken any action to ensure that such information was prepared and presented in accordance with applicable legal or regulatory requirements (including the GEM Listing Rules). **The Company strongly cautions prospective investors not to place any reliance on any such information, including any statement as to the revenue forecasts on turnover of the Company. To the extent that any such information is not contained in this prospectus or conflicts or is inconsistent with any information contained in this prospectus, it should be completely disregarded by prospective investors when making any investment decision regarding the Placing Shares.**

## **RISK FACTORS**

Prospective investors should carefully read the entire text of this prospectus and should not rely on any information not contained in this prospectus when making any investment decision regarding the Placing Shares.

### **RISKS RELATING TO THE IC DESIGN INDUSTRY**

#### **Competition**

The IC design industry is characterised by rapid development in technology and intense competition. The IC market in the PRC has been dominated by leading overseas suppliers. The Directors estimate that up to 80% of IC demand in the PRC is currently satisfied by imports mainly from the United States, Europe and Japan. The Company's ability to maintain its competitive advantages is critical to its continued success. If the Company should encounter any serious difficulty in maintaining its competitive advantages, its performance and results of operation could be adversely affected.

#### **Technological development**

Another key factor to the continued success of the Company is its ability to keep pace with the rapid technological developments in the IC design industry. In general, such developments are increasingly shortening the life cycle of IC products. Hence, the Company's ability to foresee accurately changes in market trends for new products and to complete the development of new products in time are of critical importance.

The Company's products, like all other IC products, are used as component parts in the manufacture of other end products. Hence, the demand for the Company's IC products will be affected by the fluctuations in the demand for the end products in which the Company's IC products are used.

#### **Industry information**

Certain information in this prospectus relating to the PRC IC industry, such as statistics relating to the IC production volume, the growth rate of IC products, as well as domestic IC demand are derived from various official publications. Such information has not been verified by or on behalf of the Company and may not be accurate or complete. The Company makes no representation as to the correctness or accuracy of such information. Prospective investors are cautioned not to rely on such information when making any investment decision regarding the Placing Shares.

### **RISKS RELATING TO THE PRC**

Currently, the Company's assets and operations are all located in the PRC and it derives all of its revenue from its operations in the PRC. Hence, the Company's financial condition and results of operations are, to a significant degree, subject to economic, political and legal developments in the PRC.

#### **Political and economic factors**

Before its adoption of economic reform policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a

## RISK FACTORS

significant portion of the productive assets in the PRC, economic reform policies have emphasised autonomous enterprises and the utilisation of market mechanisms. The Directors currently expect that the PRC government will continue these reforms, further reduce governmental intervention with enterprises and rely more heavily on market mechanisms to allocate resources. Although the Directors believe these reforms will have a positive effect on the Company's overall and long-term development, there can be no assurance whether changes to political, economic and social conditions, laws, regulations and policies in the PRC would have any material adverse effect on the Company's current or future business or results of operations.

### **Foreign exchange risks**

The Renminbi currently is not a freely convertible currency. The Company currently receives all of its revenues in Renminbi. A portion of its Renminbi revenues must be converted into other currencies to meet foreign currency obligations of the Company. The Company's requirements for foreign currency include: (i) payment to OEM manufacturers located outside the PRC; (ii) purchases of imported computer equipment; and (iii) payment of any dividends declared in respect of the H Shares.

Currently, the Company does not have the right to engage in the import and export of products into and out of the PRC. Hence, when it engages an overseas OEM manufacturer to perform part of the production process, the products have to be sent to such manufacturer through Shanghai International Science & Technology Corp. Ltd., a state-owned company in the PRC licensed to engage in import and export business. Payments are made by the Company in RMB to this company which then arranges for foreign currency payment to the Company's overseas OEM manufacturer.

Under the existing foreign exchange regulations in the PRC, following the completion of the Placing, the Company may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the SAEC by producing commercial documents evidencing such transactions, provided that they are processed through PRC banks licensed to engage in foreign exchange transactions. However, there can be no assurance that the PRC government may not restrict access to foreign currency for current account transactions if there is any shortage in the supply of foreign currency in the PRC.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the SAEC. These limitations could affect the Company's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures or dividend payments to the holders of H Shares.

The value of the Renminbi may be influenced by factors such as changes in the PRC government's policies, the PRC's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable, and the Renminbi has appreciated slightly against the US dollar. However, there can be no assurance that the value of the Renminbi will continue to remain stable against the US dollar or any other foreign currency. As the Company does not currently sell its products outside the PRC, a devaluation of the Renminbi may not have a negative impact on the Company's overall operations. However, any devaluation of the Renminbi may adversely affect the value of, and dividends payable on, the H Shares in foreign currency terms since the Company receives its revenues and expresses its profits in Renminbi.

## RISK FACTORS

### WTO

The import of IC products into the PRC is currently subject to an import tariff of 3% to 30%. The PRC is currently negotiating its re-entry to the membership of the World Trade Organisation. The PRC government has, on various occasions in 1997 to 1999, reduced import tariffs on a wide range of products (including IC products). The Directors believe that this process towards the general opening up of the PRC market is likely to continue which may see further reduction or abolition of import tariff on various products. Any further reduction in the amount of import tariff payable in respect of imported IC products similar to those produced by the Company will bring about increased market competition for the Company.

### Legal and other regulatory considerations

#### *PRC legal system*

The PRC legal system is based on statutory law. While prior court decisions may be cited as persuasive authority, they do not constitute binding precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and a considerable number of laws and regulations dealing with economic matters such as corporate organisation and governance, securities, foreign investment, taxation and trade has been introduced. Because these laws and regulations are relatively new and there is only a limited volume of published case law and judicial interpretations, the interpretation and enforcement of these laws and regulations involve some uncertainty.

#### *Shareholders' rights*

As the Company currently conducts substantially all of its business in the PRC, its operations are governed principally by the laws of the PRC. As a PRC company offering and listing its shares outside the PRC, the Company is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of PRC companies to be listed abroad and are intended to regulate the internal affairs of those companies. The Company Law and the Special Regulations, in general, are less developed than those applicable to companies incorporated in Hong Kong and other developed countries or regions.

The Company Law is different in certain important aspects from company laws in Hong Kong and other common law countries or regions. In particular, there are important differences with regard to investor protection, including in such areas as derivative actions by minority shareholders and other minority protections, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividends.

The Mandatory Provisions and certain additional requirements that are imposed by the GEM Listing Rules are introduced with a view to reducing the scope of differences between Hong Kong company law and the Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association incorporate the provisions required by the Mandatory Provisions and the GEM Listing Rules. Despite the incorporation of those provisions, there can be no assurance that shareholders of the Company will be provided with the same level of protection that may be provided under the laws of Hong Kong or other more developed jurisdictions. A summary of the principal provisions of the Company Law and the Articles of Association is set out in Appendix V to this prospectus.

## RISK FACTORS

### *Securities laws and regulations*

At present, the regulatory framework for the securities industry in the PRC is at an early stage of development. The CSRC is responsible for administering and regulating the national securities markets and industry. Various regulations and implementation measures have been promulgated by the State Council and the CSRC in relation to listed PRC companies (dealing with matters such as mergers and acquisitions and disclosure of information). Those regulations and implementation measures are expressed to apply to listed companies in general without being confined to companies listed on any particular stock exchange. There is uncertainty as to whether those regulations and implementation measures apply to a PRC joint stock limited company listed on a stock exchange outside the PRC, such as the Company.

On 1st July, 1999, the Securities Law became effective. The Securities Law is the principal legislation regulating the securities markets and industry in the PRC. The State Council and the CSRC have also promulgated various rules and regulations in relation to the offering of securities by, and the listing of, PRC enterprises outside the PRC. Most of the securities legislation and regulations in the PRC have been promulgated relatively recently and their interpretation and application are subject to some uncertainty. A summary of the principal securities laws and regulations in the PRC is set out in Appendix V to this prospectus.

### *Taxation of holders of H Shares*

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are foreign individuals not resident in the PRC or which are foreign enterprises with no permanent establishment in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There can be no assurance, however, that withholding or capital gains taxes may not become applicable to those dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends, which is currently imposed at the rate of 20 per cent. or to a capital gains tax, which currently may be imposed at the rate of 20 per cent., unless reduced or eliminated by an applicable taxation treaty between China and the country in which such foreign individual or enterprise resides. A summary of relevant PRC and Hong Kong taxation matters is set out in Appendix III to this prospectus.

### *Arbitration of disputes*

The Articles of Association require a holder of H Shares having a claim against or a dispute with the Company, a Director, a Supervisor or an officer or a holder of Domestic Shares relating to any rights or obligations conferred or imposed by the Articles of Association, the Company Law or any other PRC laws or administrative regulations or relating to the affairs of the Company, to submit the dispute or claim to CIETAC or to HKIAC for arbitration. The Articles of Association further provide that the arbitrator's award shall be final and binding on all parties. A summary of the principal arbitration laws and regulations in the PRC is set out in Appendix V to this prospectus.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") which has historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. Following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other

## RISK FACTORS

parts of the PRC. On 21st June, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council, and became effective on 1st February, 2000.

### *Service of process*

The Company is a joint stock limited company incorporated in the PRC. All of the Directors (other than Leung Tin Pui and David Yung, both of whom are independent non-executive Directors residing in Hong Kong), Supervisors and executive officers (other than Li Wing Sum, Steven, who is the company secretary and qualified accountant) reside within the PRC, and all the assets of the Company and of those persons (other than Leung Tin Pui, David Yung and Li Wing Sum, Steven) are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Company or those persons inside the PRC or to enforce against them outside the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of judgments of the courts of the United Kingdom, the United States or most other western countries or Hong Kong, and therefore recognition and enforcement in the PRC of judgments obtained in those jurisdictions may be impossible.

## **RISKS RELATING TO THE PLACING**

### **No prior public market for the H Shares**

Before the Placing, there was no public market for the H Shares. The Issue Price was the result of negotiations between the Company and the Sponsor on behalf of the Underwriters. The Issue Price may differ significantly from the market price for the H Shares following the Placing. The Company has applied to list and deal in the H Shares on the GEM. However, being listed on the GEM does not guarantee that an active trading market for the H Shares will develop following the Placing.

The price and trading volume for the H Shares may be highly volatile. Factors such as variations in the Company's revenue, earnings and cash flow, its ability to implement its future business plans, strategic alliances and/or acquisitions, or fluctuations in market prices for its products could cause the market price for the H Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which the H Shares will trade.

# WAIVERS IN RESPECT OF THE GEM LISTING RULES

## LOCK-UP PERIOD AND ESCROW AGENT ARRANGEMENT

Pursuant to Rule 13.16(2) of the GEM Listing Rules, each of the initial management shareholders of the Company (who include the Staff Shareholding Association, Fudan High Tech, Fudan University, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, the executive Directors (being Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia and Wang Su) and the non-executive Directors (being Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu) is required to undertake to the Company and the Stock Exchange that, for a period of two years from the Listing Date, save as provided in Rule 13.17 of the GEM Listing Rules, it (or he) will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its (or his) direct or indirect interest in Relevant Securities.

By a joint press announcement issued by the Hong Kong Securities and Futures Commission and the Stock Exchange on 11th March, 2000, it was stated that the Hong Kong Securities and Futures Commission and the Stock Exchange have agreed the two-year lock-up period referred to in Rule 13.16(2) of the GEM Listing Rules applicable to initial management shareholders be reduced to six months provided that no controlling shareholders (as such term is defined in the GEM Listing Rules) are allowed to dispose of any Relevant Securities in the second six-month period falling after the Listing Date if such disposal would result in the controlling shareholder or the group of persons constituting the controlling shareholder ceasing to have control over 35% of the voting powers at general meetings of the relevant company.

On the basis of the joint press announcement referred to above, the Company, on behalf of the initial management shareholders, has applied for, and the Stock Exchange has granted a waiver from strict compliance with Rule 13.16(2) to the effect that the lock-up period to which each of the initial management shareholders is subject in respect of his Relevant Securities has been reduced to six months.

The Staff Shareholding Association, Fudan High Tech and Fudan University have further undertaken to the Stock Exchange, the Company and the Underwriters that for the second six-month period falling after the Listing Date, none of them will dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Relevant Securities if such disposal would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company.

Pursuant to Rule 13.16(1) of the GEM Listing Rules, each of the initial management shareholders of the Company is required to place in escrow, with an escrow agent acceptable to the Stock Exchange, his Relevant Securities for a period of two years from the Listing Date, on terms acceptable to the Stock Exchange. However, since the Domestic Shares held by the initial management shareholders are not represented by any form of physical scrip title documents, this means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules do not physically exist in any form available for custody purposes. In view of this, the Company has applied for waiver from compliance with Rule 13.16(1) of the GEM Listing Rule and the waiver has been granted by the Stock Exchange.



## **WAIVERS IN RESPECT OF THE GEM LISTING RULES**

### **RULE 11.11 OF THE GEM LISTING RULES**

The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such a requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Company since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I of this prospectus.

# **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

## **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## **CONSENT OF THE CSRC**

On 12th February, 2000, the CSRC has given its consent to the Company issuing H Shares and applying for the listing of the H Shares on the GEM. In granting such consent, the CSRC accepts no responsibility for the financial soundness of the Company or the accuracy of any of the statements made or opinions expressed in this prospectus.

## **THE PLACING**

This prospectus is published in connection with the Placing for which BOCI Asia is the lead manager and sponsor and which is fully underwritten by the Underwriters. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

Details of the conditions of the Placing are set out under the section headed "Structure and Conditions of the Placing" of this prospectus.

## **RESTRICTIONS ON SALE OF H SHARES**

No action has been taken to permit placing of the H Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

### **United Kingdom**

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with any registrar of companies in the United Kingdom. In addition, the Company has not authorised any offer of the Placing Shares to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"). The Placing Shares may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. In addition, no person

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

may issue or pass on to any person (a “recipient”) in the United Kingdom any document received by it in connection with the Placing unless that recipient is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

### **The PRC**

This prospectus does not constitute a public offer of the H Shares, whether by way of sale or subscription, in the PRC. The H Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the H Shares may be offered or sold only to natural or legal persons in Taiwan, Hong Kong or Macau or any country other than the PRC by means of this prospectus or otherwise.

Each person acquiring the Placing Shares will be required to, or be deemed by his acquisition of Placing Shares to confirm that, he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

### **OVER-ALLOTMENT OPTION**

In connection with the Placing, the Company has granted BOCI Asia, on behalf of the Underwriters, the Over-allotment Option, exercisable within 30 days from the date of this prospectus, to require the Company to issue up to an aggregate of 18,750,000 new H Shares (representing up to approximately 15 per cent. of the Placing Shares) at the Issue Price to cover over-allocations in the Placing. BOCI Asia, on behalf of the Underwriters, may over-allocate and may cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market. Any such purchases will be made in compliance with all applicable laws and regulatory requirements.

### **STABILISATION**

In connection with the Placing, BOCI Asia or its agents, on behalf of the Underwriters, may effect transactions which stabilise or maintain the market price of the H Shares at levels other than those which might otherwise prevail in the open market. Such transactions, which may include stock purchase of H Shares in the secondary market, may be effected in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulatory requirements. Such stabilisation, if commenced, may be discontinued at any time.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, an underwriter may bid for or purchase the offered securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial issue price of the securities. The stabilisation price will not be higher than the initial issue price.

Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the direction, and in the absolute discretion, of BOCI Asia. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

# **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

## **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to taxation implications of subscribing for, purchasing, holding and dealing in the Placing Shares. It is emphasised that none of the Company, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Placing accepts responsibility for any tax effects or liabilities of holders of Placing Shares resulting from the subscription, purchase, holding or disposal of the Placing Shares.

## **HONG KONG BRANCH REGISTER AND STAMP DUTY**

All H Shares issued pursuant to the Placing will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by the Company at its head office. Dealings in the Placing Shares registered on the Hong Kong branch register of members of the Company will be subject to Hong Kong stamp duty.

## **APPLICATION FOR LISTING ON THE GEM**

Application has been made to the GEM Listing Committee of the Stock Exchange for listing of and permission to deal in the H Shares to be issued pursuant to the Placing (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) on the GEM. No part of the share capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, the Company must ensure that all H Shares are held by the public (except as otherwise permitted by the Stock Exchange), the H Shares must normally constitute not less than 10 per cent. of the total existing issued share capital of the Company, and the aggregate amount of the H Shares and such other securities of the Company which are held by the public must constitute not less than 20 per cent. of the total issued share capital of the Company.

Any allotment made in respect of any placing of the Placing Shares will be void if permission for listing of, and dealing in, the H Shares on the GEM has been refused before the expiration of three weeks from 3rd August, 2000 or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

Only securities registered on the register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Dealings in the H Shares on the GEM is expected to commence on or about 4th August, 2000. The H Shares will be traded in board lots of 4,000 each.

## **H SHARES WILL BE ELIGIBLE FOR CCASS**

Subject to the granting of listing of, and permission to deal in, the H Shares on the GEM and the compliance with the stock admission requirements of Hongkong Clearing, the H Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the GEM or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

The Company has instructed Tengis Limited, its Hong Kong share registrar, and Tengis Limited has agreed not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holders thereof; and
- (iv) authorises the Company to enter into a contract on his behalf with each Director and officer of the Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

**DIRECTORS OF THE COMPANY AND PARTIES INVOLVED IN THE PLACING****DIRECTORS OF THE COMPANY**

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Jiang Guoxing 蔣國興 (Chairman)	No. 7, Lane 151 Zhengsu Road Shanghai People's Republic of China	Chinese
Mr. Shi Lei 施雷	No. 220 Handan Road Shanghai People's Republic of China	Chinese
Mr. Yu Jun 俞軍	Room 601, Block 18 1500, Guangyue Road Shanghai People's Republic of China	Chinese
Ms. Cheng Junxia 程君俠	Room 601, Block 14 505, Guoding Road Shanghai People's Republic of China	Chinese
Mr. Wang Su 王蘇	Room 2401, Block 1 111, Xilingjiazhai Road Shanghai People's Republic of China	Chinese
<i>Non-executive Directors</i>		
Mr. Chen Xiaohong 陳曉宏	4th Floor, Block 2 962, Changle Road Shanghai People's Republic of China	Chinese
Ms. Zhang Qianling 章倩苓	No. 9, Lane 44 Xinle Road Shanghai People's Republic of China	Chinese
Mr. He Lixing 何禮興	Room 1209, No. 1051 Tiyuhui Road East Shanghai People's Republic of China	Chinese
Mr. Shen Xiaozu 沈曉祖	Room 103, Block 2 165, Changsu Road Shanghai People's Republic of China	Chinese

**DIRECTORS OF THE COMPANY AND PARTIES INVOLVED IN THE PLACING**

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent Non-Executive Directors</i>		
Mr. David Yung 榮智謙	Apartment 22B South Bay Tower 59 South Bay Road Hong Kong	Chinese
Mr. Leung Tin Pui 梁天培	Amber Garden 23C 70-72 Kennedy Road Hong Kong	Chinese
<i>Supervisors</i>		
Mr. Li Wei 李蔚	Room 203, No. 28 Lane 600, Guoding Road Shanghai People's Republic of China	Chinese
Mr. Ding Shengbiao 丁聖彪	Room 1105, No.6 Lane 600, Liuzhou Road Shanghai People's Republic of China	Chinese
Mr. Xu Lenian 徐樂年	No. 11, Lane 320 Yangjingzheng Road Shanghai People's Republic of China	Chinese

# DIRECTORS OF THE COMPANY AND PARTIES INVOLVED IN THE PLACING

## PARTIES INVOLVED IN THE PLACING

### Lead Manager and Sponsor

BOCI Asia Limited  
35/F., Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

### Underwriters

BOCI Asia Limited  
35/F., Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

Grand Cathay Securities (Hong Kong) Limited  
Suite 1120, 11/F Two Pacific Place  
88 Queensway  
Admiralty  
Hong Kong

Kingsway SW Securities Limited  
5/F, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

Sinpac Securities (Hong Kong) Co., Limited  
27/F Asia Pacific Finance Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

### Legal advisers to the Company

*As to Hong Kong law:*

Chao and Chung  
26/F., Asia Pacific Finance Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

*As to PRC law:*

Commerce & Finance Law Office  
714 Huapu International Plaza  
19 Chaowai Avenue  
Beijing  
People's Republic of China



**DIRECTORS OF THE COMPANY AND PARTIES INVOLVED IN THE PLACING**

**Legal advisers to the Sponsor  
and the Underwriters**

*As to Hong Kong law:*

Koo & Partners  
22/F., Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

**Auditors and reporting accountants**

Ernst & Young  
*Certified Public Accountants*  
15/F., Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**Property valuer**

Vigers Hong Kong Limited  
*International Property Consultants*  
801 Miramar Tower  
1 Kimberley Road  
Tsimshatsui  
Kowloon  
Hong Kong

## CORPORATE INFORMATION

<b>Website</b>	www.fmsh.com
<b>Registered Office</b>	No. 220 Handan Road Shanghai People's Republic of China
<b>Place of business in Hong Kong</b>	2/F., K.C. Commerical Building 19 Hennessy Road Hong Kong
<b>Company secretary</b>	Mr. Li Wing Sum, Steven, FCCA, FHKSA, FTIHK
<b>Compliance officer</b>	Mr. Wang Su
<b>Qualified accountant</b>	Mr. Li Wing Sum, Steven, FCCA, FHKSA, FTIHK
<b>Audit committee</b>	Mr. David Yung Mr. Leung Tin Pui
<b>Supervisors' Committee</b>	Mr. Li Wei Mr. Ding Shengbiao Mr. Xu Lenian
<b>Authorised representatives</b>	Mr. Shi Lei No. 220 Handan Road Shanghai People's Republic of China  Mr. Wang Su Room 2401, Block 1 Lane 111, Xilingjiazhai Road Shanghai People's Republic of China
<b>Hong Kong share registrar and transfer office</b>	Tengis Limited 4/F., Hutchison House 10 Harcourt Road Central Hong Kong
<b>Principal banker</b>	Everbright Bank of China Shanghai Branch No. 29 Zhongshan Road (E.1) Shanghai People's Republic of China

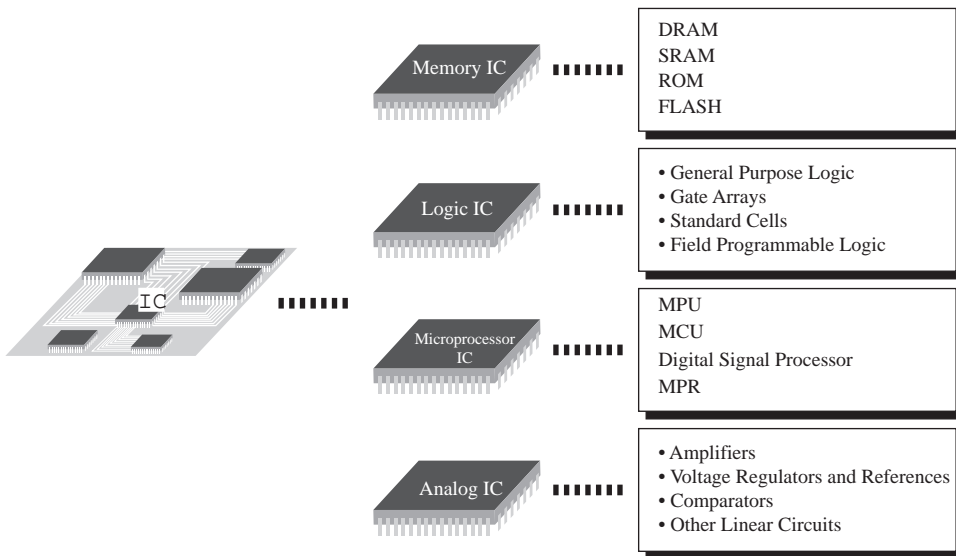
# INDUSTRY OVERVIEW

*The information herein is extracted from official publications. No independent verification has been carried out in respect of such information.*

## BACKGROUND

IC is a single electric circuit formed within a silicon chip by the integration of separate semiconductor components with specific functions such as transistors, diodes, resistors and capacitors. By integrating such separate semiconductor components in different designs, semiconductor products can perform computation and memory functions. IC may be classified by functional purposes into the following categories: memory IC, logic IC, microprocessor IC and analog IC; or they may be classified by application into the following categories: information product, consumer product, communication product and industry/transport/defence product. The rapid developments in IC design have heralded in a new era for the semiconductor industry, and it is expected that the development of IC designs will have an increasingly important influence on the future development of certain mainstream industries such as information, communication, medical and health industries, as well as consumer electronics industries in the coming years.

Where ICs are categorised by functional purposes, they can be further sub-divided as follows:



## THE PRC IC INDUSTRY

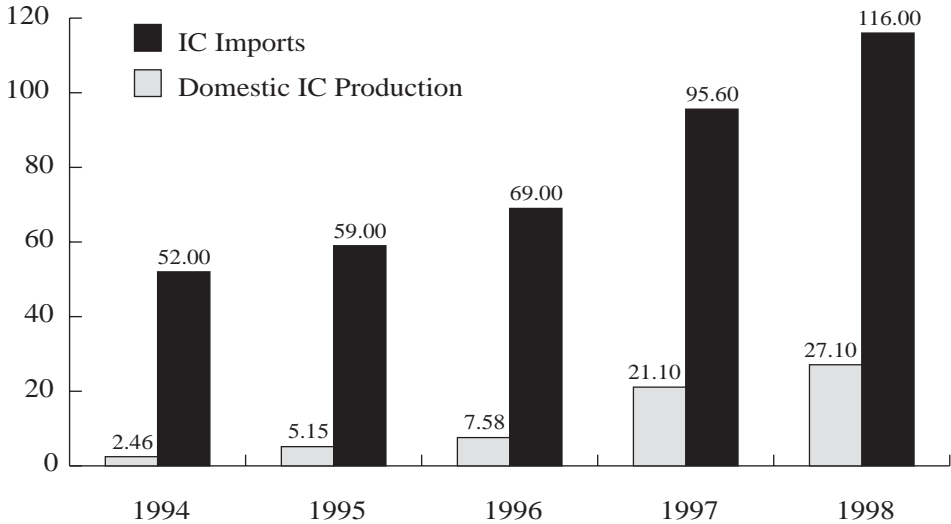
According to information published in the 1999 Year Book of the PRC Electronics Industry, the IC industry in the PRC has experienced rapid growth in recent years. In 1995, the IC production volume in the PRC reached 515 million pieces which is about 3.6 times the production volume of 143 million pieces in 1992. IC production in the PRC continued to increase throughout 1996 to 1998 from 758 million pieces to 2,710 million pieces. It is envisaged that the aggregate demand for IC products in the PRC may reach 18,000 million pieces by 2000, and at an estimated growth rate of 15% per annum, it may further reach 36,000 million pieces by 2005. Notwithstanding significant progress in the PRC IC industry in recent years, it still lags behind the overall development of the PRC national

## INDUSTRY OVERVIEW

economy. Domestic IC supply has consistently been unable to satisfy domestic demand. The Directors estimate that up to 80% of IC demand in the PRC is currently satisfied by imports mainly from the United States, Europe and Japan. The total quantity of IC imported in the PRC amounted to 6,900 million pieces, 9,560 million pieces, and 11,600 million pieces in 1996, 1997, and 1998 respectively, representing an annual increase of 39% and 21% respectively. The Directors believe that the heavy reliance on imports to satisfy market demand in the PRC has largely been brought about by IC design companies in the PRC lacking the technical expertise to design certain IC products.

### IC Production and Imports in the PRC

(‘00 million pieces)



Source: The PRC Electronics Industry Yearbook

At present, there are approximately 100 IC design companies in the PRC. The majority of these companies are of small operating scale and generally lack sophisticated design capabilities. The limited scale of operation of these companies has hindered their development of more sophisticated design capabilities and their ability to compete against IC products produced by overseas suppliers.

Recognising the tremendous market potential and the importance of establishing a strong technological platform for the development of the PRC national economy, the PRC government has, in recent years, provided strong support for the development of the industry. For example, the PRC Ministry of Science and Technology approved the establishment of an “IC design base” in Shanghai in February 2000 and with the assistance of local regulatory authorities, it established the Shanghai Integrated Circuit Centre which undertakes the leasing of office premises to companies engaged in IC design and related businesses.

## MANUFACTURING PROCESS

In general, the main stages of the manufacturing process for IC products are as follows:

### 1) *Delivery of data*

IC design data is delivered by the design staff of the design companies to the mask manufacturers.

### 2) *Mask making*

The production and finishing process for integrated circuits is similar to printing. A series of special masks are required for the process. The masks are produced in accordance with the pattern designs provided by IC design companies, wafer processing factories or professional mask producers.

### 3) *Wafer manufacturing*

Wafer is a kind of silicon slice which is in circular form (it has to be in circular form to match the requirements of the production process). The wafer manufacturers use the masks to produce the IC chips. The wafer manufacturers have to ensure that the IC chips are produced in accordance with the required specifications and quality standards.

### 4) *Wafer testing*

The wafers are subject to testing by the quality control staff of the wafer manufacturers in accordance with the standards specified by the IC design companies. IC design companies regularly inspect the testing process and the testing equipment used for wafer testing.

### 5) *Packaging*

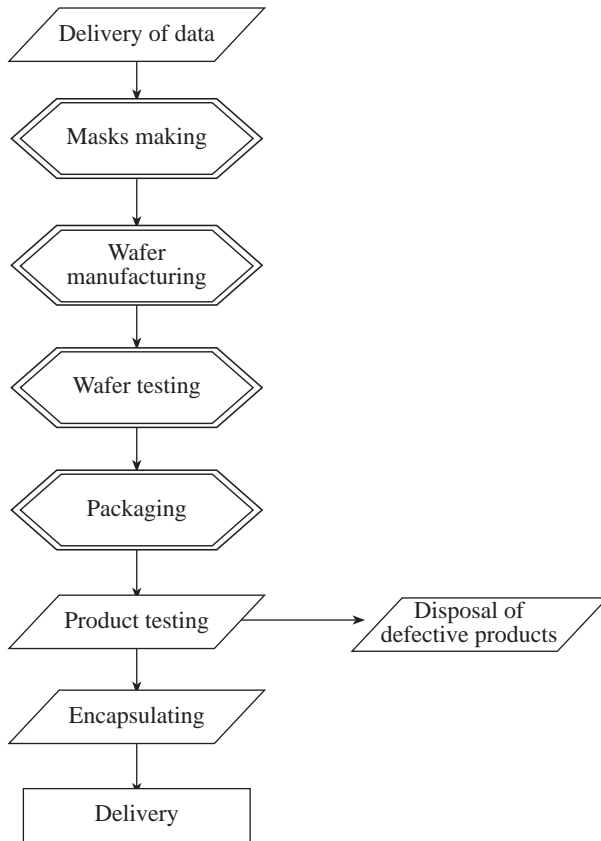
The silicon wafers are delivered to the packaging factories where the chips are thinned, sliced and packaged to the required specifications.

### 6) *Product testing*

The packaged IC is tested and subject to satisfactory testing, is then encapsulated (which involves encapsulating the IC chips with plastic materials), stored in warehouses and then delivered to customers. Packaged IC that did not satisfy such testing will be destroyed.

# INDUSTRY OVERVIEW

The main stages of the manufacturing process for IC products are illustrated as follows:



# BUSINESS OF THE COMPANY

## INTRODUCTION

The Company is an ASIC design and system integration company based in the PRC and is mainly engaged in the design and sale of IC for industrial applications. Currently, its products include various types of IC for telecommunication products, smart cards, motor vehicle electronic products, power supply electronic products and consumer electronic products. The Company operates on a “fables” basis in that it undertakes only the design of its products and engages independent OEM manufacturers to carry out production.

## ACTIVE BUSINESS PURSUITS

### Before 1998

Whilst the Company was established in July 1998, its business was first founded in 1993 when Fudan High Tech was established by Fudan University. According to the Directors’ understanding, at the time of the establishment of Fudan High Tech, the domestic IC design capability in the PRC was relatively undeveloped. Fudan University considered it an appropriate opportunity to establish Fudan High Tech with a view of putting to commercial application IC design technology developed by teaching staff and research students undertaking research for University Laboratory. While the key staff involved in the development of such technology remained to be employees of Fudan University, they assisted Fudan High Tech in carrying out further research and development. During the initial stages of its operation, Fudan High Tech was mainly engaged in the design of IC products specified by its customers. When the Company was established in 1998, it began to undertake the design and development of its own IC products. Fudan University granted Fudan High Tech the right to use one floor of office space at the university campus and certain computer equipment of University Laboratory (when the Company was established in July 1998, it continued to occupy such office space until January 2000 when it completed the relocation to its present office premises, while the arrangement for the use of computer equipment is now provided for in the long term co-operation agreement (see section headed “Continuing connected transaction”)).

Fudan High Tech began the development of a motorcycle ignition controller circuit and a low voltage transmission circuit with dialer interface (for use in telephones) in May 1996 and completed the development in December 1997.

For further details on University Laboratory and Fudan High Tech, please refer to the sections headed “Relationship with University Laboratory” and “Relationship with Fudan High Tech” respectively.

### During the year ended 31st December, 1998

As the motorcycle ignition controller circuit and the low voltage transmission circuit with dialer interface were ready for commercial marketing, Fudan High Tech decided to establish the Company further to develop and market these and other IC products which included an earth leakage current detector circuit, being an IC which prevents power leakage in household electrical appliances, and an automotive flash light controller circuit, being an IC which controls the flash light of motor vehicles. It also took the opportunity to invite a number of corporate investors including Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy and Ningbo Lirong (please see below details of each of their shareholdings in the Company) to invest in the Company in July 1998.

## BUSINESS OF THE COMPANY

The Company was established as a joint stock limited company in the PRC on 10th July, 1998 with the approval of the Shanghai Municipal Government. At that time, the Company had a registered share capital of RMB10,000,000 divided into 10,000,000 Domestic Shares of nominal value RMB1.00 each, all of which were issued and fully paid. The shareholding structure of the Company was as follows:

<b>Shareholder</b>	<b>Number of Domestic Shares held</b>	<b>Percentage of registered share capital</b>
Fudan High Tech	3,700,000	37
Shanghai Commerce and Investment	1,600,000	16
Shanghai Pacific	1,200,000	12
Shanghai Gaozhan Consultancy	500,000	5
Ningbo Lirong	500,000	5
Staff Shareholding Association	2,000,000	20
Jiang Guoxing	250,000	2.5
Shi Lei ( <i>Note</i> )	250,000	2.5
	<b>10,000,000</b>	<b>100</b>

*Note:*

Of the 2,000,000 Domestic Shares held by the Staff Shareholding Association, Shi Lei was interested in 50,000. Taking account of the Domestic Shares held in his own name and those in which he was interested through the Staff Shareholding Association, Shi Lei was then interested in approximately 300,000 Domestic Shares, representing approximately 3% of the then registered share capital of the Company.

The Domestic Shares held by Fudan High Tech were issued in return for the transfer of IC development know-how together with the payment of a cash amount of RMB1.32 million by Fudan High Tech to the Company. All the other parties subscribed for their Domestic Shares in cash at an issue price equivalent to the nominal value of such shares. Since the establishment of the Company, Fudan High Tech has ceased to conduct any IC design business activity (except through the Company).

Shanghai Pacific is a wholly-owned subsidiary, and Ningbo Lirong is a subsidiary (owned as to 74.3%), of Shanghai Commerce and Investment. Shanghai Commerce and Investment is a state-owned enterprise which is wholly-owned by the Shanghai Municipal Government. Shanghai Gaozhan Consultancy is owned as to 20% by Shanghai Pacific.

The Staff Shareholding Association is a social organisation legal person (社團法人) and an independent legal entity with limited liability under PRC law (see further details on the Staff Shareholding Association in the paragraph headed “Performance incentive arrangements” in this section). In July 1998, the Staff Shareholding Association was then constituted by members consisting of 34 employees of the Company (who included the executive Directors and two Supervisors together representing approximately 72% of the Company’s total number of employees as at 31st December, 1998), the non-executive Directors, as well as certain employees of University Laboratory and Shanghai Commerce and Investment, and certain individuals engaged in technological co-operation with University Laboratory. Each such party provided the subscription money to the Staff Shareholding Association for the subscription of a specific number of such 2 million Domestic Shares in the Company through the Association and was entitled to the economic benefits derived from those Domestic Shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). None of the parties who was interested in any of the 2 million Domestic Shares in the Company held by the Staff Shareholding Association was directly or indirectly interested in 5% or more of the then registered share capital of the Company.



## BUSINESS OF THE COMPANY

The proceeds that the Company received from the share subscription in July 1998 in the amount of approximately RMB7,620,000 were used to finance the purchase of new equipment including computers and the development and marketing of products.

The Company began commercial sales of the low voltage transmission circuit with dialer interface and the motorcycle ignition controller circuit to independent customers in July 1998 and August 1998 respectively and in the year ended 31st December, 1998, sales of these two products amounted to RMB1,109,000 and RMB1,485,000 respectively. The Company also began the development of two new products, an automotive flash light controller circuit and an earth leakage current detector circuit during the second half of 1998. The Company's customers were then mainly independent manufacturers of motor parts and telephones.

During 1998, the Company engaged 6 OEM manufacturers to undertake the different parts of the production process of its IC products, of whom 1 was a mask manufacturer, 1 was a wafer manufacturer and 4 were packaging factories.

At the time of its establishment, the Company had 22 full-time employees, of whom 10 joined the Company from Fudan University. By the end of 1998, the number of the Company's employees increased to 47, of whom 18 were engaged in research and development, 11 in management and administration, 10 in quality control and product testing, 6 in sales and marketing, and 2 in finance.

### **During the year ended 31st December, 1999**

On 16th August, 1999, the Company increased its registered share capital from RMB10,000,000 to RMB13,000,000 by the creation of 3,000,000 new Domestic Shares of nominal value RMB1.00 each. The new Domestic Shares were subscribed for in cash by the Staff Shareholding Association at the issue price of RMB1.02 per share. After the increase in share capital, the shareholding structure of the Company was changed as follows:

<b>Shareholder</b>	<b>Number of Domestic Shares held</b>	<b>Percentage of registered share capital</b>
Fudan High Tech	3,700,000	28.46
Shanghai Commerce and Investment	1,600,000	12.31
Shanghai Pacific	1,200,000	9.23
Shanghai Gaozhan Consultancy	500,000	3.85
Ningbo Lirong	500,000	3.85
Staff Shareholding Association	5,000,000	38.46
Jiang Guoxing ( <i>Note</i> )	250,000	1.92
Shi Lei ( <i>Note</i> )	250,000	1.92
	<u>13,000,000</u>	<u>100</u>

*Note:*

Of the 5,000,000 Domestic Shares held by the Staff Shareholding Association, Jiang Guoxing and Shi Lei were interested in 50,000 and 450,000 respectively. Taking account of the Domestic Shares held in their own names and those in which they were interested through the Staff Shareholding Association, Jiang Guoxing and Shi Lei were then interested in approximately 300,000 and 700,000 Domestic Shares respectively, representing approximately 2.31% and 5.38% respectively of the then registered share capital of the Company.

## BUSINESS OF THE COMPANY

The additional 3 million Domestic Shares were subscribed for by 78 of the Company's employees through the Staff Shareholding Association. Each such employee provided the subscription money to the Staff Shareholding Association for the subscription of a specific number of such 3 million Domestic Shares through the Association and was entitled to the economic benefits derived from those Domestic Shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). After subscribing for the additional new Domestic Shares, the Staff Shareholding Association held a total of 5 million Domestic Shares. It was then constituted by members consisting of 78 employees of the Company (who included the executive Directors and two Supervisors together representing approximately 80% of the Company's total number of employees as at 31st December, 1999), and the non-executive Directors, as well as certain employees of University Laboratory and Shanghai Commerce and Investment, and certain individuals engaged in technological co-operation with University Laboratory. Save for Shi Lei, none of the parties who was interested in any of the 5 million Domestic Shares held by the Staff Shareholding Association was directly or indirectly interested in 5% or more of the then registered share capital of the Company. Although the Staff Shareholding Association then became the single largest shareholder in the Company, none of the parties who was interested in the shares in the Company through the Staff Shareholding Association was, on his own, able to control the exercise of the voting rights attached to such Domestic Shares.

During 1999, the Company commenced commercial sales of the new products listed below:

<b>Product</b>	<b>Commencement of development</b>	<b>Commencement of sales</b>
<i>Smart cards</i>		
● 8K Bits memory card circuit	January 1999	December 1999
<i>Electric power electronic products</i>		
● earth leakage current detector circuit	August 1998	March 1999
<i>Telecommunication products</i>		
● low voltage transmission circuit with dialer interface with EMC	August 1998	June 1999
● hand-free speaker controller circuit	August 1998	August 1999
<i>Motor vehicle electronic products</i>		
● Hall effect pickup ignition controller circuit	<i>(Note)</i>	January 1999
● magnetic pickup ignition controller circuit	<i>(Note)</i>	April 1999
● automotive flash light controller circuit	September 1998	April 1999
● high reliability motorcycle ignition controller circuit	April 1999	July 1999
● liquid level alarm circuit	<i>(Note)</i>	July 1999
● high power motorcycle ignition controller	February 1999	July 1999
● security system circuit	April 1999	December 1999
<i>Consumer electronics products</i>		
● low voltage stereo power amplifier circuit	<i>(Note)</i>	April 1999

*Note:*

These products were developed by Fudan High Tech before the establishment of the Company.

## BUSINESS OF THE COMPANY

The 8K Bits memory card circuit was the first memory card that the Company succeeded in developing. The development of this product took approximately one year to complete. The Company considers this a major milestone in its development as it enabled the Company to break into the high growth and high value market for integrated circuit memory cards.

In December 1999, the Company's quality control system (see description under the paragraph headed "Quality control" in this section) received ISO9001 certification.

The percentage breakdown of the Company's five best selling products in 1999 is set out below:

<b>Product</b>	<b>Percentage in turnover</b>
<i>Smart cards</i>	
● 8K Bits memory card circuit	16.3
<i>Electric power electronic products</i>	
● earth leakage current detector circuit	13.6
<i>Telecommunication products</i>	
● low voltage transmission circuit with dialer interface with EMC	27.5
<i>Motor vehicle electronic products</i>	
● high reliability motorcycle ignition controller circuit	31.5
● Hall effect pickup ignition controller circuit	4.7
Others	6.4
Total	100

During 1999, the Company engaged 7 OEM manufacturers to undertake different parts of the production process for its product, of whom 1 was a mask manufacturer, 2 were wafer manufacturers and 4 were packaging factories.

At the end of 1999, the number of the Company's employees increased to 98, of whom 39 were engaged in research and development, 16 in management and administration, 3 in quality control, 17 in product testing, 19 in sales and marketing and 4 in finance.

## BUSINESS OF THE COMPANY

### Since 1st January, 2000

Since the beginning of 2000, the Company has commenced commercial sales of the following new products:

<b>Product</b>	<b>Commencement of development</b>	<b>Commencement of sales</b>
electricity power metering circuit	August 1999	April 2000
dual tone multi-frequency decoding circuit	August 1999	March 2000

In September, 1999, the Company entered into a lease agreement with an independent third party for the leasing of office premises at 7th Floor, East Tower, Shanghai Integrated Circuit Centre (ICC) Qun Fang District, No. 668 Bei Jing Dong Road, Huang Pu District, Shanghai, the PRC with a gross floor area of approximately 2,100 square metres. The lease is for a term of five years expiring in November 2004. The landlord has granted a rent-free period to the Company up to the date of this prospectus. The rental payable from the date of this prospectus to November 2001 will be US\$6,393 per month. Thereafter, the monthly rent payable is US\$12,786. The Company completed the relocation of its operations to the new office premises in January 2000.

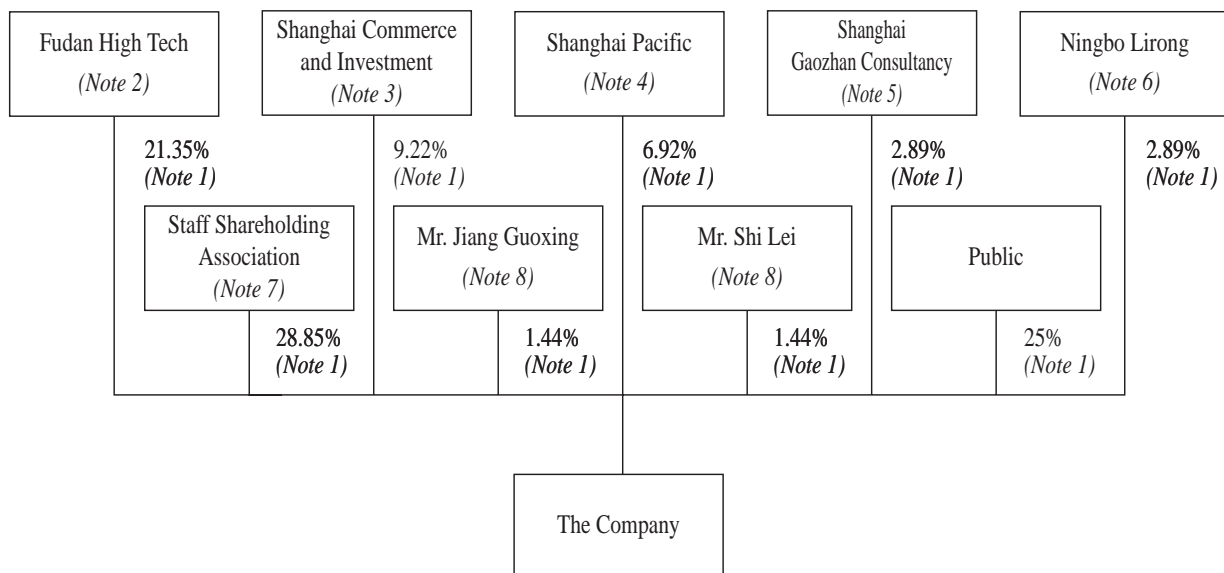
On 12th February, 2000, the Company obtained the consent of the CSRC to issue H Shares and to apply for the listing of the H Shares on the GEM and the approval to convert itself into a public subscription company under the Company Law. In preparation for the listing of the H Shares on the GEM, the Company underwent the Capital Reorganisation on 19th July, 2000 with the prior approval of the CSRC granted on 17th April, 2000. Details of the Capital Reorganisation are set out in the section headed “The Company” in Appendix VII to this prospectus.

As at the Latest Practicable Date, the total number of the Company’s employees increased to 103, of whom 38 were engaged in research and development, 19 in management and administration, 4 in quality control, 19 in product testing, 19 in sales and marketing and 4 in finance.

# BUSINESS OF THE COMPANY

## CORPORATE STRUCTURE

The Company is a joint stock limited company established under the laws of the PRC on 10th July, 1998. It does not presently have any subsidiary or any shareholding or investment in any other company or entity. The following chart illustrates the shareholding structure of the Company immediately after the completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised):



*Notes:*

- If the Over-allotment Option is exercised in full, the shareholding percentages in the Company immediately after the completion of the Capitalisation Issue and the Placing are set out below:

<b>Shareholder</b>	<b>Percentage of registered share capital (if Over-allotment Option exercised in full)</b>
Fudan High Tech	20.57
Shanghai Commerce and Investment	8.90
Shanghai Pacific	6.67
Shanghai Gaozhan Consultancy	2.78
Ningbo Lirong	2.78
Staff Shareholding Association	27.80
Jiang Guoxing	1.39
Shi Lei	1.39
Public	27.72

- Fudan High Tech is a state-owned enterprise wholly-owned by Fudan University (see further details on Fudan High Tech in the section headed "Relationship with Fudan High Tech").
- Shanghai Commerce and Investment is a state-owned enterprise wholly-owned by the Shanghai Municipal Government. Apart from being a shareholder in the Company, Shanghai Commerce and Investment has not had any other business dealing with the Company.

## BUSINESS OF THE COMPANY

4. Shanghai Pacific is a wholly-owned subsidiary of Shanghai Commerce and Investment. Apart from being a shareholder in the Company, Shanghai Pacific has not had any other business dealing with the Company.
5. Shanghai Gaozhan Consultancy is a sino-foreign equity joint venture which is owned as to 20% by Shanghai Pacific and as to 80% by Hong Kong Gaozhan International Company Limited 香港高湛國際有限公司 (which, according to the Directors' understanding, is an independent third party not related to any of the other existing shareholders of the Company). Apart from being a shareholder in the Company, Shanghai Gaozhan Consultancy has not had any other other business dealing with the Company.
6. Ningbo Lirong is a subsidiary of Shanghai Commerce and Investment. It is a sino-foreign equity joint venture which is owned as to 74.3% by Shanghai Commerce and Investment, 25% by 香港申港實業有限公司 (which, according to the Directors' understanding, is an independent third party not related to any of the other existing shareholders of the Company) and 0.7% by 寧波榮基有限公司 (which, according to the Directors' understanding, is an independent third party not related to any of the other existing shareholders of the Company). Apart from being a shareholder in the Company, Ningbo Lirong has not had any other business dealing with the Company.
7. The Staff Shareholding Association is a social organisation legal person (社團法人) under PRC law. It is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory. Each member provided the Staff Shareholding Association with the subscription money in respect of a specific number of the Domestic Shares held by the Association and is entitled to the economic benefits derived from those shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). The voting rights attached to the Domestic Shares held by the Association are, however, exercised collectively by the manager of the management committee of the Association and not individually by or at the direction of each member. See further details under the paragraph headed "Performance incentive arrangements" in the section headed "Business of the Company" of this prospectus.
8. Of the 144,230,000 Domestic Shares held by the Staff Shareholding Association, each of Jiang Guoxing and Shi Lei is interested in 1,442,300 and 12,980,000 Domestic Shares respectively. Taking account of the Domestic Shares held in their own names and those in which they are interested through the Staff Shareholding Association, Jiang Guoxing and Shi Lei are interested in approximately 1.73% and 4.04% respectively (or if the Over-allotment Option is exercised in full, approximately 1.67% and 3.89% respectively) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing.

All of the shares held by Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, the Staff Shareholding Association, Jiang Guoxing and Shi Lei are Domestic Shares. All of the shares to be held by the public will be H Shares.

# BUSINESS OF THE COMPANY

## PRODUCTS

Since its establishment, the Company has successfully designed and marketed the following IC products:

Smart cards	8K Bits memory card circuit
Power supply electronic products	earth leakage current detector circuit electricity power metering circuit
Telecommunication products	low voltage transmission circuit with dialer interface low voltage transmission circuit with dialer interface with EMC hand-free speaker controller circuit dual tone multi-frequency decoding circuit
Motor vehicle electronic products	high reliability motorcycle ignition controller circuit liquid level alarm circuit magnetic pickup ignition controller circuit Hall effect pickup ignition controller circuit automotive flash light controller circuit high power motorcycle ignition controller circuit Security system circuit
Consumer electronic products	low voltage stereo power amplifier circuit

## PRODUCT DESIGN

### Design process

The principal stages typically involved in the Company's product design process are described below:

#### 1. Product identification

An IC product is identified as a potential product for development by the Company. The Company will undertake a feasibility study of the product to assess, in particular, its market potential, the estimated costs, time and resources and the level of technical know-how required for its development. The results of the feasibility study will be reviewed by the senior management and technical staff of the Company and a decision will be reached as to whether to proceed with the development of the product.

#### 2. Internal bidding process

##### (i) Submission of proposals

The Company's product design staff will be invited to submit bidding proposals for the development of the product. Each design staff may submit a proposal individually or together with other design staff. The proposal has to set out the following:—

- the design plan (including technical specifications)
- a list of the participating design staff
- estimated timing and budget

### (ii) First review

The proposals submitted are subject to a first review by the project committee comprising the Company's senior management and technical staff who includes the executive Directors, chief engineer, deputy chief engineers, deputy general manager and technical director of the Company and the secretary of the project committee. Such review focuses on the technical feasibility of each proposed design. The project committee will also consider whether the product design staff who submitted the proposal has the technical competence to undertake the design and whether he or they will be able to complete the design on time. The Company encourages innovative but practical designs.

### (iii) Second review

The proposals are then subject to a second review by the project committee so as to ensure that the non-technical aspects of the product (such as marketing, development cost and funding) are also assessed. On the basis of the project committee's decision, the development of the product is assigned to the product design staff who submitted the chosen proposal.

The project committee's primary responsibility is to monitor and supervise the development of each new product by the product design staff and as far as possible, to ensure that the product meets the required quality standards and the development is completed within time and budget. The project committee will also respond to request for technical advice and support from the design staff.

The Company considers that the principal merit of the internal bidding process is that it encourages innovative and diverse designs and technical solutions to be put forward by the Company's product design staff. It also allows both the technical and commercial aspects of the proposed new product to be thoroughly assessed. As part of the Company's performance incentive arrangements, the product design staff whose design proposal is chosen and successfully completed will be entitled to a bonus payment (see paragraph headed "Performance incentive arrangements" in this section).

### 3. Technical design

The product design staff whose design proposal for the new product has been chosen then proceeds to implement the design. The technical design process involves two principal stages:

#### — *circuit design*

Circuit design basically involves schematics entry and hardware description language entry. The input method will be chosen in accordance with the function of each circuit. Once design inputs are completed, the circuits will be subject to design verification. This is carried out by EDA tools. If the circuits do not pass design verification, they will have to be modified and be subject to further verification. Once circuit design is completed, a circuit netlist will be prepared.



— *physical (layout) design*

The layout required for the production of the integrated circuit is designed in accordance with the circuit netlist. The layout design is subject to verification as to whether it satisfies the timing and design specifications. Once the layout passes verification, it is then transferred to standard data format that can be used by IC manufacturers in production.

4. Sample production and testing

The Company then delivers the layout design data to an IC manufacturer for the production of samples of the integrated circuit. These samples will then be tested by the Company to ensure they meet the performance and quality standards before commercial production is undertaken.

The period normally taken to complete the process from product identification to production is 3 months to 1 year, depending on the complexity of the IC.

### **Protection of product designs**

The Company places significant emphasis on protecting the confidentiality of its product designs. All IC designs, insofar as they are original designs, are protected by copyright under the Copyright Law of the PRC. The Copyright Law allows the registration of original software designs with the Copyright Bureau of the PRC although registration is not a pre-requisite for copyright protection. IC designs, if they satisfy the requirements for patent registration, may also be registered under the Patent Law of the PRC. The Company has not effected any copyright or patent registration in respect of any of its product designs (see further the paragraph headed “Intellectual Property Rights”). The Company adopts various measures to protect the confidentiality of its product designs. These include:

1. Each senior management and product design staff of the Company has entered into a confidentiality undertaking with the Company, pursuant to which he has undertaken not to disclose any detail relating to the design of any of the Company’s products or any of the Company’s technical know-how both during his employment with the Company and after his employment has ceased. Each senior management and product design staff has undertaken to indemnify the Company in respect of any economic loss that arises from or in connection with any breach of his confidentiality undertaking. In addition, there may also be criminal sanction if such breach involves violation of applicable law.
2. The Company also requires most of the OEM manufacturers whom it engages to enter into a confidentiality agreement. The OEM manufacturers are required to undertake not to disclose or make any unauthorized use of any detail relating to the design of any of the Company’s product or any of the Company’s technical know-how that may come into its possession in manufacturing products for the Company. The OEM manufacturers are also required to indemnify the Company in respect of any economic loss that arises from or in connection with any breach of such confidentiality agreement.
3. The Company restricts unauthorised access to the workplace of the product design staff by a security code lock system. Each product design staff also uses a personal identification number (known only to himself and senior management staff who includes the chief engineer and the deputy chief engineer of the Company) to prevent unauthorised access to his computer workstation.

## BUSINESS OF THE COMPANY

### OEM MANUFACTURERS

The Company operates on a “fabless” basis in that it undertakes only the design of its products and engages OEM manufacturers to undertake production. The Directors are of the view the “fabless” basis of operation is presently most suitable for the Company as it allows the Company to operate without the burden of the substantial investment costs associated with “fab” operations. The Company engages different OEM manufacturers to undertake different parts of the production process. These include:

1. Mask producers who are engaged to produce the masks that are used in the wafer production process in accordance with the specifications provided by the Company.
2. Wafer manufacturers who are engaged to produce the wafers on the basis of the masks.
3. IC packaging factories who are engaged to package the wafers and deliver them to the Company for testing.

The two most important criteria adopted by the Company in the selection of its OEM manufacturers are:

1. the OEM manufacturers must be able to meet, with minimal deviation, the Company’s design specifications; and
2. the OEM manufacturers must be able to meet the quality standards set by the Company.

In addition, the Company will also take into account other factors such as production capacity, pricing and delivery time.

The Company currently engages 8 OEM manufacturers, of whom 7 are located in the PRC and 1 in Singapore, and all of them are independent of the Company. Of the 8 OEM manufacturers, 1 is a mask manufacturer, 5 are wafer manufacturers, and 2 are packaging manufacturers. The OEM manufacturer engaged by the Company in Singapore is a wafer manufacturer. It has been chosen because it is able to meet the production standards required by the Company. Most of the OEM manufacturers currently engaged by the Company have engaged in technical co-operation or had business dealings with Fudan High Tech. The Company has maintained an amicable working relationship with its OEM manufacturers. If, however, it should become necessary to replace any of its OEM manufacturers (as for instance, in the event of a material dispute), the Directors do not expect there to be any significant difficulty in engaging a replacement OEM manufacturer.

The Company usually enters into a manufacturing contract with each of its OEM manufacturers with a term of approximately 1 year (subject to the right of termination in circumstances such as material breach of obligation). The mask manufacturers and the packaging manufacturers generally allow the Company a one-month credit period. The wafer manufacturers generally require the Company to pay a deposit not exceeding 80% of the invoiced value of the goods at the time when an order is placed, with the remaining balance being settled on delivery. Payment to OEM manufacturers located in Shanghai are made by cheque in Renminbi or by bank transfer, while payments to OEM manufacturers located in other parts of the PRC are made by bank transfers. Payments to the Singapore OEM manufacturer are made by letter of credit in US dollars through Shanghai International Science

## **BUSINESS OF THE COMPANY**

& Technology Corp. Ltd., a state-owned company in the PRC licensed to engage in import and export business and is independent from the Company. All of the Company's purchases made in 1998 were settled in RMB. In 1999, approximately RMB2.1 million of the Company's purchases were settled in US dollars, which accounted for approximately 21% of the Company's purchases.

The Company's largest OEM manufacturer accounted for 47% and 37%, with the five largest OEM manufacturers accounting for 90% and 98%, of the Company's total cost of purchase for the year ended 31st December, 1998 and 1999 respectively. None of the Directors, the Supervisors or any of the Company's substantial, significant or management shareholders or any of their respective associates (as such terms are defined in the GEM Listing Rules) has any shareholding interest in the Company's five largest OEM manufacturers.

The masks are produced as part of the Company's product development process and are accounted for as development costs. The Company engages OEM manufacturers to manufacture wafers. The costs of the wafers manufactured for the Company are accounted for as part of the Company's raw materials costs. The Company sub-contracts the packaging process to other OEM manufacturers and the wafers under packaging process are accounted for as work in progress. When the packaged wafers are returned from the OEM manufacturers as final products and are then tested, they are recorded by the Company as finished goods.

### **SALES AND MARKETING**

The Company has a sales and marketing department consisting of 19 employees who are responsible for the promotion of the Company's products. The Company attends and participates in technology seminars and trade fairs regularly as part of its marketing strategy. The Company also maintains close contact with other electronic product suppliers, business associates and government entities responsible for applied electronics that can assist in the promotion of the Company's products.

The Directors believe that the Company's strong technical expertise, its excellent product quality, reasonable pricing of its products and supportive after-sales service have enabled the Company to establish a close relationship with more than 290 customers during its relatively short history.

The Company intends to expand its customer base by increasing its brand name recognition through setting up sales offices in major cities throughout the PRC. At the appropriate time in the future, these offices will also be able to help the Company develop sales worldwide, particularly in the Asian Pacific region.

The Company currently has approximately 290 customers, all of whom are located in the PRC. The majority of the Company's customers is in the telecommunication, car manufacturing and electronic products industries. The Company's five largest customer, together, accounted for 40% and 30% of the Company's total turnover, while the largest customer accounted for 21% and 11% of the Company's total turnover for the two years ended 31st December, 1998 and 1999 respectively. None of the Directors, the Supervisors or any of the Company's substantial, significant or management shareholders or any of their respective associates (as such terms are defined in the GEM Listing Rules) has any shareholding interest in the Company's five largest customers.

The Company has full discretion in setting the prices of its products in the light of market conditions and is not subject to any legal or regulatory control on pricing or sales. Product prices are subject to arms-length negotiations with customers. The Company has not entered into any long term

## **BUSINESS OF THE COMPANY**

sales contract with any of its customers and all sales are undertaken on an order by order basis. The Company's sales are currently all denominated in Renminbi and depending on the credit-worthiness of each customer, a credit period of up to 120 days may be allowed. All sales are paid for by cheque, bank draft or telegraphic remittance. For the two years ended 31st December, 1998 and 1999, credit sales accounted for approximately 79% and 91% respectively of the Company's total turnover.

The Company's sales staff maintains regular contacts with the Company's customers to monitor their feedback on its products. In some cases, the Company also works closely with its customers to help them improve the performance of their products. By doing so, the Company may create opportunities where it can jointly develop new products with its customers. Recently, the Company jointly developed and successfully completed a new low power consumption bi-polar circuit breaker with one of its customers.

### **COMPETITION**

At present, there are approximately 100 IC design companies in the PRC. The majority of these companies are small in terms of operating scale and generally lack sophisticated design capabilities. The Directors are of the view that the Company possesses more sophisticated design capabilities when compared to most of the local IC design companies in the PRC. The IC design business requires a high level of technical know-how and the Company has the benefit of know-how contributed by University Laboratory to help found its business.

The Company currently faces only limited competition from local IC design companies in the PRC. Its main competitors remain to be IC products produced by overseas suppliers. Based on current pricing, the prices of the Company's products are lower than comparable products produced by overseas suppliers. The Directors believe that the Company has the technical expertise to compete against overseas suppliers. Its base in the PRC also allows the Company to take advantage of relatively low operating costs. This gives the Company a higher degree of flexibility in product pricing which, in the Directors' opinion, provides the Company with its main competitive advantage over overseas suppliers.

### **QUALITY CONTROL**

The Company maintains strict quality control throughout its design process and in respect of the different stages of the production process undertaken by its OEM manufacturers. Its quality control system has received ISO 9001 certification in December 1999. As the Company adopts the "fables" method of operation, it is able to select OEM manufacturers who are able to meet high quality standards to undertake different stages of the production process for its products. Together with the Company's strict quality control, the Company is able to ensure that its products are of consistent high quality. When the production process is completed by the OEM manufacturers, the IC chips are delivered to the Company which will then carry out testing by using computerised equipment. This is conducted on a random sampling basis. However, where a new OEM manufacturer is engaged to undertake any part of the production process on the first few occasions, the Company will undertake detailed quality testing immediately after such manufacturer has completed its part of the production process. The Company has never received any material complaint from any of its customers. The Company places strong emphasis on the provision of after-sales service to its customers. The Company will replace any product which its customers find unsatisfactory or provide refund in respect of such product. There has been no material return of or refund for any IC product supplied by the Company since its establishment.

## **BUSINESS OF THE COMPANY**

### **RESEARCH AND DEVELOPMENT**

To enable it to keep pace with the rapid technological developments in the IC industry and continuously enhance its competitive advantages, the Company places significant emphasis on research and development. The Company focuses on both improving its existing products and developing new products. For the past two years, the Company adopted the following research and development policy:

- It provided technical training and invited experienced IC professionals to conduct seminar for its staff and encouraged attendance of relevant seminars conducted by other market participants.
- It encouraged design staff to develop efficient and effective products by the implementation of the internal bidding process. Such internal bidding process was also intended to help motivate the design staff to be more proactive in product development.
- It maintained close relationship with University Laboratory to keep abreast of the latest product development.
- It employed experienced IC design professionals as technical consultants to enhance its design capabilities.

The research and development costs incurred by the Company amounted to RMB893,000 and RMB2,741,000 for the two years ended 31st December, 1998 and 1999, respectively. Of these amounts, RMB401,000 and RMB1,551,000 were capitalised as development costs for the two years ended 31st December, 1998 and 1999, respectively.

The Company depends, to a significant extent, on the services of its experienced research and development staff. At the Latest Practicable Date, the Company had 38 research and development staff, all of whom are university graduates in electronic or computer engineering. This represents an increase in number of 111% from 1998. The Company's research and development staff work closely with its sales and marketing staff to ensure efficient co-operation in product improvement and development. The Company's close relationship with Fudan University (which owns Fudan High Tech, being currently the holder of a 28.46% shareholding in the Company) gives it access to valuable research resources and young talents in electronic and computer engineering (see further the paragraph headed "Relationship with Fudan High Tech").

### **PERFORMANCE INCENTIVE ARRANGEMENTS**

The Directors understand that the continued success of the Company depends, to a significant extent, on its ability to keep pace with the rapid technological developments of the IC industry. It is important that the Company be able to attract and retain experienced and well qualified IC professionals, particularly those engaged in product design which requires a high level of technical know-how. The Company has implemented the internal bidding process which allows the Company's product design staff to bid for the opportunity to undertake the development of a new product (see paragraph headed "Product design — design process" in this section). The product design staff whose

## BUSINESS OF THE COMPANY

design proposal is chosen and successfully completed will be entitled to a bonus payment. The amount of the bonus payment is dependent on the market performance of, and revenue generated by, the particular product designed by the product design staff and is at the discretion of the Company's management. No specific allocation or calculation basis is used. For the two years ended 31st December, 1999, the total amount of bonus payments paid by the Company was RMB130,000 and RMB820,000 respectively. The Company considers that the internal bidding process and related bonus payment encourage the product design staff to put forward innovative and diverse designs and technical solutions.

The Company has also established the Staff Shareholding Association which is a social organisation legal person (社團法人) and an independent legal entity with limited liability under PRC law. The Association is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory.

Subject to the approval of the shareholders of the Company and the Shanghai Municipal Government (being the regulatory authority which originally approved the establishment of the Company), the Directors may decide, from time to time, to make available Domestic Shares for subscription (at a price approved by the shareholders of the Company and the Shanghai Municipal Economic Restructuring Commission) by selected employees of the Company through the Staff Shareholding Association. The number of Domestic Shares that the Directors decide to offer each such employee to subscribe through the Staff Shareholding Association will depend on factors such as his seniority, length of service and work performance. Each relevant employee will be asked to notify the Staff Shareholding Association the number of Domestic Shares he wishes to subscribe through the Association and will pay the subscription money to the Association. The Association will then use the subscription money to subscribe for the Domestic Shares in the Company. If any of the employees does not wish to subscribe for the Domestic Shares offered, the Directors may offer such shares to other employees. The Domestic Shares will be issued to, and held by, the Staff Shareholding Association.

Other than the executive and non-executive Directors, the Supervisors and certain of the Company's employees and ex-employees, the members of the Staff Shareholding Association currently also include various employees of University Laboratory and Shanghai Commerce and Investment as well as various individuals engaged in technological co-operation with University Laboratory. These parties were previously providing services to the Company to help develop its business and know-how. In recognition of their contribution, part of the 2 million Domestic Shares that were issued by the Company to the Staff Shareholding Association in July 1998 were offered to such parties for subscription through the Association. The Directors do not expect that in future, any further Domestic Shares will be offered for subscription through the Staff Shareholding Association to any person other than the Company's employees.

The Staff Shareholding Association does not have a share or registered capital. The liability of each member is limited to the amount he paid to the Association. The Association maintains a bank account in which all monies received from or payable to its members are held. It also maintains a register which records the amount paid to the Association by each member for subscription of Domestic Shares and issues a receipt to each member evidencing the amount so paid by him and the number of Domestic Shares in which he is interested through the Association. Each member provided the Staff Shareholding Association with the subscription money in respect of a specific number of the Domestic Shares held by the Association and is entitled to the economic benefits derived from those

## BUSINESS OF THE COMPANY

shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). The voting rights attached to the Domestic Shares held by the Association are, however, exercised collectively by the manager of the management committee of the Association and not individually by or at the direction of each member.

The relationship between the Staff Shareholding Association and its members is governed by its articles of association. If any member of the Staff Shareholding Association should cease to be an employee of the Company, then according to the articles of association of the Association, the employee may lose his interest in the Domestic Shares held through the Association or the Association may purchase such interest from him. However, the Staff Shareholding Association has, allowed some ex-employees of the Company who have contributed to the Company's development to maintain their shareholding interest in the Company through the Association even after they have ceased to be employed by the Company. Under the articles of association of the Staff Shareholding Association, no member may withdraw any amount paid to the Association or without the approval of the Association, transfer his interest in the Association. The articles also provide that the maximum number of Shares that the Association may hold in the Company may not exceed 50% of the registered share capital of the Company from time to time.

The articles of association of the Staff Shareholding Association provides that the members' general meeting shall be its ultimate authority. The resolutions are passed by a majority vote of the members' present and voting, except for decisions relating to the election and replacement of members of the management committee, matters relating to member subscription and allocation policies and amendments to the articles of association of the Staff Shareholding Association which require a two-third majority vote of the members present and voting. The articles of association of the Staff Shareholding Association further provide for the establishment of a management committee comprising 3 to 5 persons to be elected by the members of the Association. The management committee is primarily responsible for the administration of the Staff Shareholding Association, including matters such as the payment of capital contributions by, and dividend distributions to, members. A manager is appointed from the members of the management committee and he acts as the Staff Shareholding Association's representative in attending shareholders' meetings of the Company and exercising the rights (including voting rights) attached to the Shares held by the Staff Shareholding Association. Currently, the management committee consists of Chen Junxia (who is an executive Director), Li Wei (who is a Supervisor) and Li Qing (who is an employee of the Company). Ms. Chen Junxia is the manager of such management committee. A summary of the articles of association of the Staff Shareholding Association is set out in Appendix VI to this prospectus.

## BUSINESS OF THE COMPANY

Currently, only Jiang Guoxing and Shi Lei hold Domestic Shares in their own names (as they were two of the Promoters) and no other Director or employee of the Company and none of the Supervisors holds any Shares in his own name. Immediately following the completion of the Capitalisation Issue and the Placing, the Staff Shareholding Association will be holding 144,230,000 Domestic Shares, representing approximately 28.85% (or if the Over-allotment Option is exercised in full, approximately 27.80%) of the registered share capital of the Company. The table below sets out a breakdown of the Company's employees and ex-employees and the other parties who are interested in the Domestic Shares held by the Staff Shareholding Association and their respective shareholding interests immediately after the completion of the Capitalisation Issue and the Placing:

Party	Total number	Number of Domestic Shares indirectly interested	Percentage of registered share capital (if Over- allotment Option not exercised)	Percentage of registered share capital (if Over- allotment Option exercised in full)
<b>Executive Directors</b>				
Jiang Guoxing ( <i>Note 1</i> )	—	1,442,300	0.29	0.28
Shi Lei ( <i>Note 1</i> )	—	12,980,000	2.60	2.50
Yu Jun	—	10,961,530	2.19	2.11
Cheng Junxia	—	8,076,920	1.61	1.56
Wang Su	—	<u>7,211,530</u>	<u>1.44</u>	<u>1.39</u>
Sub-total	<u>5</u>	<u>40,672,280</u>	<u>8.13</u>	<u>7.84</u>
<b>Non-executive Directors</b>				
Chen Xiaohong	—	7,211,530	1.44	1.39
Zhang Qianling	—	1,733,650	0.35	0.33
He Lixing	—	1,442,300	0.29	0.28
Shen Xiaozu	—	<u>1,442,300</u>	<u>0.29</u>	<u>0.28</u>
Sub-total	<u>4</u>	<u>11,829,780</u>	<u>2.37</u>	<u>2.28</u>
<b>Supervisors</b>				
Li Wei	—	6,057,690	1.21	1.17
Ding Shengbiao	—	7,211,530	1.44	1.39
Xu Lenian	—	<u>865,380</u>	<u>0.17</u>	<u>0.17</u>
Sub-total	<u>3</u>	<u>14,134,600</u>	<u>2.82</u>	<u>2.73</u>
<b>Senior Management</b>				
<b>Members</b>				
Shi Jin	—	3,317,300	0.66	0.64
Zhou Ting	—	6,057,690	1.21	1.17
Ji Lanhua	—	6,057,690	1.21	1.17
Zhao Meijin	—	<u>865,380</u>	<u>0.17</u>	<u>0.17</u>
Sub-total	<u>4</u>	<u>16,298,060</u>	<u>3.25</u>	<u>3.15</u>
<b>Other employees of the</b>				
<b>Company</b> ( <i>Note 2</i> )	65	31,598,190	6.34	6.07



## BUSINESS OF THE COMPANY

Party	Total number	Number of Domestic Shares indirectly interested	Percentage of registered share capital (if Over- allotment Option not exercised)	Percentage of registered share capital (if Over- allotment Option exercised in full)
<b>Ex-employees of the Company</b>	8	1,546,150	0.31	0.30
<b>Employees of University Laboratory</b>	22	12,227,880	2.45	2.36
<b>Employees of Shanghai Commerce and Investment</b>	32	11,249,990	2.25	2.17
<b>Individuals engaged in technological co-operation with University Laboratory</b>	<u>39</u>	<u>4,673,070</u>	<u>0.93</u>	<u>0.90</u>
<b>Total</b>	<u><u>182</u></u>	<u><u>144,230,000</u></u>	<u><u>28.85</u></u>	<u><u>27.80</u></u>

*Notes:*

1. In addition to their shareholding interests through the Staff Shareholding Association, each of Jiang Guoxing and Shi Lei also personally holds 7,210,000 Domestic Shares. Taking account of the Domestic Shares held in their own names and those in which they are interested through the Staff Shareholding Association, each of Jiang Guoxing and Shi Lei is interested in 8,652,300 and 20,190,000 Domestic Shares respectively, representing approximately 1.73% and 4.04% respectively (or if the Over-allotment Option is exercised in full, approximately 1.67% and 3.89% respectively) of the registered capital of the Company immediately after the completion of the Capitalisation Issue and the Placing.
  
2. Excluding the Senior Management Members.

None of the parties who is interested in Domestic Shares through the Staff Shareholding Association is currently or will, immediately after the completion of the Capitalisation Issue and the Placing, be directly or indirectly interested in 5% or more of the registered share capital of the Company.

# BUSINESS OF THE COMPANY

## EQUIPMENT

The Company uses advanced workstations and other computer equipment to carry out its product design. It also uses advanced circuit design software. The Directors believe that the technological standards of the circuit design software and the hardware equipment used by the Company are comparable to those used by international IC design companies. The Company's circuit design software is third party designed software publicly available on the market and the Company acquires a perpetual licence upon purchase of the software.

## INTELLECTUAL PROPERTY RIGHTS

All IC designs, insofar as they are original designs, are protected by copyright under the Copyright Law of the PRC. The Copyright Law allows the registration of original software designs with the Copyright Bureau of the PRC although registration is not a pre-requisite for copyright protection. IC designs, if they satisfy the requirements for patent registration, may also be registered under the Patent Law of the PRC. The Company has not applied for any copyright or patent registration in respect of any of its product designs (except for an application for patent registration pending approval described under the paragraph headed "Intellectual Property Rights" in Appendix VII). This is because copyright registration in the PRC requires the disclosure and public publication of design details which, in the Directors' opinion, may not be in the best interest of the Company. Applications for patent registrations in the PRC could take more than three years to complete. Given the pace of technological developments in IC design, the Directors do not consider that patent registration is an effective means of protecting its product designs.

The Company has registered one trademark with the Trademark Bureau of the State Administrations for Industry and Commerce of the PRC. This trademark was originally owned by Fudan High Tech and was assigned, at no cost, to the Company with the approval of the Trademark Bureau on 28th March, 1999. The Company has also applied for the registration of another trademark with the Trademark Bureau and approval of such application is pending (see further details under the paragraph headed "Intellectual Property Rights" in Appendix VII).

## AWARDS AND RECOGNITION

The Company was designated a "Shanghai New and Advanced Technology Enterprise" by the Shanghai New and Advanced Technology Enterprise Assessment Office on 21st December 1999. In addition, the products set out below have been identified by the Shanghai New and Advanced Technology Enterprise Assessment Office as "Recognised Products of the Shanghai New and Advanced Technology Project".

<b>Date</b>	<b>Products</b>
9th December, 1998	<i>Telecommunication products</i> <ul style="list-style-type: none"><li>● low voltage transmission circuit with dialer interface</li></ul>
9th December, 1998	<i>Motor vehicle electronic products</i> <ul style="list-style-type: none"><li>● high reliability motorcycle ignition controller circuit</li></ul>
28th September, 1999	<i>IC Card products</i> <ul style="list-style-type: none"><li>● 8K Bits memory card</li></ul>
28th September, 1999	<i>Telecommunication products</i> <ul style="list-style-type: none"><li>● low voltage transmission circuit with dialer interface with EMC</li></ul>
28th September, 1999	<ul style="list-style-type: none"><li>● hand-free speaker controller circuit</li></ul>

## BUSINESS OF THE COMPANY

Date	Products
	<i>Electric power electronic products</i>
28th September, 1999	● earth leakage current detector circuit
	<i>Motor vehicle electronic products</i>
28th September, 1999	● motorcycle ignition controller circuit
28th September, 1999	● magnetic pickup ignition controller circuit
28th September, 1999	● Hall effect pickup ignition controller circuit
28th September, 1999	● automotive flash light controller circuit
28th September, 1999	● high power motorcycle ignition controller circuit
9th December, 1999	● liquid level alarm circuit

### YEAR 2000 COMPLIANCE

The Company has reviewed its computer hardware and software to ensure that they are year 2000 compliant. The Directors believe that they have taken all necessary steps to ensure the computer systems of the Company are year 2000 compliant but is aware that many year 2000 issues are outside the Company's control and may continue to pose a threat to its business well into year 2000.

### RELATIONSHIP WITH UNIVERSITY LABORATORY

University Laboratory was established by Fudan University in 1992. It then formed part of the IC design division of the Electronic Engineering Department of Fudan University. It was designated as a state key laboratory by the PRC government in February 1996. University Laboratory was established primarily to provide teaching staff and research students of Fudan University with specialised research and training facilities in IC design. After its establishment in 1992, University Laboratory began the development of IC design technology with the assistance of a number of teaching staff and research students undertaking research work for University Laboratory. When the Company was established in 1998, the IC design technology originally developed by University Laboratory was transferred to the Company. The Company also formalized its relationship with the key staff members involved in the development of such technology through a secondment arrangement with Fudan University (see the section headed "Continuing connected transaction").

University Laboratory has continued to provide research and training facilities in IC design for teaching staff and research students of Fudan University. The Company has from time to time worked with the University Laboratory to provide training to students and to undertake product testing. The total allowances paid to students under training and included in the results of the Company amounted to approximately RMB39,000 and RMB95,200 for the two years ended 31st December 1998 and 1999, respectively. The Directors consider that had the Company been subject to a notional charge in respect of the product testing undertaken with University Laboratory, the impact on the Company's results for the two years ended 31st December, 1999 would have been immaterial. The Company's collaboration with the University Laboratory provides the Company with access to valuable research capabilities and young talents in computer and electronic engineering. The Directors expect that such collaboration will continue in the future.

## **BUSINESS OF THE COMPANY**

### **RELATIONSHIP WITH FUDAN HIGH TECH**

Fudan High Tech is a State-owned enterprise established in the PRC in 1993. It is currently wholly owned by Fudan University. Fudan High Tech was initially established with a view of putting to commercial application IC design technology developed by University Laboratory. After completing initial research and development work on several IC products, Fudan High Tech decided to establish the Company in July 1998 further to develop and market IC products. Fudan High Tech then transferred its IC development know-how and paid a cash amount of RMB1.32 million to the Company and in return, it received a 37% shareholding in the Company. After a subsequent increase in the capital of the Company, its shareholding was diluted to (and has since remained to be) 28.46%. Since the establishment of the Company, Fudan High Tech has ceased to conduct any IC design business activity (other than through the Company).

Immediately after the completion of the Capitalisation Issue and the Placing, Fudan High Tech will hold approximately 21.35% (or if the Over-allotment Option is exercised in full, approximately 20.57%) of the registered share capital of the Company.

### **NON-COMPETITION UNDERTAKINGS**

Fudan High Tech has undertaken to the Company, by way of a non-competition undertaking executed on 25th July, 2000, that it will not and will procure that its subsidiaries will not, except through the Company or its subsidiaries (if any) or as the holder of shares in a listed company which confer not more than 1% of the votes which would normally be cast at a general meeting of such company, engage (whether for profit or reward or otherwise) or be interested, directly or indirectly, in any IC design or system integration business. This undertaking will remain effective for so long as Fudan High Tech or any of its associates (as defined in the GEM Listing Rules) remains interested, directly or indirectly, in any Shares.

Each of the executive Directors has also undertaken to the Company, by way of a non-competition undertaking executed on 25th July, 2000, that he or she will not and will procure his or her associates (as defined in the GEM Listing Rules) will not, except through the Company or its subsidiaries (if any) or as the holder of shares in a listed company which confer not more than 1% of the votes which would normally be cast at a general meeting of such company, engage (whether for profit or reward or otherwise) or be interested directly or indirectly in any IC design or system integration business. This undertaking will remain effective for so long as such person remains a Director and for one year after he or she ceased to be a Director.

Each of Fudan High Tech and the executive Directors has represented and warranted to the Company that as at the date of its (or his) non-competition undertaking, neither it (or he) nor any of its (or his) associates (as such term is defined in the GEM Listing Rules) is engaged or interested in any business which competes or may compete with the business of the Company.

## CONTINUING CONNECTED TRANSACTION

After the completion of the Placing and the listing of the H Shares on the GEM, Fudan High Tech will be a substantial shareholder in, and a connected person of, the Company within the meaning of the GEM Listing Rules. As Fudan High Tech is wholly-owned by Fudan University which also owns University Laboratory, University Laboratory will also constitute a connected person of the Company. Hence, any transaction entered into between the Company and Fudan High Tech or University Laboratory will constitute a connected transaction for the purposes of the GEM Listing Rules.

On 8th March, 2000, the Company entered into a long term co-operation agreement with Fudan High Tech and University Laboratory. Pursuant to this agreement, Fudan High Tech and University Laboratory agreed to second 12 staff members (these secondees include Mr. Yu Jun and Ms. Chen Junxia, both of whom are executive Directors) to provide full-time services (including management and technical advisory services) to the Company and to grant the Company the use of certain computer equipment at University Laboratory. The agreement has a term of 10 years commencing on 8th March, 2000. The Company agreed to pay Fudan High Tech and University Laboratory an annual fee of RMB800,000 (being equivalent to approximately HK\$755,000) by four equal quarterly instalments, each payable at any time during the last 10 days of the first calendar month in the relevant quarterly period. The parties will prior to 31st December each year, review and agree as to whether the annual fee is to be adjusted for the following year. The long term co-operation agreement entered into on 8th March, 2000 replaced a co-operation agreement that was previously entered into between the Company and University Laboratory on 10th July, 1998. Pursuant to the previous co-operation agreement, the Company paid a fee of RMB200,000 and RMB800,000 to University Laboratory in 1998 and 1999 respectively. Such fees paid were expensed as incurred and included in research and development costs.

The long term co-operation agreement referred to above constitutes a continuing connected transaction of the Company under the GEM Listing Rules. The Directors (including the independent non-executive Directors) consider that the agreement has been entered into in the ordinary course of the Company's business and is on normal commercial terms. Based on the information available to the Sponsor and the confirmation and representation made by the Directors, the Sponsor is also of the opinion that such agreement has been entered into in the ordinary course of the Company's business, is on normal commercial terms and is fair and reasonable so far as the shareholders of the Company are concerned. Further, the annual fee currently payable by the Company under the long term co-operation agreement is less than HK\$1,000,000. As such, under Rule 20.25(3) of the GEM Listing Rules, the agreement is a continuing connected transaction that would normally be exempted from the reporting, announcement and shareholders' approval requirements under chapter 20 of the GEM Listing Rules. If, however, the parties should agree to adjust the annual fee in future so that its amount is increased beyond the exemption threshold under Rule 20.25(3), then the long-term co-operation agreement would have to be subject to the reporting, announcement and shareholders' approval requirements of chapter 20 of the GEM Listing Rules.

# BUSINESS OBJECTIVES

## COMPETITIVE STRENGTHS

While the Company has a relatively short history, the Directors believe it has already established a notable market presence in the PRC. The Directors believe that the Company is well-positioned to benefit from the further growth in the IC design and system integration business in the PRC.

The Directors attribute the Company's success to the following:

- the Company's strong technical expertise in IC design and system integration;
- the Company's "fabless" method of operation;
- the implementation of strict quality control measures;
- the Company's close relationship with Fudan University which gives it access to valuable research capabilities and young talents in electronic and computer engineering;
- the designation of the Company as a "new and advanced technology enterprise" by the Shanghai New Advanced Technology Enterprise Assessment Office (an entity under the administration of the Shanghai Municipal Government) which entitles the Company to preferential policies such as tax relief;
- the Company's experienced and well-qualified technical and management staff; and
- the Company's ability to retain key staff, particularly those engaged in product design which requires a high level of technical know-how, through shareholding interest in the Company and performance incentive arrangements.

## BUSINESS POTENTIAL

As living standards continue to improve in the PRC, the Directors believe that there remains significant market potential for telecommunication products, intelligent household electrical appliances, smart cards, motor vehicle electronic products and consumer electronic products. In particular, as information technology continues to undergo rapid development in the PRC in the coming years, the Directors envisage significant market opportunities for the development of IC products for use in the telecommunication industry.

- *Telecommunication products*

The Company intends to start developing a wider range of telephone IC with particular focus on mobile telephones and internet applications as the Directors believe that these areas have significant growth potential in the PRC. The Company also intends to start developing IC for digital cordless telephones and pagers.

- *Intelligent household electrical appliances*

In the light of the increasing attention to power efficiency in the design of household electrical appliances, the Company intends to start developing IC products for use in micro-processors in household electrical appliances.

## BUSINESS OBJECTIVES

- *Smart cards*

There has been significant growth in the usage of smart cards in the PRC in recent years. The Company considers smart cards to be an area with significant development potential. Hence, the Company will continue to broaden its range of IC card products. The Company is now in the course of designing the IC for bank account cards.

- *Motor vehicle electronic products*

The Company also intends to focus on improving its existing range of IC motor vehicle electronic products. This will include the development of a digital control IC for engine ignition which will replace the analog control IC.

- *Consumer electronic products*

The Directors expect that there will be a continued increase in the production of consumer electronic products by PRC manufacturers. Hence, the Company intends to expand the range and type of its IC designs for different consumer electronic products. The Company also intends to develop IC designs for digital audio-visual products.

### **BUSINESS OBJECTIVES AND STRATEGIES**

The Company's overall business objective is to capture a significant share of the IC design and system integration business in the PRC and to become one of the leading ASIC design companies in the world.

In recent years, there has been a significant increase in the demand for IC products in the PRC. However, the PRC market has relied, to a significant extent, on imported IC products to satisfy demand. The Directors believe that this situation has been brought about by the shortage in supply of local IC products which are of comparable quality to imported products. The Directors believe that the Company's strong technical expertise will enable it to compete against products produced by foreign suppliers. Based in the PRC, the Company has the advantage of lower operating costs and hence, more flexibility in product pricing when competing against foreign suppliers.

To enable it to achieve its business objectives, the Company proposes to adopt the following key strategies:

- *To further strengthen its technical expertise*

The Company believes that its experienced and well-qualified technical and management staff is the most valuable asset of the Company. The Company will continue to place significant emphasis on retaining key staff and providing performance incentives for them as well as continue to recruit and train new staff with outstanding technical abilities.

- *To apply its expertise in areas of greatest business potential*

Given the rapid pace of technological development in the IC industry and the relatively short life cycle of IC products, the Company appreciates the importance of applying its knowledge, expertise and marketing abilities to the development of new products which are anticipated to have the highest growth potential.

## BUSINESS OBJECTIVES

- *To target the PRC as the key market for its business expansion*

Given the favourable market conditions currently prevailing in the IC industry in the PRC, the Company intends first to develop and consolidate its leading position in the IC design and system integration business in the PRC and at an appropriate time in the future, to expand its sales beyond the PRC into the South East Asian and North American markets.

### IMPLEMENTATION PLANS

The Company's detailed development plans for the remainder of 2000 and for the two years ending 31st December, 2002 are set out below. Investors should note that such development plans and their scheduled time for attainment are subject to the bases and assumptions set out under the paragraph headed "Bases and assumptions" in this section. Such bases and assumptions are subject to many uncertainties and unpredictable factors including, in particular, the risk factors set out in the section headed "Risk factors" of this prospectus. In addition, many of the assumptions are untested and accordingly, may turn out to be invalid. This may result in any or all of the following plans not being achieved within the scheduled time or at all. The Company will also monitor market responses to the implementation of its development plans and may have to make adjustments to such plans accordingly.

#### **From the Latest Practicable Date to 31st December, 2000**

##### *Product development*

- To complete the research and development of ICs for use in energy saving lightings, high-speed CD-ROM driver for desk-top computers, and contactless IC cards for use in products such as CPU cards.
- To continually develop CPU cards which are designed with high security features to replace memory IC card or memory card with security logic currently in use in electronic commerce cards and bank account cards.
- To purchase new computer equipment and workstations to improve product development capability.

##### *Human resources*

- To strengthen human resources management by the implementation of a staff assessment system designed to assess staff performance regularly.
- To recruit approximately 5 new staff from among computer and electronic engineering graduates of Fudan University.

##### *Marketing*

- To participate in government projects such as the development of IC cards that can be used to replace existing social security cards.
- To expand customer base by promoting products to potential customers in the PRC currently using imported IC products.



## BUSINESS OBJECTIVES

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

### *Revenue*

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

### *Costs*

- Product development costs are estimated to amount to approximately HK\$9 million.
- Costs of additional computer equipment (including ten additional workstations) and computer software are expected to amount to approximately HK\$16 million (HK\$11.5 million for IC design software, HK\$3 million for hardware equipment and the remainder for other related equipment).
- Marketing costs are expected to amount to approximately HK\$1 million which will primarily be used for the recruitment of additional marketing staff.

### **Six months ending 30th June, 2001**

#### *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).
- 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).

#### *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).

## BUSINESS OBJECTIVES

- To engage distributors or sales agents for the Company's products as the geographical coverage of the markets for its products expands.

### *Human resources*

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

### *Revenue*

- To increase sales through the engagement of distributors and sales agents for the Company's products.
- To continue focusing on IC cards and power supply IC products as principal products.

### *Costs*

- Product development costs are estimated to amount to approximately HK\$9 million.
- Research and development costs are estimated to amount to approximately HK\$3 million which will be incurred mainly for the establishment of the representative office in Silicon Valley in the United States.
- Marketing costs are estimated to amount to approximately HK\$6 million which include the costs of establishing the sales office in Shenzhen and the representative office in Hong Kong.

### **Six months ending 31st December, 2001**

#### *Product development*

- To continue the development of communication IC for intelligent household electrical appliances.
- 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).

#### *Human resources*

- 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.
- 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.

## BUSINESS OBJECTIVES

### *Marketing*

- 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).
- To appoint distributors and sales agents for the Company's products in overseas markets.
- To launch on-line sales of the Company's products through the Company's website.

### *Revenue*

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

### *Costs*

- Product development costs are estimated to amount to approximately HK\$9 million (primarily for developing new products and upgrading existing products).
- Research and development costs are estimated to amount to approximately HK\$3 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\$6 million which will be incurred mainly for developing overseas sales.

### **Six months ending 30th June, 2002**

### *Product development*

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

### *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.

## BUSINESS OBJECTIVES

### *Costs*

- 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 research 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.

### **Six months ending 31st December, 2002**

### *Product development*

- To develop IC products for use in wireless communication, digital audio-visual and networking products by utilizing the Company's know-how and experience in IC designs for telecommunication products.
- To cooperate in research and development in IC design and technology (such co-operation may include joint product development, research or the provision of technical consultancy service) with leading universities and academic institutions in the PRC (in addition to Fudan University) which would allow the Company both to tap the technical know-how of these institutions and to broaden its recruitment base from among the students of these institutions.

### *Marketing*

- To set up overseas sales offices in suitable locations in the PRC, the South East Asia and North America.

### *Revenue*

- To establish the Company's sales in the South East Asian markets as a main source of revenue.

### *Costs*

- Product development costs are estimated to amount to approximately HK\$9 million (primarily for developing of new products).
- Research and development costs are estimated to amount to approximately HK\$6 million (primarily for research of advanced technology and further expansion of research and development capabilities in the representative office in Silicon Valley).
- Marketing costs are estimated to amount to approximately HK\$13 million.

## **BUSINESS OBJECTIVES**

### **BASES AND ASSUMPTIONS**

The business objectives and the implementation plans of the Company described above are subject to the following bases and assumptions:

1. The Company may revise or modify its business objectives in any specific period as a result of factors such as changes in market conditions, the market response to a specific product and whether or not the Company succeeds or experiences any material delay or difficulty in meeting its stated business objectives in any prior period.
2. The Company does not encounter any material difficulty in the research and development of any new product.
3. The Company is not materially adversely affected by any change in the political, legal, financial or economic conditions in Hong Kong, the PRC (being the place of incorporation of the Company and where all of its operations are currently located) or any other country or region in which the Company may be carrying on business.
4. The Company is not materially adversely affected by any change in the laws, rules or regulations of Hong Kong, the PRC or any other country or region in which the Company may be carrying on business.
5. The Company is not materially adversely affected by any change in prevailing interest rates or exchange rates.
6. There is no material change in the tax bases or tax rates in any jurisdiction in which the Company carries on business or operates or to which the Company is subject.
7. The Company is not materially adversely affected by any risk factor set out in the section headed “Risk factors” in this prospectus.

**DIRECTORS***Executive Directors*

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

Mr. Shi Lei, 施雷, aged 33, 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. He is one of the founders of the Company.

Mr. Yu Jun, 俞軍, aged 32, 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, and was awarded “Second Class Honour on Technological Advancement” by the State and Shanghai. Mr. Yu participated in several pioneer IC development projects under the Seventh and Eighth five-year plans of the PRC government. He joined the Company in July 1998.

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

Mr. Wang Su, 王蘇, aged 46, 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, 陳曉宏, aged 42, 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 deputy director of the Department of Corporate Finance of the Finance Bureau of Shanghai, and the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

Ms. Zhang Qianling, 章倩苓, aged 63, is a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academic on the study of integrated circuits and a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of Fudan University. During the 1980s, Ms. Zhang went to Massachusetts Institute of Technology in the United States to study electronic engineering, and participated in several pioneer IC development projects under the Sixth, Seventh and Eighth five-year plans of the PRC government. She was awarded “Second Class Honour on Technological Advancement” by the State and Shanghai and the Honourary Certificate for her contribution in IC development projects during the Seventh five-year plan period. She joined the Company in July 1998. She is a nominee of Fundan High Tech in the Company.

Mr. He Lixing, 何禮興, aged 65, 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, 沈曉祖, aged 51, 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, 榮智謙, aged 68, is an independent non-executive director of the Company who was appointed on 19th July, 2000. Mr. Yung has a bachelor of science degree in mechanical engineering from the Massachusetts Institute of Technology in the United States. He has over 40 years experience in the semiconductor industry. He is currently a director of Torex Semiconductor (Hong Kong) Limited, a company principally engaged in the trading of semiconductors, and Hong Kong Construction (Holdings) Limited.

Mr. Leung Tin Pui, 梁天培, aged 54, is an independent non-executive director of the Company who was appointed on 19th July, 2000. Mr. Leung has been appointed Vice-president of The Hong Kong Polytechnic University since January 1995. He was previously Head and Professor of Mechanical Engineering and Dean of Engineering of The Hong Kong Polytechnic University. He was the President of the Hong Kong Institute of Engineers from 1993 to 1994 and is now Vice-president of the Hong Kong Academy of Engineering Sciences. Mr. Leung is also a member of several advisory boards to the Hong Kong government and a director of Hong Kong Plastic Technology Centre Limited.

## **SUPERVISORS**

Mr. Li Wei, 李蔚 (see personal details set out in the paragraph headed “Senior management” below)

Mr. Ding Shengbiao, 丁聖彪 (see personal details set out in the paragraph headed “Senior management” below)

Mr. Xu Lenian, 徐樂年, aged 48, 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.

**QUALIFIED ACCOUNTANT AND COMPANY SECRETARY**

Mr. Li Wing Sum, Steven, 李永森, aged 43, Qualified Accountant and Company Secretary of the Company. Mr. Li 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 organisation as group financial controller. He is a fellow member of the Chartered Association of 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.

**SENIOR MANAGEMENT**

Mr. Shi Jin, 施瑾, aged 43, 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, 李蔚, aged 28, is the assistant to the general manager of the Company. He has a master degree. Mr. Li specialises in integrated circuit design, and has conducted in-depth research on the coding and integrated protocol bases. He was awarded "First Class Honour (Team Section)" in the national design competition for electronics graduates in the PRC in 1996. He joined the Company in July 1998.

Mr. Ding Shengbiao, 丁聖彪, aged 37, 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. Zhou Ting, 周汀, aged 30, is the technical director of the Company. He is also the deputy director of University Laboratory, and the assistant secretarial-general to the ICCAD of China. He has a doctor degree from, and is an associate professor at, Fudan University. Mr. Zhou specialises in integrated circuits design, and has conducted in-depth research on the processing of digital video and audio signals, multimedia data compression and network communication. He received the "Outstanding Award (Individual Section)" and "First Class Honour (Team Section)" in the national design competition for electronics graduates in the PRC in 1996, the "Research Award for Young Scientists" presented by Daizhong Circuits in 1997, and the Bell Scholarship in 1998. He joined the Company in October 1998.

Ms. Ji Lanhua, 紀蘭花, aged 49, 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, 趙美瑾, aged 56, is the deputy chief engineer of the Company. She has a bachelor degree and is a senior engineer. She was previously the chief engineer of Moxi No. 8930 Factory. She has received various awards including "Second Class Honour for Technological and Scientific Achievements" presented by the Ministry of Electronic Engineering of the PRC, "Third



## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

Class Honour for Technological and Scientific Achievements” presented by Jiangsu Province and “Advanced Award (Individual Section) on Military and Industrial Projects under the Eighth five-year plan” presented by the Ministry of Electronics of the PRC. She joined the Company in January 1999.

### **REMUNERATION OF DIRECTORS AND SUPERVISORS**

In the year ended 31st December, 1998, the salaries and benefits in kind paid to the 5 executive Directors were approximately RMB50,000, RMB49,000, RMB25,000, RMB19,000 and nil respectively and the amount of salaries and benefits in kind paid to each of the 3 Supervisors were approximately RMB29,000, RMB19,000 and nil respectively. In the year ended 31 December, 1999, the amount of salaries and benefits in kind paid to each of the 5 executive Directors were approximately RMB87,000, RMB82,000, RMB95,000, RMB92,000 and nil respectively and the amount of salaries and benefits in kind paid to the 3 Supervisors were approximately RMB91,000, RMB57,000 and nil respectively.

Under the present arrangements, it is estimated that for the year ending 31st December, 2000, the remuneration to be paid to the Directors (including benefits and contributions but excluding discretionary bonuses) will amount to RMB922,000.

For the two years ended 31st December, 1999, the five highest paid employees of the Company included four directors in 1998 and two Directors in 1999. The aggregate amounts of salaries paid to such non-director employees for the two years ended 31st December, 1999 amounted to RMB29,000 and RMB273,000, respectively.

### **EMPLOYEES**

#### **Overview of number of employees**

As at the Latest Practicable Date, the Company had a total of 103 employees. Set out below is a breakdown of the number of the Company’s full-time employees by function:—

Management and administration . . . . .	19
Sales and marketing . . . . .	19
Research and development . . . . .	38
Quality control . . . . .	4
Product testing. . . . .	19
Finance . . . . .	<u>4</u>
<b>Total . . . . .</b>	<b><u>103</u></b>

#### **Relationship with employees**

The Directors believe that the Company has maintained good relations with its employees and has never encountered any major difficulties in its recruitment and retention of experienced personnel. There has never been any interruption to its operations as a result of labor disputes.

**Housing fund scheme**

The Company has implemented a housing fund scheme in accordance with relevant PRC laws and regulations which covers the Company's full-time employees. Under the scheme, the Company and individual employees have to make monthly contributions based on 7% of the eligible employees' average monthly salaries for the previous year to the housing fund. The total contributions made by the Company in respect of the scheme amounted to approximately RMB1,000 and RMB29,000 for the two years ended 31st December, 1998 and 1999, respectively. Withdrawals from the fund are subject to qualifications and procedures specified in local regulations. Apart from the aforesaid contributions, the Company has no other obligation in respect of staff housing.

**Retirement scheme**

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

The pension contribution made by the Company for the two years ended 31st December, 1998 and 1999 amounted to RMB2,000 and RMB229,000, respectively.

**AUDIT COMMITTEE**

The Company established an audit committee on 19th July, 2000 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 yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors, and to supervise the financial reporting process and internal control system of the Company. The audit committee has two members comprising the two independent non-executive Directors.

# SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the only persons who constitute substantial shareholders of the Company (being defined in the GEM Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company) and their respective shareholding interests in the Company immediately after the completion of the Capitalisation Issue and the Placing (and assuming that the Over-allotment Option is not exercised) are as follows:

<b>Shareholder</b>	<b>Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing</b>	<b>Percentage of registered share capital (if Over-allotment Option not exercised)</b>
Staff Shareholding Association ( <i>Note 1</i> )	144,230,000	28.85
Fudan High Tech ( <i>Note 2</i> )	106,730,000	21.35
Fudan University ( <i>Note 2</i> )	106,730,000	21.35
Shanghai Commerce and Investment ( <i>Note 3</i> )	95,200,000	19.04

### Notes:

1. The Staff Shareholding Association is a social organisation legal person (社團法人) under PRC law. It is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory. Each member provided the Staff Shareholding Association with the subscription money in respect of a specific number of the Domestic Shares held by the Association and is entitled to the economic benefits derived from those shares (including dividend payment and other distributions and proceeds arising from the sale of such shares). The voting rights attached to the Domestic Shares held by the Association have to, however, be exercised collectively by the manager of the management committee of the Association and not individually by or at the direction of each member. See further details under the paragraph headed "Performance incentive arrangements" in the section headed "Business of the Company" of this prospectus.
2. The 106,730,000 Domestic Shares in which Fudan University is interested are all held through Fudan High Tech which is wholly-owned by Fudan University.
3. Of the 95,200,000 Domestic Shares in which Shanghai Commerce and Investment is interested, 46,160,000 are held in its own name and 34,620,000 are held by Shanghai Pacific, its wholly-owned subsidiary, and 14,420,000 are held by Ningbo Lirong, its subsidiary (owned as to 74.3%). The 46,160,000 Domestic Shares held in its own name will represent approximately 9.22% (or if the Over-allotment Option is exercised in full, 8.90%) of the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing

## INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, the only persons who constitute initial management shareholders of the Company (being defined in the GEM Listing Rules as any person who is (or group of persons who together are) entitled to exercise, or control the exercise of 5% or more of the voting power at general meetings of the Company and who is (or are) able, as a practical matter, to direct

## SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

or influence the management of the Company immediately prior to the Listing Date) are the Staff Shareholding Association, Fudan High Tech, Fudan University (which, through Fudan High Tech, has an indirect shareholding interest in the Company), Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, the executive Directors (being Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia and Wang Su) and the non-executive Directors (being Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu). The respective shareholding interests directly or indirectly held by such initial management shareholders immediately after the completion of the Capitalisation Issue and the Placing (and assuming that the Over-allotment Option is not exercised) are set out below:

<b>Shareholder</b>	<b>Number of Domestic Shares directly or indirectly interested after the Capitalisation Issue and the Placing</b>	<b>Percentage of registered share capital (if Over-allotment Option not exercised)</b>
Staff Shareholding Association	144,230,000	28.85
Fudan High Tech	106,730,000	21.35
Fudan University	106,730,000	21.35
Shanghai Commerce and Investment	95,200,000	19.04
Shanghai Pacific	34,620,000	6.92
Ningbo Lirong	14,420,000	2.89
Shanghai Gaozhan Consultancy	14,420,000	2.89
Jiang Guoxing	8,652,300	1.73
Shi Lei	20,190,000	4.04
Yu Jun	10,961,530	2.19
Cheng Junxia	8,076,920	1.61
Wang Su	7,211,530	1.44
Chen Xiaohong	7,211,530	1.44
Zhang Qianling	1,733,650	0.35
He Lixing	1,442,300	0.29
Shen Xiaozu	1,442,300	0.29

### SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware (and apart from the substantial shareholders and initial management shareholders disclosed above), the Company does not have any significant shareholder (being defined in the GEM Listing Rules as any person other than a management shareholder who, immediately prior to the date of this prospectus and the Listing Date is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company).

**RESTRICTIONS ON DISPOSAL OF DOMESTIC SHARES**

Each of the Staff Shareholding Association, Fudan High Tech, Fudan University, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu has undertaken to the Stock Exchange, the Company and the Underwriters as follows:

- (i) for a period of six months from the Listing Date, it (or he) will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its (or his) direct or indirect interest in Relevant Securities; and
- (ii) it (or he) will comply with the requirements of Rule 13.20 of the GEM Listing Rules in respect of its (or his) holding of Relevant Securities (which requires the Company to be notified in the event of the creation of any charge or pledge over an direct or indirect interest in Relevant Securities or the disposal of Relevant Securities pursuant to such charge or pledge).

In addition, the Staff Shareholding Association, Fudan High Tech and Fudan University have further undertaken to the Stock Exchange, the Company and the Underwriters that for the second six-month period falling after the Listing Date, none of them will dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Relevant Securities if such disposal would result in the Staff Shareholding Association, Fudan High Tech and Fudan University, together, ceasing to have control over 35% of the voting powers at general meetings of the Company.

Each of the Supervisors and the Senior Management Members, as a result of his (or her) indirect shareholding interest in the Company through the Staff Shareholding Association, has undertaken to the Company, the Stock Exchange and the Underwriters that for a period of six months from the Listing Date, he (or she) will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his (or her) direct or indirect interest in Relevant Securities. The Supervisors are Li Wei, Ding Shengbiao and Xu Lenian. The Senior Management Members are Shi Jin, Zhou Ting, Ji Lanhua and Zhao Meijin (please refer to pages 12 to 13).

Under the Company Law, the transfer of Domestic Shares in the Company by the Promoters, the Directors, the Supervisors and the general manager of the Company is subject to the following restrictions:

- (i) none of the Promoters may transfer its (or his) Domestic Shares during a period of three years after the incorporation of the Company (whether such Domestic Shares are acquired on or subsequent to incorporation), such three-year period being due to expire on 10th July, 2001;
- (ii) none of the Directors, Supervisors or general manager of the Company may transfer his Domestic Shares during such time as he remains in office.

## **SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS**

According to the advice of the Company's PRC legal adviser, the prohibition on the transfer of Domestic Shares under the Company Law applies to both the Domestic Shares directly held by the Promoters, Directors, Supervisors or general manager of the Company and the Domestic Shares in which any of them is indirectly interested through the Staff Shareholding Association.

The Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong and Shanghai Gaozhan Consultancy, Jiang Guoxing and Shi Lei, as Promoters; Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing and Shen Xiaozu, as Directors; and Li Wei, Ding Shengbiao and Xu Lenian, as Supervisors are subject to the transfer restrictions under the Company Law described above. As Fudan University is not a Promoter and none of the Senior Management Members is a Promoter, Director, Supervisor or general manager of the Company. None of them is subject to the transfer restrictions under the Company Law described above.

As there is a difference in length between the lock-up period imposed under the GEM Listing Rules and the prohibition on transfer period under the Company Law, the parties who are subject to both sets of restrictions, being the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing, Shen Xiaozu, Li Wei, Ding Shengbiao or Xu Lenian, will not be able to dispose of their respective Relevant Securities until the expiry of the longer of the two restriction periods (see table set out on pages 9 to 12).

If, after the date of this prospectus, any subsequent change in the restrictions on the transfer of Domestic Shares under the Company Law should result in any of the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Ningbo Lirong, Shanghai Gaozhan Consultancy, Jiang Guoxing, Shi Lei, Yu Jun, Cheng Junxia, Wang Su, Chen Xiaohong, Zhang Qianling, He Lixing, Shen Xiaozu, Li Wei, Ding Shengbiao or Xu Lenian being able to transfer its (or his) Domestic Shares before the expiry of the lock-up period under the GEM Listing Rules, such party would remain bound by its (or his) non-disposal undertaking to the Stock Exchange, the Company and the Underwriters until the expiry of such lock-up period.

## SHARE CAPITAL

*The registered share capital of the Company, issued or to be issued, fully paid or credit as fully paid, immediately after the completion of the Capitalisation Issue and the Placing and assuming the Over-allotment Option is not exercised, will be as follows:*

*RMB*

*Registered capital*

*Issued:*

130,000,000	Domestic Shares in issue at the date of this prospectus	13,000,000
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*To be issued:*

245,000,000	Domestic Shares to be issued pursuant to the Capitalisation Issue	24,500,000
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125,000,000	H Shares to be issued pursuant to the Placing	12,500,000
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*Total:*

<u>500,000,000</u>	Shares	<u>50,000,000</u>
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*Notes:*

### 1. Assumption

The above table assumes that the Placing becomes unconditional. If the Over-allotment Option is not exercised, the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing would comprise 375,000,000 Domestic Shares and 125,000,000 H Shares which would represent approximately 75 per cent. and 25 per cent. respectively of the registered share capital of the Company. If the Over-allotment Option is exercised in full, the registered share capital of the Company immediately after the completion of the Capitalisation Issue and the Placing would comprise 375,000,000 Domestic Shares and 143,750,000 H Shares which would represent approximately 72.28 per cent. and 27.72 per cent. respectively of the registered share capital of the Company.

### 2. Ranking

Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in Renminbi.

All Domestic Shares held by the Promoters may not be sold within a period of three years from the date of incorporation of the Company. As at the date of this prospectus, none of the Promoters has sold any Domestic Shares held by it. The Domestic Shares are not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the PRC.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on difference parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix V to this prospectus, the Domestic Shares and the H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Save for the Placing, the Company does not propose to carry out a public or private issue or to place securities simultaneously with the Placing in the foreseeable future. The Company has not approved any share or debt issue plan other than the Placing.

## FINANCIAL INFORMATION

### INDEBTEDNESS

At the close of business on 31st May, 2000, being the latest practicable date for the purpose of this indebtedness statement, the Company had outstanding non-guaranteed bank loans of RMB10,000,000 (of which RMB5,000,000 is due for repayment on 15th December, 2000 and RMB5,000,000 is due for repayment on 18th December, 2000).

Save as aforesaid or as otherwise disclosed herein, as at 31st May, 2000, the Company did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Net current assets

As of 31st May, 2000, the Company had net current assets of approximately RMB7,706,000. Current assets comprised cash and bank balances deposited in current accounts with licensed banks of approximately RMB5,938,000, debtors, deposits and prepayments of approximately RMB9,789,000 and inventories of approximately RMB9,214,000. Current liabilities comprised creditors and accrued charges of approximately RMB7,235,000 and a bank loan of RMB10,000,000.

#### Borrowings and banking facilities

The Company generally finances its operation with internally generated cashflow and banking facilities provided by its principal bankers. Except the bank borrowings amounting to RMB10,000,000 disclosed in the paragraph “Indebtedness” above, there were no other banking facilities as at 31st May, 2000.

#### Financial resources

The Directors are of the opinion that, as of 31st May, 2000, taking into account the financial resources available to the Company including internally generated funds, the available banking facilities and the net proceeds of the Placing, the Company has sufficient working capital to satisfy its present requirements.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Company since 31st May, 2000.



# FINANCIAL INFORMATION

## TRADING RECORD

The following table sets out a summary of the results of the Company for the two years ended 31st December, 1999 (the “Relevant Periods”), and is based on the information included in the accountants’ report as set out in Appendix I of this prospectus. The summary is prepared on the basis of presentation set out in the accountants’ report in Appendix I of to this prospectus.

	<b>Year ended 31st December,</b>	
	<b>1998</b>	<b>1999</b>
	<i>RMB’000</i>	<i>RMB’000</i>
<b>Turnover</b>	<b>2,637</b>	<b>14,083</b>
Cost of inventories sold	<u>(1,557)</u>	<u>(8,404)</u>
Gross profit	1,080	5,679
Other revenue	36	57
Selling expenses	(245)	(1,143)
Administrative expenses	<u>(1,792)</u>	<u>(4,518)</u>
Profit/(Loss) from operating activities	(921)	75
Finance costs	<u>(43)</u>	<u>(140)</u>
<b>Loss before taxation</b>	<b>(964)</b>	<b>(65)</b>
Taxation	<u>—</u>	<u>—</u>
<b>Net loss attributable to shareholders</b>	<b><u>(964)</u></b>	<b><u>(65)</u></b>
Loss per share ( <i>Note</i> )	<u>(0.51) cent</u>	<u>(0.02) cent</u>

*Note:*

The calculation of the loss per share is based on the weighted average of 188,509,615 Domestic Shares and 320,913,462 Domestic Shares in issue during the two years ended 31st December, 1998 and 1999, respectively, as if (i) the 3,700,000 Domestic Shares issued to Fudan High Tech by the Company on its incorporation had been in issue on 1st January, 1998; and (ii) the 245,000,000 Domestic Shares to be issued to the existing shareholders of the Company pursuant to the Capitalisation Issue upon the completion of the Placing had been in issue from the respective dates on which the related existing Domestic Shares were issued.

**The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such a requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Company since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants’ report set out in Appendix I of this prospectus.**

## FINANCIAL INFORMATION

During the Relevant Periods, the Company's turnover grew as it increased its sales transactions and expanded the range of its products. The Company's turnover increased 434% in the year ended 31st December 1999 compared to the year ended 31st December 1998 and the net loss percentage declined from 36.5% for the year ended 31st December, 1998 to 0.5% for the year ended 31st December, 1999.

### **Year ended 31st December, 1998**

For the year ended 31st December, 1998, the Company recorded a turnover of approximately RMB2.6 million. Approximately 98% of the turnover for that year was derived from the sales of its automotive ignition controller circuit ("NB4213") and telephone transmission circuit with dialler interface ("VG1062"). The gross profit amounted to approximately RMB1.1 million, representing a gross margin of approximately 41.0%. The relatively high gross margin resulted from the high-margin pricing policy adopted by the Company at the time the products were first marketed. During the year, as the Company had yet to attain economies of scale, it recorded a net loss of approximately RMB964,000.

### **Year ended 31st December, 1999**

For the year ended 31st December, 1999, the Company achieved a turnover of approximately RMB14.1 million, representing an increase of 434% compared to the previous financial year. The increase was mainly attributable to the increase in sales volume of the two existing products, NB4213 and VG1062, and the introduction of several new products, including the 8K Bits memory card circuit ("FM4428") and the earth leakage current detector circuit ("VG54123") to the market. As at the end of 1999, the Company had successfully designed and marketed a total of thirteen products. The gross profit margin was 40.3% for 1999. The gross profit increased from approximately RMB1.1 million to approximately RMB5.7 million which was in line with the increase in revenue.

During the year, the selling and administrative expenses, amounting to approximately RMB5.7 million, increased by 178% compared to the previous year. This increase was mainly attributable to the expansion of the Company's business and the costs incurred in research and development to maintain and enhance the competitive edge of the Company's products. The research and development cost increased from approximately RMB492,000 for the previous financial year to approximately RMB1,190,000.

During the year, the results of Company improved from a net loss attributable to shareholders of approximately RMB964,000 to a marginal net loss of approximately RMB65,000, representing a net loss percentage of approximately 0.5% of its turnover.

## **TAXATION**

No provision for income tax has been made by Fudan High Tech in 1998 as it did not generate any assessable profits for the period from 1st January, 1998 to 10th July, 1998, being the date of incorporation of the Company.

Pursuant to the laws and regulations relating to income tax in the PRC, the Company is subject to income tax at a basic rate of 33%. However, the Company has obtained a tax concession from the local municipal finance bureau and is exempted from paying income tax for the period from July 1998

## FINANCIAL INFORMATION

to June 1999. Further, pursuant to an approval document dated 2nd February, 2000 issued jointly by the local municipal tax bureau and finance bureau, the Company has been designated a high technology enterprise and is further exempted from income tax for the period from 1st January, 1999 to 31st December, 2000.

### PROPERTY

#### Property rented by the Company in the PRC

The Company's operations are located at 7th Floor, East Tower, Shanghai Integrated Circuit Centre (ICC) Qun Fang District, No. 668 Bei Jing Dong Road, Huang Pu District, Shanghai, the PRC. The gross floor area of such premises is about 2,100 sq.m.. Such premises has been leased from Shanghai Heng Li Real Estate Co. Ltd., an independent third party, The lease is for a term of five years expiring in November 2004. The landlord has granted a rent-free period to the Company up to the date of this prospectus. The rental payable from the date of this prospectus to November 2001 will be US\$6,393 per month. Thereafter, the monthly rent payable is US\$12,786. The Company completed the relocation of its operations to the new office premises in January 2000. For details of the Company's property interests including rental and area, please refer to Appendix II to this prospectus.

The Company does not have any other property interests.

#### Property valuation

Vigers, an independent property valuer, has valued the property leased by the Company and is of the opinion that they have no commercial value as at 31st May, 2000. The text of its letter and valuation certificates are set out in Appendix II.

### DIVIDENDS AND WORKING CAPITAL

#### Distributable reserves

As at 31st December, 1999, the amount of retained profits of the Company available for distribution as dividends, as determined in accordance with PRC accounting standards and regulations applicable to the Company, amounted to approximately RMB2,165,000.

Upon the listing of the H Shares on the GEM, 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 Hong Kong Statement of Standard Accounting Practices. Had the aforesaid basis been applied as of 31st December, 1999, the Company would have no reserve available for distribution as dividends as of that date.

#### Dividend policy

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 31st December, 2000. The declaration, payment and amount of future dividends will be at the discretion of the board of Directors and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the board of Directors may deem relevant.

## FINANCIAL INFORMATION

### Working capital

Taking into account the net proceeds from the Placing, the expected cash flows and available banking facilities, the Directors believe that the Company's working capital is sufficient.

### GEM LISTING RULES 17.15 TO 17.21

As at the Latest Practicable Date, the Company had not advanced any money to any entity which exceeds 25% of the Company's net tangible assets or provided any financial assistance and guarantees to affiliated companies which exceeds 25% of the Company's net tangible assets nor had the Company entered into any loan agreements imposing specific performance obligations on the controlling shareholder of the Company, nor had the controlling shareholder pledged its interests in Domestic Shares to secure debts, guarantees or support of other obligations of the Company. The Directors have confirmed that as at the Latest Practicable Date, the Company was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Company is based on the audited net assets of the Company as at 31st December, 1999 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	\$'000
Audited net assets of the Company as at 31st December, 1999	12,494
Less: Intangible assets - deferred development costs	<u>(3,305)</u>
	9,189
Unaudited combined loss after taxation of the Company for the five months ended 31st May, 2000 based on its unaudited management accounts	(294)
	<u>85,000</u>
Adjusted net tangible assets	<u><u>93,895</u></u>
Adjusted net tangible asset value per Share (Note 2)	<u><u>\$0.19</u></u>

#### Notes:

1. The estimated net proceeds of the Placing is based on an assumed Issue Price of HK\$0.80 and takes no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.
2. The adjusted net tangible asset value per Share is calculated based on 500 million Shares expected to be in issue immediately following the completion of the Placing but taking no account of any H Shares which may fall to be issued upon the exercise of the Over-allotment Option.

## FINANCIAL INFORMATION

### NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31st December, 1999 (being the date to which the latest audited financial statements of the Company were made up), there has been no material adverse change in the financial or trading position or prospects of the Company.

### USE OF PROCEEDS

The Company intends to raise additional capital by way of the Placing to fund expansion in its scale of operation and product range, research and development of new products and the establishment of branch offices; and to increase sales and distribution channels for further business growth. After deduction of the relevant expenses, the net proceeds from the Placing are estimated to be approximately HK\$85,000,000. The Directors presently intend to apply such net proceeds for the following purposes:

- about HK\$33,000,000 will be used for the design, research and development of new products and upgrading of existing products (it is expected that about HK\$24,000,000 will be used to develop new products, HK\$3,000,000 will be used to upgrade existing products and HK\$6,000,000 will be used to establish an office in Silicon Valley in the United States);
- about HK\$16,000,000 will be used for the expansion and upgrading of the Company's product design capabilities, including the purchase of additional computer hardware and software (it is expected that about HK\$11,500,000 will be used to purchase IC design software, HK\$3,000,000 will be used to purchase hardware equipment and the balance will be used to purchase other related equipment);
- about HK\$13,000,000 will be used for marketing and distribution of the Company's products (it is expected that about HK\$7,500,000 will be used for the expansion of the Company's marketing activities and about HK\$5,500,000 will be used for the establishment of distribution and logistics centers in the PRC); and
- the balance will be used as additional working capital (of which up to approximately HK\$20,000,000 may be used for the development of new IC products in addition to those stated in the Company's business plans up to 31st December, 2002 in the light of market conditions).

## FINANCIAL INFORMATION

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$14,000,000 will be applied by the Company as general working capital.

	6 months ending 31.12.2000 <i>HK\$'M</i>	6 months ending 30.6.2001 <i>HK\$'M</i>	6 months ending 31.12.2001 <i>HK\$'M</i>	6 months ending 30.6.2002 <i>HK\$'M</i>	6 months ending 31.12.2002 <i>HK\$'M</i>	Total <i>HK\$'M</i>	Funded by net proceeds <i>HK\$'M</i>	internal resources <i>HK\$'M</i>
Product design and development	9	12	12	15	15	63	33	30
Purchase of software and equipment	16	—	—	—	—	16	16	—
Marketing	1	6	6	13	13	39	13	26
Working capital	<u>23</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23</u>	<u>23</u>	<u>—</u>
	<u>49</u>	<u>18</u>	<u>18</u>	<u>28</u>	<u>28</u>	<u>141</u>	<u>85</u>	<u>56</u>
Expected payment schedule of net proceeds	<u>49</u>	<u>18</u>	<u>18</u>	<u>—</u>	<u>—</u>		<u>85</u>	
By internal resources and/or bank borrowings	<u>0</u>	<u>0</u>	<u>0</u>	<u>28</u>	<u>28</u>			<u>56</u>

The Company's detailed business plans up to 31st December, 2002 are set out in the section headed "Business objectives" in this prospectus. According to current estimates, the Directors expect that the proceeds from the Placing will be sufficient to finance the implementation of the Company's business plans up to 31st December, 2001 and additional funding in the region of HK\$56 million will be required to finance its business plans in 2002. The Directors anticipate that, after the listing of the H Shares on the GEM, the Company may be able to obtain such additional funding from, among other sources, internal resources generated from the Company's business operations, bank financings or a combination of these sources. If, however, the Company is unable to raise such additional funding, it may have to make material modifications to its business plans in 2002 and/or the intended use of proceeds described in this section. It could also adversely affect the Company's business development. If any such modification has to be made, an appropriate announcement will be made by the Company.

# UNDERWRITING

## UNDERWRITERS

BOCI Asia Limited, Grand Cathay Securities (Hong Kong) Limited, Kingsway SW Securities Limited and Sinpac Securities (Hong Kong) Co., Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription pursuant to the Placing. In addition, the Company has granted to BOCI Asia, on behalf of the Underwriters, the Over-allotment Option which is exercisable by BOCI Asia in its absolute discretion, on behalf of the Underwriters, within 30 days after the date of this prospectus.

Subject to (i) the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned herein, and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional, in each case on or before 30th August, 2000, the Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Placing Shares which have not been placed pursuant to the Placing.

### Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Placing Shares are subject to termination if, among others, any of the following events occurs at any time prior to 10:00 a.m. on 3rd August, 2000:

1. there shall develop, occur, exist or come into effect:
  - (A) any change in Hong Kong or the PRC, local, national or international financial, legal, political, economic, military, industry, fiscal, regulatory, stock market or currency matters or conditions; or
  - (B) any new law or any material change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, or any other jurisdiction relevant to the Company; or
  - (C) any change in the conditions of Hong Kong or international equity securities or other financial markets; or
  - (D) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the United States or by the European Union (or any member thereof) on Hong Kong or the PRC; or
  - (E) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities; or
  - (F) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the New York Stock Exchange, the London Stock Exchange or the GEM; or

## UNDERWRITING

- (G) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or the PRC or elsewhere; or
- (H) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

which, in the sole opinion of BOCI Asia:

- (A) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of the Company; or
  - (B) has or will have or is likely to have adverse and material effect on the success of the Placing or the full subscription of all of the Placing Shares;
2. there comes to the notice of BOCI Asia any matter or event showing any of the representations, warranties or undertakings made or provided by the Company in the Underwriting Agreement to be untrue or inaccurate in any respect; or
  3. there has been a breach of any other provisions of the Underwriting Agreement by the Company which is considered by BOCI Asia to be material in the overall context of the Placing,

then BOCI Asia may, upon giving notice to the Company and the other Underwriters at any time prior to 10:00 a.m. on 3rd August, 2000 terminate the Underwriting Agreement with immediate effect.

### **Undertakings**

Under the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of agreement to issue within the first 6 months from the Listing Date, save in respect of any capitalisation issue or any consolidation, sub-division or capital reduction of Shares.

The Company has further undertaken in the Underwriting Agreement that, except pursuant to the Placing and the Over-allotment Option, it will not, without the prior written consent of BOCI Asia (for itself and on behalf of the Underwriters) within six months from the Listing Date, issue or agree to issue any H Shares in or other securities of the Company or to grant or agree to grant any option or warrant or other rights carrying the right to subscribe for H Shares in or other securities of the Company.

Each of the initial management shareholders of the Company, the Supervisors and the Senior Management Members has given undertakings regarding non-disposal of the Relevant Securities, details of which are set out in the section headed “Substantial, initial management and significant shareholders” in this prospectus.



## UNDERWRITING

### **Commission and expenses**

The Underwriters' commission and documentation fees together with the Stock Exchange listing fees, the Company's share of Stock Exchange transaction levy, legal and other professional fees and other expenses relating to the Placing, which are estimated to amount to approximately HK\$15,000,000 in aggregate, will be payable by the Company. BOCI Asia will receive an advisory fee from its services as a continuing sponsor to the Company under a sponsor's agreement entered into between BOCI Asia and the Company pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules.

## **SPONSOR'S INTEREST**

Save for its obligations under the Underwriting Agreement, BOCI Asia, its directors, employees and their respective associates do not have any shareholding interest in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company. BOCI Asia and/or its subsidiaries may subscribe for or purchase the Placing Shares for their own account.

BOCI Asia has entered into a sponsor's agreement with the Company whereby, for a fee, BOCI Asia will act as the Company's continuing sponsor for the period from the Listing Date up to 31st December, 2002.

# STRUCTURE AND CONDITIONS OF THE PLACING

## THE PLACING

### Price payable on subscription

Issue Price of HK\$0.80 per Placing Share plus 1% brokerage and a 0.01% Stock Exchange transaction levy. A total of HK\$3,232.32 is payable for every 4,000 Placing Share.

### Placing

The Company is offering 125,000,000 Placing Shares for subscription by way of the Placing.

It is expected that the Underwriters or selling agents nominated by them on behalf of the Company will conditionally place the Placing Shares with selected professional, institutional and other investors. Professional, institutional and other investors generally include high net worth individuals, brokers, dealers companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing is subject to the conditions stated in the paragraph headed “Conditions of the Placing” below.

### Placing allocation factors

Allocation of the Placing Shares to professional, institutional and other investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to buy further H Shares, or hold or sell its H Shares, after the listing of the H Shares on the GEM. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole.

## CONDITIONS OF THE PLACING

Acceptance of applications for the Placing Shares are conditional upon:—

### (a) Listing

The GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned herein; and

### (b) Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by or for and on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise, in each case on or before 30th August, 2000.

## **STRUCTURE AND CONDITIONS OF THE PLACING**

Any allotment made in respect of any application will be void if permission for listing of, and dealing in, the H Shares on GEM has been refused before the expiration of three weeks from 3rd August, 2000, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

### **COMMENCEMENT OF DEALINGS IN H SHARES**

Dealings in H Shares on the GEM is expected to commence on or about 4th August, 2000. H Shares will be traded in board lots of 4,000 each.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued as described in this prospectus on the GEM by the Stock Exchange as well as the compliance with the stock admission requirements of Hongkong Clearing, the H Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the GEM or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

The following is the text of an accountants' report, prepared for inclusion in this prospectus, from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

31st July, 2000

The Directors  
Shanghai Fudan Microelectronics Company Limited  
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Shanghai Fudan Microelectronics Company Limited (the "Company") prepared on the basis set out in Section 1 below, for each of the two years ended 31st December, 1999 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 31st July, 2000 (the "Prospectus").

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

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

Being a state-owned enterprise, Fudan High Tech was not required to have its financial statements audited by independent auditors. The PRC statutory auditors of the Company for the period from 10th July, 1998 (date of incorporation) to 31st December, 1998 and for the year ended 31st December, 1999 were Shanghai Zhong Chuang Certified Public Accountants and Shanghai New Zhong Chuang Certified Public Accountants Co. Ltd, respectively. For the purpose of this report, we have

performed an independent audit of the financial statements of the Relevant Business and the Company in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA") for the Relevant Periods. We have prepared this report in accordance with the Auditing Guideline "Prospectuses and the reporting accountants" issued by the HKSA.

The summaries of the results of the Company for the Relevant Periods and the net assets of the Company as at 31st December, 1999 together with the notes thereon (the "Summaries") set out in this report have been prepared based on the relevant financial statements of the Relevant Business and the Company, after making such adjustments as we consider appropriate, and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries give, for the purpose of this report, a true and fair view, in all material respects, of the results of the Company for the Relevant Periods and of the net assets of the Company as at 31st December, 1999.

## 1. BASIS OF PRESENTATION

The summary of the results of the Company for the Relevant Periods, which is prepared based on the financial statements of the Relevant Business and the Company after making such adjustments as we consider appropriate, includes the results of the Relevant Business of the predecessor company, Fudan High Tech, as if the Reorganisation had been completed as of 1st January, 1998. However, no notional interest income on the Share Issues has been reflected in the results of the Company for the Relevant Periods. Had notional interest income been deemed to have been earned on the basis that the Share Issues were made on 1st January, 1998, the results of the Company for the year ended 31st December, 1998 would have been improved by RMB64,000. The summary of the net assets of the Company as of 31st December, 1999 has been prepared based on the financial statements of the Company, after making such adjustments as we consider appropriate.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Company in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice ("HKSSAP") issued by the HKSA, are set out below:

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 fixed asset.

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

The gain or loss on disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

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:

Leasehold improvements	Over the period of the lease
Machinery and office equipment	5 years
Motor vehicles	5 years

### **Foreign currency transactions**

All foreign currency transactions during the Relevant Periods have been translated into RMB at the applicable rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the applicable rates of exchange ruling at that date. The resulting exchange gains and losses are charged to the profit and loss accounts.

### **Research and development costs**

#### *Acquired*

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

Amortisation is calculated on the straight-line basis to write off the cost of acquiring the know-how over its estimated economic useful life of not more than three years, commencing from the date when the related products are put into commercial production.

#### *Self-developed*

All research costs are charged to the profit and loss account as incurred.

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

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

**Government grants and subsidies**

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

**Inventories**

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

**Pre-operating expenses**

Pre-operating expenses represent expenses incurred prior to the commencement of commercial operations of the Company and are charged to the profit and loss account as incurred.

**Revenue recognition**

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

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

**Retirement benefits costs**

The retirement benefits costs charged to the results represent the contributions payable in respect of the Relevant Periods 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, on a straight-line basis, over the lease term to the profit and loss account.



**Deferred taxation**

Deferred taxation 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 assets is not recognised until its realisation is assured beyond reasonable doubt.

**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.

**3. RESULTS**

The following is a summary of the results of the Company for the Relevant Periods, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<b>Year ended</b>	
		<b>1998</b>	<b>1999</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(a)	2,637	14,083
Cost of inventories sold		<u>(1,557)</u>	<u>(8,404)</u>
Gross profit		1,080	5,679
Other revenue		36	57
Selling expenses		(245)	(1,143)
Administrative expenses		<u>(1,792)</u>	<u>(4,518)</u>
Profit/(Loss) from operating activities		(921)	75
Finance costs		<u>(43)</u>	<u>(140)</u>
Loss before taxation	(b)	(964)	(65)
Taxation	(d)	<u>—</u>	<u>—</u>
Net loss attributable to shareholders		<u>(964)</u>	<u>(65)</u>
Loss per share	(f)	<u>(0.51) cent</u>	<u>(0.02) cent</u>

*Notes:*

**(a) Turnover**

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

(b) **Loss before taxation**

Loss before taxation is arrived at after charging:

	Year ended 31st December,	
	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>
Auditors' remuneration	3	55
Depreciation of fixed assets	142	158
Pre-operating expenses	201	—
Leasehold improvements written off	—	185
Research and development costs:		
Deferred expenditure amortised	344	851
Current year expenditure	492	1,190
Interest paid on bank loans	—	136
Interest paid on other loans		
wholly repayable within five years	40	—
Provision for doubtful debts	159	726
Provision for slow moving inventories	133	—
Operating lease rentals for land and buildings	—	50
Staff costs (including directors' and senior executives' emoluments)		
Wages and Salaries	594	1,406
Retirement benefits costs	2	229
	<u>          </u>	<u>          </u>

(c) **Directors' and senior executives' emoluments**

Details of the remuneration paid to the executive directors during the Relevant Periods are as follows:

	Year ended 31st December,	
	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>
Fees	—	—
Salaries and benefits	143	356
Retirement benefits costs	—	—
	<u>          </u>	<u>          </u>
	<u>143</u>	<u>356</u>

In the year ended 31st December, 1998, there were five executive directors each receiving emoluments of approximately RMB50,000, RMB49,000, RMB25,000, RMB19,000 and nil. In the year ended 31st December, 1999, there were five executive directors, each receiving emolument of RMB95,000, RMB92,000, RMB87,000, RMB82,000 and nil.

The remuneration of all five directors fell within the range of HK\$ Nil to HK\$1,000,000 for each of the Relevant Periods.

The five highest paid employees of the Company included four directors in 1998 and two directors in 1999. Information relating to their emoluments has been disclosed above. Details of the remuneration of the remaining highest paid, non-director employees during the Relevant Periods are set out as follows:

	Year ended 31st December,	
	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>
Salaries and benefits	29	273
Retirement benefits costs	<u>—</u>	<u>—</u>
	<u>29</u>	<u>273</u>

The remuneration of all the highest paid, non-director employees fell within the range of HK\$ Nil to HK\$1,000,000 for each of the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Company to the directors or any of the five highest paid individuals as inducement to join the Company, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Period.

(d) **Taxation**

	Year ended 31st December,	
	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>
PRC income tax	<u>—</u>	<u>—</u>

No provision for income tax has been made by Fudan High Tech in 1998 as it did not generate any assessable profits for the period from 1st January, 1998 to the date of the Reorganisation. Under the Income Tax Law of the PRC, the Company is subject to income tax at a basic rate of 33%. However, the Company has obtained a tax concession from the local municipal finance bureau and is exempted from paying income tax for the period from July 1998 to June 1999. Further, pursuant to an approval document dated 2nd February, 2000 issued jointly by the local municipal tax bureau and finance bureau, the Company has been designated a high technology entity and is further exempted from income tax for the period from 1st January, 1999 to 31st December, 2000.

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

(e) **Dividends**

No dividend has been paid or declared by the Company during the Relevant Periods.

(f) **Loss per share**

The calculation of the loss per share for the Relevant Periods is based on the net loss attributable to shareholders of the relevant years on the weighted average of 188,509,615 domestic shares and 320,913,462 domestic shares in issue during the two years ended 31st December 1998 and 1999, respectively, as if (i) the 3,700,000 domestic shares issued to Fudan High Tech by the Company on incorporation of the Company had been in issue on 1st January 1998; and (ii) the 245,000,000 domestic shares to be issued to the existing shareholders of the Company pursuant to the capitalisation issue to be made upon the completion of the placing of 125,000,000 shares in the Company had been in issue from the respective dates the related existing shares were issued.

## (g) Related party transactions

In addition to the Reorganisation, during the Relevant Periods, the Company had the following material transactions with the following related parties:

Name of related parties	Relationship with the Company	Nature of transactions	Year ended	
			31st December, 1998	1999
			RMB'000	RMB'000
<i>Continuing transactions</i>				
Fudan University	Ultimate Shareholder	Technical support fee	200	800
<i>Discontinued transactions</i>				
Fudan University	Ultimate Shareholder	Rental paid for sales office	—	50
Fudan High Tech	Shareholder	Prepayment for operating lease rental for equipment	150	—
		Product development fee paid	<u>—</u>	<u>60</u>

During the Relevant Periods, Fudan High Tech and the Company used certain building facilities of the Fudan University for no consideration. Such transactions were discontinued in February 2000 and the directors consider that the impact of any notional rental payments on the Company's results for the Relevant Periods would have been immaterial.

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

## 4. NET ASSETS

The following is a summary of the net assets of the Company as at 31st December, 1999, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<b>31st December, 1999</b> <i>RMB'000</i>
FIXED ASSETS	(a)	526
DEFERRED DEVELOPMENT COSTS		
Acquired	(b)	1,458
Self-developed	(c)	1,847
CURRENT ASSETS		
Cash and bank balances		6,447
Accounts receivable		7,126
Inventories	(d)	2,126
Prepayments, deposits and other receivables		<u>1,007</u>
TOTAL CURRENT ASSETS		16,706
CURRENT LIABILITIES		
Short-term bank loan	(e)	5,000
Accounts payable		1,826
Other payables and accrued liabilities		<u>1,217</u>
TOTAL CURRENT LIABILITIES		<u>8,043</u>
NET CURRENT ASSETS		<u>8,663</u>
NET ASSETS		<u><u>12,494</u></u>

*Notes:*

## (a) Fixed assets

	<b>Cost</b> <i>RMB'000</i>	<b>Accumulated depreciation</b> <i>RMB'000</i>	<b>Net book value</b> <i>RMB'000</i>
Machinery and office equipment	535	(85)	450
Motor vehicles	<u>100</u>	<u>(24)</u>	<u>76</u>
	<u><u>635</u></u>	<u><u>(109)</u></u>	<u><u>526</u></u>

(b) **Deferred development costs — Acquired**

	<i>RMB'000</i>
Cost	2,380
Accumulated amortisation	<u>(922)</u>
At 31st December, 1999	<u>1,458</u>

(c) **Deferred development costs — Self-developed**

	<i>RMB'000</i>
Cost, net of government grants	1,952
Accumulated amortisation	<u>(105)</u>
At 31st December, 1999	<u>1,847</u>

In 1999, the Company received cash grants from certain PRC government bodies totalling RMB670,000. These cash grants were non-recurring and were for the Company's own development of certain products. The cash grants received have been deducted from the development costs of the relevant products.

(d) **Inventories**

	<i>RMB'000</i>
Raw materials	315
Work in progress	1,043
Finished goods	<u>768</u>
	<u>2,126</u>

(e) **Short-term bank loan**

The loan was guaranteed by a PRC company not related to the Company and its shareholders. Such guarantee was subsequently released in March 2000.

(f) **Reserves**

Movements in the reserves of the Company during the Relevant Periods are as follows:

	<b>Year ended</b>	
	<b>31st December,</b>	<b>1999</b>
	<b>1998</b>	<b>1999</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Statutory common reserve		
At beginning of year	—	30
Movement during the year	<u>30</u>	<u>241</u>
At end of year	<u>30</u>	<u>271</u>
Statutory public welfare fund		
At beginning of year	—	30
Movement during the year	<u>30</u>	<u>241</u>
At end of year	<u>30</u>	<u>271</u>

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 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 into share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to its 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 the property of the Company.

At 31st December, 1999, the amount of retained profits of the Company available for distribution as dividends, as determined in accordance with PRC accounting standards and regulations applicable to the Company, amounted to approximately RMB2,165,000.

Upon the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, 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 HKSSAP. Had the aforesaid basis been applied as of 31st December, 1999, the Company would have no reserve available for distribution as of that date.

(g) **Commitments and contingent liabilities**

As at 31st December, 1999, the Company had no significant contingent liabilities and capital or operating lease commitments except for a non-cancellable operating lease for land and building which expires in 2004. The payments in the next twelve months under the lease amount to RMB317,000.

## 5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable, in respect of the Relevant Periods referred to in this report by Fudan High Tech or the Company to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments, excluding discretionary bonuses, payable to the directors of the Company for the year ending 31st December, 2000 will be approximately RMB922,000, further details concerning the terms of which are set out in the paragraph headed "Disclosure of interests" in Appendix VII to the Prospectus.

## 6. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st December, 1999:

(a) **Conversion into a public subscription company**

In preparation for the listing of the Company's H shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company was converted from a joint stock limited company into a public subscription company on 19th July, 2000. Details of the procedures and approvals are set out in the paragraph headed "The Company" in Appendix VII of the prospectus.

(b) **Related party contract**

On 8th March, 2000, the Company entered into a co-operative agreement (the "Agreement") with University Laboratory, a laboratory owned and managed by Shanghai Fudan University, and Fudan High Tech. Pursuant to the Agreement, University Laboratory and Fudan High Tech both agreed to second 12 members of staff to the Company and to grant the Company the right to use certain computer equipment for a term of 10 years commencing from 8th March, 2000, in consideration of which the Company agreed to pay to University Laboratory and Fudan High Tech an amount of RMB800,000 per annum during the 10-year period.

Save as aforesaid, no other significant events took place subsequent to 31st December, 1999.

**7. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31st December, 1999.

Yours faithfully  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong



The following is the text of a letter, summary of values and valuation certificate, prepared for the purposes of incorporation in this prospectus received from Vigers Hong Kong Limited, an independent valuer, in connection with their valuations as at 31st May, 2000 of the property interests of the Group.

**Vigers Hong Kong Ltd.  
International Property Consultants**

1607-12  
Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Hong Kong



31st July, 2000

The Directors  
Shanghai Fudan Microelectronics Co. Ltd.  
No. 220 Handan Road  
Shanghai  
The People's Republic of China

Dear Sirs,

In accordance with your instructions for us to assess property interest of Shanghai Fudan Microelectronics Co. Ltd. (the "Company") in the People's Republic of China (the "PRC"), we confirmed that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest as at 31st May, 2000.

Our valuation of the property interest is our opinion of the open market value which we would define as intended to mean - "the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:—

- (a) a willing seller;

- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest;
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

The property which is rented by the Company in the PRC has no commercial value due to the prohibition against assignment of the properties or otherwise due to the lack of substantial profit rents.

We have been shown copies of various documents relating to the property in the PRC. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and therefore only approximations.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas. We have also been advised by the Company that no material factors had been concealed or omitted in the information provided to us.

In valuing the property interest of the Company, we have assumed that the Company has free and uninterrupted rights to use, occupy or assign the property interest for the whole of the unexpired term as granted.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any structural defects, though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not undertaken a survey to determine whether the mechanical and electrical systems within the subject property (or the building or development in which it is located) will be adversely affected on or after the year 2000 and as such have assumed that the subject property will be unaffected.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances restrictions and outgoings of an onerous nature which could affect its value.

We enclose herewith our valuation certificate.

Yours faithfully,  
For and on behalf of  
**VIGERS HONG KONG LTD.**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
*ARICS, AHKIS*  
*Director*

*Note:* Raymond K.K. Ho, Chartered Surveyor, ARICS, AHKIS has extensive experience in undertaking valuations of properties in Hong Kong and Macau and has over seven years' experience in the valuation of properties in the PRC.

## VALUATION CERTIFICATE

## Property occupied by the Company in the PRC

Property	Description	Particulars of occupancy	Capital value in existing state as at 31st May, 2000
7th Floor, East Tower, Shanghai Integrated Circuit Centre (ICC), Qun Fang District, No. 668 Bei Jing Dong Road, Huang Pu District, Shanghai, the PRC.	The property comprises the whole of 7th floor of a 8-storey composite building completed in or about 1996.  The property has a total gross floor area of approximately 2,131 sq.m. (22,938.08 sq.ft.)	The property is leased to the Company from Shanghai Heng Li Real Estate Co. Ltd. for a term 5 years from 18th November, 1999 to 17th November, 2004 at a monthly rent of US\$12,786.  The property is currently leased to the Company as office.	No commercial value

## TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Placing and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10 per cent. or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not the US dollar), some of which may be subject to special rules. This summary is based on the tax laws of the PRC as in effect on the date hereof which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### Taxation of dividends

#### *PRC taxation*

*Individual investors.* According to the Individual Income Tax Law of the PRC, as amended on 31st October, 1993 and effective 1st January, 1994, and amended on 30th August, 1999 and effective on the same date, respectively, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20 per cent. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20 per cent. unless reduced by an applicable tax treaty. However, the PRC State Administration of Taxation (the “SAT”, the PRC central government tax authority which succeeded the State Tax Bureau) issued, on 21st July, 1993, a Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer of and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (“Tax Notice”) which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange (“Overseas Shares”), such as the H Shares, are not subject to PRC withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

The Amendments to the Individual Income Tax Law of the PRC (the “Amendments”) were promulgated on 31st October, 1993 and became effective on 1st January, 1994. The Amendments state that they shall supersede the provisions of any contradictory prior administrative regulations concerning individual income tax. Pursuant to the requirements of the Amendments and the amended Individual Income Tax Law, foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20 per cent. unless specifically exempted by the tax authority of the State Council. However, in a letter dated 26th July, 1994 to the State Economic Restructuring Commission, the Securities Commission and CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this letter is withdrawn, a 20 per cent. tax may be withheld on dividends in accordance with the Amendments and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

*Enterprises.* According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies (other than Foreign Investment Enterprises) to foreign enterprises with no permanent establishment in the PRC are ordinarily subject to a PRC withholding tax levied at a flat rate of 20 per cent. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in the PRC receiving dividends paid with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20 per cent. withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

*Tax treaties.* Investors who do not reside in the PRC and reside in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

#### *Hong Kong Taxation*

No tax will be payable in Hong Kong in respect of dividends paid by the Company.

### **Taxation of capital gains**

#### *PRC taxation*

The Tax Notice provides that gains realised by foreign enterprises that are holders of Overseas Shares (which would include the H Shares) would, temporarily, not be subject to capital gains taxes. As to individual holders of Overseas Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC (the "Provisions"), issued on 28th January, 1994, stipulated that gains realised on the sale of equity shares would be subject to income tax at a rate of 20 per cent.. The Provisions empower the Ministry of Finance to draft detailed tax rules on the mechanism for collecting such tax, which shall be implemented upon approval by the State Council. However, no income tax on gains realised on sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued by the Ministry of Finance and the SAT dated 20th June, 1994, 9th February, 1996 and 30th March, 1998, respectively. In the event such temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to capital gains tax at the rate of 20 per cent. unless such tax is reduced or eliminated by an applicable double taxation treaty.

#### *Hong Kong taxation*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Trading gains from the sale of property by persons carrying on a business in Hong Kong, where such gains are derived from or arisen in Hong Kong from such business, will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16 per cent. on corporations and at a maximum rate of 15 per cent. on individuals. Gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

**Additional PRC tax considerations***PRC stamp tax*

PRC stamp tax is imposed on the transfer of shares in PRC companies that are publicly-traded under the Provisional Regulations Concerning Questions of Taxation on Enterprises Experimenting with the Share System. However, such stamp tax should not apply to the acquisition or disposal by non-PRC investors of H Shares outside the PRC by virtue of the Provisional Regulations which became effective on 1st October, 1988. The Provisional Regulations provide that PRC stamp tax is imposed only on documents executed or received within the PRC which are legally binding in the PRC and are protected under the PRC law.

*Estate tax*

Currently, no liability for Estate Tax under PRC law and regulations will arise from non-PRC nationals holding H shares. However, Estate Tax might be imposed on non-PRC nationals holding H Shares in the future when the relevant governing authorities determine that the enforcement of estate tax is necessary.

**Additional Hong Kong tax considerations***Stamp duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the ad valorem rate of HK\$1.125 per HK\$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e., a total of HK\$2.25 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H Shares. Where one of the parties is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee.

*Estate duty*

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5 per cent. to 15 per cent. In respect of the estate of persons dying on or after 1st April, 1998, no estate duty is payable where the principal value of the dutiable estate does not exceed HK\$7.5 million; the maximum rate of 15 per cent. applies where the principal value of the dutiable estate exceeds HK\$10.5 million.

**TAXATION OF THE COMPANY BY THE PRC****Income tax**

With effect from 1st January, 1994, income tax payable by PRC domestic enterprises is governed by the PRC Enterprise Income Tax Provisional Regulations ("EIT Regulations"). The EIT Regulation provide for an income tax rate of 33 per cent. unless a lower rate is provided by law, administrative regulations or State Council regulations.

Pursuant to the EIT Regulation relating to income tax in the PRC, the Company is subject to income tax at a basic rate of 33%. However, the Company obtained a tax concession from the local municipal finance bureau and was exempted from income tax for the period from July 1998 to June 1999. Further, pursuant to an approval document dated 2nd February, 2000 issued jointly by the local municipal tax bureau and finance bureau, the Company has been designated a high technology enterprise and is further exempted from income tax for the period from 1st January, 1999 to 31st December, 2000.

**Business tax**

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax, effective from 1st January, 1994 and the implementing rules, business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3 per cent. to 5 per cent. on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

**TAXATION OF THE COMPANY BY HONG KONG**

The Directors do not consider that any of the income of the Company is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. The Company will, therefore, not be subject to Hong Kong taxation.



## FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at this time. The SAEC, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31st December, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAEC office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAEC on a daily basis. Renminbi could also be converted into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre first had to obtain the approval of the SAEC.

On 28th December, 1993, the PBOC, under the authority of the State Council, promulgated the Notice Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from 1st January, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres. On 26th March, 1994, PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organisations and social organisations in the PRC.

On 29th January, 1996, the State Council promulgated the Regulations of the People's Republic of China for the Control of Foreign Exchange (the "Control of Foreign Exchange Regulations") which became effective from 1st April, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAEC approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14th January, 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20th June, 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") which took effect on 1st July, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the "Announcement on the Implementation of Foreign Exchange Settlements and Sales at Banks by Foreign-invested Enterprises" (the "Announcement"). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25th October, 1998, the PBOC and the SAEC promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business, pursuant to which and with effect from 1st December, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

Since 1st January, 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (with the exception of certain foreign trade companies and production-type enterprises with import-export operation right, which may be permitted to retain a certain amount of their foreign exchange income from their current account transactions and to use such monies to make foreign exchange payments for their current account transactions and permitted capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares (for example, foreign exchange income received by the Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAEC, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like the Company), may on the strength of board resolutions on the distribution of profits and other relevant documents required, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAEC and the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi but are required to be paid in Hong Kong dollars.

## **APPENDIX V SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

This Appendix sets out summaries of PRC company and securities regulations, certain material differences between the Company Law and Hong Kong company law, additional regulatory provisions introduced by the Stock Exchange in relation to PRC joint stock limited companies and the Articles of Association. The main objective is to provide investors with an overview of the rights and obligations of shareholders of the Company and the principal legal and regulatory provisions applicable to the Company.

### **1. PRC LEGAL AND REGULATORY PROVISIONS**

#### **(A) Company Law**

On 29th December, 1993, the Standing Committee of the Eighth National People's Congress adopted the Company Law which came into effect on 1st July, 1994 and was amended on 25th December, 1999. Companies established under laws, administrative regulations, local laws and the Standard Opinion for Limited Liability Companies, and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will not be affected by the Company Law and shall continue to be recognised. Those companies which have not wholly complied with the provisions of the Company Law shall comply with the relevant requirements within a specified period of time. The State Council may separately promulgate detailed implementing measures.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions. On 4th July, 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4th August, 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Economic Restructuring Commission on 27th August, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in this Appendix III). References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the Company Law, the Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations are available for inspection as mentioned in the section headed “Documents Delivered and Available for Inspection” in Appendix VIII.

#### *(i) General*

A “joint stock limited company” is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a joint stock limited company must comply with the conditions and requirements specified by law and administrative regulations for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

A company must conduct its business in accordance with law and professional ethics, promote the concept of a socialist market economy and be subject to the supervision of the government and the general public.

A company may invest in other limited liability companies and joint stock companies and the company's liabilities with respect to such invested companies are limited to the amount invested. However, apart from investment companies and holding companies specified by the State Council, the amount of a company's aggregate investment in other companies may not exceed 50 per cent. of its net assets.

### **Incorporation**

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by public subscription, may have less than five subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35 per cent. of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration authority for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorised by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50 per cent. of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant state bureau for the administration of industry and commerce and a business licence has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22nd April, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

### Share capital

The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20 per cent. of the registered capital of the company.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorised investment organisations and PRC legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and are listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15 per cent. of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred for three years after the company's establishment. Directors, supervisors and the manager of a company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

#### Increase in capital

Under the Company Law, an increase in capital in a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than 12 months;
- (ii) the company has been profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company's financial and accounting documents during the last three years; and
- (iv) the company's expected profit rate is comparable to the bank deposit rate for the same term.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people's government for approval. Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant state bureau for the administration for industry and commerce and issue a public notice accordingly.

#### Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;

- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant state bureau for the administration for industry and commerce for registration of the reduction in registered capital.

#### Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by cancelling its shares or merging with another company holding its shares or such other purposes permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Under the Company Law, within 10 days following the purchase of a company's own shares, a company must in accordance with applicable law and administrative regulations cancel that portion of its shares, change its registration and issue a public notice.

#### Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to promoters may not be transferred within three years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

#### Shareholders

Shareholders have such rights and obligations as set down in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

- (ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

#### General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;
- (iii) to elect or remove the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the supervisory committee;
- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution and for recovery of losses;



- (viii) to decide on any increase or reduction in the company's registered capital;
- (ix) to decide on the issue of bonds by the company;
- (x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- (xi) to amend the articles of association of the company.

Shareholders' general meetings is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;
- (iii) a request by shareholders holding 10 per cent. or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or
- (v) when the supervisory committee proposes convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5 per cent. or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division or dissolution of a company which must be adopted by shareholders with more than two-thirds of the voting rights held by shareholders present (including those represented by proxies) at the meeting. According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved by more than two-thirds of the shareholders present in the general meeting. Amendments to the articles of association of a company must be approved by more than two-thirds of the shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50 per cent. of the voting rights in the company have been received 20 days before the proposed date, or if that 50 per cent. level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

#### Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors at least 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration; and
- (x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) persons who are State civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in this Appendix).

## **APPENDIX V SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to check on the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this Appendix) contains further elaborations of such duties.

### Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;
- (iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings; and
- (v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

As mentioned above, the Special Regulations provide that a company's supervisors, among other persons, shall bear fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. A supervisor is also required to attend board meetings as a non-voting attendant.

### Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this Appendix).

### Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and an officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

#### Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10 per cent. of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50 per cent. of the company's registered capital) and 5 per cent. to 10 per cent. of its after-tax profit for the company's statutory public welfare fund.

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The company's statutory common welfare fund is used for the collective welfare of the company's staff and workers.

The shareholders in general meeting may resolve to transfer any amount from the after-tax profit of the company to the discretionary common reserve after transferring the requisite amount to the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund and statutory common welfare fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses;
- (ii) to expand the business operations of the company; and

- (iii) to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25 per cent. of the registered capital of the company.

#### Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

#### Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent, which is registered as a trust Company under the Trustee Ordinance (Cap. 29) of Hong Kong.

#### Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

#### Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

- (ii) the shareholders in general meeting have resolved to dissolve the company; or
- (iii) the company is dissolved by reason of its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue at least 3 public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.



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Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

### Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

### Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this Appendix).

### Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;
- (iii) the company has committed a major breach of the law; or
- (iv) the company has incurred losses for each of the preceding three years.

Under the circumstances referred to in (ii) and (iii) above, an investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) and (iv) above, the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt.

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### Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meeting subject to the approval of departments authorised by the State Council or the approval of the provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merger of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least 3 times, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 90 days of the first published notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge. Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving written notice or, a creditor who has not received such notice may within 90 days from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

#### (ii) *Sino-Foreign Joint Stock Limited Company and Sino-Foreign Equity Joint Venture Law of the PRC*

The Company has not applied for the status of a sino-foreign joint stock limited company and hence, it is not subject to the Sino-Foreign Equity Joint Venture Law of the PRC. Upon the completion of the Placing, the Company will consider with its PRC legal adviser as to whether it would be beneficial to the Company to make such an application.

### (B) Securities law and regulations

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the

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CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission, and the former functions of the Securities Commission were assumed by the CSRC.

On 22nd April, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of its issue of Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange, such as the Company.

On 12th June, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include, without limitation, changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30 per cent. of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2nd September, 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any

statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 25th December, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions on, domestic listed Foreign Shares and disclosures of information by joint stock limited companies having domestic listed Foreign Shares.

On 29th December, 1998, the Standing Committee of the National People's Congress promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on 1st July, 1999. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29th March, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On 21st September, 1999, the CSRC promulgated the Examination, Approval and Supervision of Enterprises in China Applying to List on the Hong Kong Growth Enterprise Market Guidelines (the "Guidelines") which set out the approval procedures with respect to the listing of PRC enterprises on the GEM. Under the Guidelines, any state-owned or private enterprise may, through its sponsor acting on its behalf, apply to the CSRC for approval to list on the GEM, such application to be accompanied by documents set out in the Guidelines. One precondition for such application being that the applicant must be a company limited by shares and approved by a provincial level people's government or the State Economic and Trade Commission. The CSRC will determine whether to grant the approval within 10 days of receipt of the specified documents unless objections are received by any one of the Ministry of Foreign Trade and Economic Cooperation, the State Administration of Foreign Exchange, and, if state-owned shares are involved, the Ministry of Finance.

### (C) **The Arbitration Law**

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations,

## **APPENDIX V SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is not valid.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the GEM Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either CIETAC or HKIAC for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 10th May, 1998, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration commission if there are certain procedural or membership irregularities or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the New York Convention adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China has been signed on 21st June, 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral

authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People's Court of the PRC and has been in effect since 1st February, 2000.

## **2. HONG KONG LEGAL AND REGULATORY PROVISIONS**

### **(A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law**

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

#### *Derivative action by minority shareholders*

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court in the PRC to challenge any decision made in a resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required by the GEM Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors or Supervisors.

#### *Remedies of the Company*

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company (the "Offending Person"), resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. The Company shall, in addition to any rights and remedies provided by laws and administrative regulations, have a right to require the Offending Person to compensate for the losses sustained by the Company as a consequence of his dereliction of duty; rescind any contract or transaction concluded by the Company with such Offending Person; recover any funds received by the Offending Person and require the Offending Person to return the interest earned on the funds that should have belonged to the Company. In addition, in compliance with the GEM Listing Rules, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

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### *Directors, officers and supervisors*

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contains no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the Company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### *Minority protection*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may present a petition to the court either to wind up the company or to apply for an appropriate order regulating the affairs of the company. In addition, at the application by a specified number of members, the Financial Secretary of Hong Kong may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company, as required by the Mandatory Provisions and the GEM Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders. However, there is no specific provision in the Company Law to guard against oppression by majority shareholders of minority shareholders.

### *Receiving agent*

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years

in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

*Financial assistance for the acquisition of shares*

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

*Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or by agreement of all the members of the Company or if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes. Normally if the Company intends to change the rights of shareholders in different classes, a special resolution has to be passed by the shareholders in general meeting and by a separate shareholders' meeting convened by the affected shareholders in the different classes. However, this procedure is waived where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20 per cent. of each of the existing issued domestic shares and overseas listed foreign shares of the Company as at the date of the shareholders' special resolution; or (ii) where the plan for the issue of domestic invested shares and listed foreign invested shares upon the Company's establishment is implemented within 15 months of the date of approval by the Securities Commission. The Mandatory Provisions also contain detailed provisions relating to circumstances which are deemed to constitute variations of class rights.

*Corporate reorganisations*

Corporate reorganisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies



## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. However, in the latter case, the liquidator of the first company may, with the sanction of a special resolution, receive compensation from the transfer as company for distribution to the members of the transferor company. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

### *Share capital*

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders in general meeting, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After the completion of an approved new issue, the company has to register the increase in share capital with the relevant regulatory authority for industry and commerce.

The minimum registered capital of a company applying for the listing of its shares on a stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, shares issued in consideration of intangible assets (excluding rights to use) may not exceed 20 per cent. of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law for a Hong Kong company.

### *Restriction on shareholding and transfer of shares*

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to above. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors, supervisors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

### *Notice of meetings*

Under the Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the

## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

### *Quorum*

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise.

The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions as well as the Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50 per cent. of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50 per cent. level is not achieved, that the company shall within 5 days notify shareholders in a public announcement once again of the matters to be examined at the meeting as well as the date and place of the postponed meeting. Upon notification by public announcement, the Company may hold the shareholders' general meeting.

### *Voting*

Under the Hong Kong company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes.

Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company, where two-thirds majority is required.

### *Dividends*

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years.

### *Financial disclosure*

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to

every shareholder (whether he is or is not entitled to receive notices of general meetings of the Company) a copy of its balance sheet and its annexures, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

#### *Information on directors and shareholders*

The Company Law gives shareholders the right to inspect a company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

#### *Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. It is a requirement of the Mandatory Provisions and the GEM Listing Rules that the Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior administrative officers or a holder of Domestic shares arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions (such as disputes over who is a shareholder), be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

#### *Mandatory deductions*

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory public welfare fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

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### *Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

### *Closure of register of shareholders*

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Company's Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

### **(B) Other legal and regulatory provisions**

Upon the listing of the Company on the GEM, the provisions of the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, the Securities (Insider Dealing) Ordinance of Hong Kong, the Takeovers Code and the Share Repurchases Code and such other relevant ordinances and regulations as may be applicable to companies listed on the GEM will apply to the Company.

### **(C) Securities Arbitration Rules**

The Articles of Association provide that if any dispute or claim concerning the Company's business on the basis of the rights or obligations arising under the Articles of Association, the Company Law or in relevant laws or administrative regulations which arises between holders of H Share and the Company, such dispute or claim shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed by the Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

### **(D) GEM Listing Rules**

The GEM Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC on the GEM. Set out below is a summary of the major provisions which apply to the Company.

*Sponsor*

The Company is required to retain, for at least the remainder of the financial year during which the listing occurs and two financial years thereafter, the services of a sponsor who must have been approved by the Stock Exchange to be eligible to act as sponsor of a new applicant and admitted to a list of sponsors maintained and published by the Stock Exchange from time to time. The sponsor must comply with the GEM Listing Rules so far as they are applicable to sponsors. These include the requirement that no sponsor may act for or continue to act for the Company in circumstances where any actual or potential conflict of interest impedes its ability to provide competent advice to the Company in a professional and impartial manner.

Where the Company consults the sponsor for guidance or advice in relation to the GEM Listing Rules, the sponsor has a responsibility to ensure that the Company is properly guided and advised, and must discharge that responsibility with due care and skill. The sponsor must not reveal any privileged information about or relating to the Company to anyone not authorised until the information has been the subject of a listing document, circular or formal announcement, particularly where such information may affect market activity in or the price of the Company's securities.

The sponsor shall ensure that a principal supervisor and an assistant supervisor remain actively involved in the provision of on-going advice and guidance sought by the Company. The sponsor shall act as the principal channel of communication with the Stock Exchange on behalf of the Company and must, so far as practicable, deal with all matters arising in relation to the Company which are raised by the Stock Exchange. The sponsor shall take all reasonable steps to brief all new Directors and Supervisors appointed by the Company as to the nature of their responsibilities under the GEM Listing Rules and other applicable laws and provisions relating to securities and the general nature of their obligations both in relation to the Company's shareholders and creditors.

The sponsor must also regularly review the Company's operating performance and financial condition against the Company's statement of business objectives and against any profit forecast, estimate or projection included in the Company's prospectus or otherwise made public by, or on behalf of, the Company in order to assist the Company in determining whether any announcement is necessary under the GEM Listing Rules. The sponsor shall, prior to publication, review with the Company all announcements, listing documents and circulars required to be issued under the GEM Listing Rules and the annual reports and accounts, half-year report and quarterly reports of the Company with a view to ensuring that the Directors understand the importance of disclosing all material information to shareholders and the market.

During the minimum period of the sponsor's appointment, it may only terminate its role as sponsor to the Company in exceptional circumstances, where it is no longer able to perform the role, and only after first notifying the Stock Exchange of the intended termination and the reasons therefor. If the appointment is terminated for whatever reason prior to the expiry of the minimum period, the Company and the sponsor must immediately notify the Stock Exchange. In such instances, an announcement must be published as soon as practicable stating the reasons for termination, and a replacement must be appointed within 3 months of the date on which the former sponsor ceased to act.

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If the Stock Exchange considers that the sponsor has breached or failed to discharge any of its obligations under the GEM Listing Rules, it may impose sanctions on the sponsor including the issue of a private reprimand or a public statement which involves criticism or public censure, the removal of the sponsor from the list of sponsors maintained by the Stock Exchange or barring the sponsor from representing a specified party in relation to a stipulated matter or matters coming before the GEM Listing Division or the GEM Listing Committee for a stated period.

### *Accountants' reports*

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the financial history of results and the statement of assets and liabilities included in the accountants' report must have been audited to a standard comparable to that required in Hong Kong which means that it must conform with either Hong Kong or international accounting standards.

### *Process agent*

The Company must appoint and maintain throughout the period its securities are listed on the GEM the appointment of a person authorised to accept service of process and notices on its behalf in Hong Kong, and must notify the Stock Exchange of his appointment and any termination of his appointment and details of his contact particulars.

### *Public shareholding*

If at any time there are existing issued securities of the Company other than H Shares which are listed on the Stock Exchange, the GEM Listing Rules require that (i) all H Shares must be held by the public except as otherwise permitted by the Stock Exchange in its discretion; (ii) the H Shares held by the public must normally constitute not less than 10% of the Company's total existing issued share capital; and (iii) the aggregate amount of H Shares and such other securities which are held by the public must constitute not less than the minimum prescribed percentage of the Company's total issued share capital.

The minimum prescribed percentage for a company whose market capitalisation at the time of listing does not exceed HK\$1,000 million (as in the case of the Company) is 20%. If such market capitalisation is over HK\$1,000 million but not exceeding HK\$1,333 million, the minimum prescribed percentage is the percentage that would result in the market value of the securities to be in public hands being equal to HK\$200 million (determined as at the time of listing). If such market capitalisation exceeds HK\$1,353 million, the minimum prescribed percentage is 15%.

### *Corporate governance*

The Directors are collectively and individually responsible for ensuring the Company fully complies with the GEM Listing Rules. Every Director must satisfy the Stock Exchange that he has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director of the Company. The Directors are expected to be

fully aware and observe the GEM Listing Rules, which also set out the minimum standards of good practice concerning their general management responsibilities. The Directors must respond in a prompt and efficient manner to all enquiries directed at him by the Stock Exchange.

If the securities of the Company are or are to be listed on one or more stock exchanges, the sponsor of the Company must make a written submission to the Stock Exchange stating whether in the sponsor's opinion the Directors appreciate the differences as well as the similarities between H shares and the shares listed on such other stock exchange and between the rights and obligations of holders of such shares and basis for such opinion. The sponsor must also explain how the Directors propose to co-ordinate and comply in a timely manner with their obligations under the requirements of the Stock Exchange and such other stock exchange.

The Company must ensure that its board of directors consist of at least 2 independent non-executive directors. If an independent non-executive director resigns or is removed from office, both the Company and the individual concerned must immediately notify the Stock Exchange, in each case stating the reasons therefor.

Both directors and supervisors must undertake with the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeover Code and the Share Repurchase Code and that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment.

The Company must also appoint the company secretary who has the requisite knowledge and experience to discharge the functions of the secretary to the Company. At all times, the Company must retain a qualified accountant to assist the Company with its financial reporting procedures and internal controls. One of the executive directors of the Company must also act as the Company's compliance officer, whose role include advising on and assisting the board of Directors in implementing procedures to comply with the GEM Listing Rules and other relevant laws and regulations. In addition, the Company must have 2 authorised representatives who must be 2 individuals from amongst the Company's executive directors and company secretary.

An audit committee must also be set up by the Company comprising of a minimum of 2 members and whose majority must be the independent non-executive directors of the Company. There must be clear written terms of reference for the audit committee which clearly establishes its authority and duties. Members of the audit committee have full and unlimited access to all books and accounts of the Company and any personnel of the Company they wish to consult. Responsibilities of the audit committee include reviewing and supervising the Company's financial reporting and internal control procedures.

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the GEM, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this Appendix.

*Restrictions on purchase*

The Company may purchase its own Shares on the GEM or on another stock exchange in accordance with the GEM Listing Rules and the Share Repurchase Code. Shareholders' approvals must first be obtained prior to carrying out a share repurchase, by way of the special resolutions of shareholders in general meetings and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the GEM or when reporting such purchases, the Company should provide an explanatory statement to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the GEM. The explanatory statement should contain all the information reasonably necessary to enable the shareholders to make an informed decision on approving the resolution. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Takeover Code and any similar applicable law of which the Directors are aware, if any. Any specific approval or general mandate given to the Directors to repurchase H Shares must not exceed 10 per cent. of the total amount of existing issued H Shares of the Company.

*Register of holders of H Shares*

Provision must be made for a register of holders of H Shares to be maintained in Hong Kong and for transfers to be registered locally. Unless the Stock Exchange otherwise agrees, only securities registered on the Hong Kong register may be traded on the GEM.

*Preemptive rights*

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

- (i) authorising, allotting, issuing or granting;
  - (a) Shares;
  - (b) securities convertible into Shares; or
  - (c) options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (ii) any major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.



## APPENDIX V SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION

No such approval shall be required in the case of authorising, allotting or issuing shares if, but only to the extent that:

- (i) the existing shareholders of the Company have by special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorise, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the Shareholders pass such resolution), not more than 20 per cent. of each of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolutions; or
- (ii) such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC or such other competent state council securities regulatory authority.

Notwithstanding the above, the Company shall obtain the approval by special resolution of the Shareholders in general meeting prior to allotting any voting Shares if such allotment would effectively alter the control of the Company.

### *Changes to articles of association*

The Company shall not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to comply with the GEM Listing Rules and in particular, the Mandatory Provisions.

### *Documents for inspection*

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (a) a complete duplicate of the register of shareholders;
- (b) a report showing the state of the issued share capital of the Company;
- (c) the Company's latest audited financial statements and the directors', auditors' and supervisors' reports thereon;
- (d) special resolutions of the Company;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other relevant PRC authority; and
- (g) for shareholders only, copies of the minutes of meetings of shareholders.

## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

### *Appointment of receiving agents*

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing by the Company in respect of H Shares listed on the GEM to be held, pending payment, in trust for holders of the H Shares.

### *Statements to be made on acquisition of shares*

The Company must ensure that all its listing documents and share certificates include the statements stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any of its H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (a) The acquirer of shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.
- (b) The acquirer of shares agrees with the Company, each shareholder, director, supervisor, manager and officer of the Company and the Company acting for itself and for each director, supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration shall be final and conclusive.
- (c) The acquirer of shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.
- (d) The acquirer authorises the Company to enter into a contract on his behalf with each director and officer whereby such directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

### *Compliance with the Company Law, the Special Regulations and the Articles of Association*

The Company must observe and comply with the Company Law, the Special Regulations and the Articles of Association.

### *Contract between the Company and every Director and officer*

The Company must enter into a contract in writing with every Director and officer containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeovers Code, and the Share Repurchases Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and (2) a holder of H Shares and a Director or officer of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or HKIAC in accordance with its securities arbitration rules, at the election of the party seeking arbitration. Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC. The party seeking arbitration may elect to have the dispute or claim arbitrated either by CIETAC or HKIAC and once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

*Contract between the Company and every Supervisor*

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- (c) the arbitration clause in terms set out in sub-paragraph (c) in the preceding paragraph on “Contract between the Company and every Director and officer” above subject to necessary modifications.

*Subsequent listing*

The Company must apply for the listing of any further securities which are of the same class as securities already listed, prior to their issue, and must not issue such securities unless it has applied for their listing. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

*English translation*

All documents furnished by the Company, including accounts, which are in a language other than English or Chinese, must be accompanied by a certified English or Chinese translation.

*General*

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Stock Exchange may impose additional requirements or make the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

### **3. ARTICLES OF ASSOCIATION**

#### **(A) Directors**

Set out below is a summary of the principal provisions of the Articles of Association which were approved and adopted at the extraordinary general meeting of the Company held on 19th July, 2000. Copies of the full English and Chinese texts of the Articles of Association are available for inspection as mentioned in the section headed “Documents Delivered and Available for Inspection” in Appendix VIII.

(i) *Power to allot and issue shares*

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company, the board of Directors (the “Board”) shall prepare a detailed plan and draft amendments of the Articles of Association to permit the increase for approval by shareholders in general meeting by way of special resolution and shall comply with the relevant procedures.

**APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY  
PROVISIONS AND THE ARTICLES OF ASSOCIATION**

(ii) *Power to dispose of the assets of the Company or any subsidiary*

The Board shall not, without the prior approval of shareholders in general meeting, dispose of any fixed assets of the Company where the aggregate of:

- (a) the expected value of the consideration for the proposed disposition, and
- (b) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the value of the consideration for any such disposition

exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet placed before the shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Article. For the purpose of this paragraph (ii), disposition shall include the transfer of some interests in property other than by way of security.

During the decision-making process of the Board in relation to market development, merger and acquisition, investments in a new domain etc. and where the amount of investment of such project or value of assets under the merger or acquisition represents more than 10 per cent. of its total asset value (such total asset value being determined in accordance with its last published audited accounts or consolidated accounts (if applicable) and the information sufficiently disclosed to the shareholders), the Company shall appoint a public consultancy institution to provide professional advice as the key reference for the board of directors in their decision making.

(iii) *Remuneration and payments for loss of office*

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

- (a) emoluments in respect of his service as Director, Supervisor or senior management officer of the Company;
- (b) emoluments in respect of his service as Director, Supervisor or senior management officer of any subsidiary of the Company;
- (c) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (d) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract between the Company and its Directors or Supervisors concerning the emoluments should also provide that in the event of a takeover of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A “takeover of the Company” referred to in this paragraph means any of the following:

- (a) a general offer made by any person to the shareholders; or
- (b) a general offer made by any person with a view that the offeror shall become a “controlling shareholder” of the Company as defined in the Articles of Association.

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the aforesaid general offer. The expenses incurred in distributing such sum on a pro rata basis amongst those persons shall be borne by the relevant Director or Supervisor and may not be paid out of the sum being distributed.

(iv) *Loans to Directors, Supervisors and other senior management officers*

The Company may not directly or indirectly provide a loan or provide any loan guarantee to a Director, Supervisor, manager, or other senior management officers of the Company or of the Company’s holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

- (a) the provision by the Company of a loan or a loan guarantee to the subsidiary of the Company;
- (b) the provision by the Company of a loan or a loan guarantee or any other funds to any of its Directors, Supervisors, managers and other senior management officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly in accordance with the terms of a service contract approved by the shareholders in general meeting; or
- (c) the provision by the Company of a loan or loan guarantee to its Directors, Supervisors, managers and other senior management officers or persons connected with any of them in the ordinary course of its business on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the provision of guarantees.

A loan provided by the Company in breach of the prohibition described above shall be immediately repayable forthwith by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, except where:

- (a) the guarantee was provided in connection with a loan to a person connected with a Director, Supervisor, manager or other senior management officer of the Company or its holding company and at the time the loan was advanced the lender was not aware of the relevant circumstances; or
- (b) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of this paragraph (iv);

- (a) a guarantee includes an undertaking to assume liabilities or the provision of property by the guarantor to secure the performance of obligations by the obligor; and
  - (b) the definition of a connected person in sub-paragraph (xii) below shall, mutatis mutandis, apply.
- (v) *Financial assistance for the purchase of shares in the Company or any of its subsidiaries*

Save as described below, the Company and its subsidiaries shall not at any time provide any financial assistance in any form to any purchasers or prospective purchasers of the shares of the Company. Purchasers of shares of the Company as referred to above shall include person(s) who undertake(s), directly or indirectly, obligations for the purpose of acquiring the shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to reduce the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

- (a) the provision of financial assistance by the Company where such financial assistance is given in good faith and in the interests of the Company and the principal purpose in giving that financial assistance is not for the acquisition of shares in the Company, or the financial assistance is an incidental part of some larger purpose of the Company;
- (b) distribution of the Company's assets by way of dividend in accordance with law;
- (c) the distribution of dividends in the form of shares;
- (d) reduction of registered share capital, repurchase of shares and restructuring of the shareholding structure of the Company in accordance with the Articles of Association;
- (e) the provision of loan by the Company within its scope of business and in the ordinary course of its business provided that the Company's net assets are not thereby reduced or, if the Company's net assets are thereby reduced, that financial assistance is provided out of the distributable profits of the Company;
- (f) the provision of money by the Company as contributions to employees' shares schemes, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions:—

- (a) "financial assistance" shall include (but not limited to) the financial assistance in the forms set out below:—
  - (1) gift;

- (2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or indemnity (other than an indemnity in respect of the Company's own neglect or default), or by way of release or waiver;
  - (3) provision of a loan or conclusion of a contract under which the obligations of the Company are to be fulfilled prior to the obligations of another party to the contract, or a change in the party to such loan or contract, assignment of rights under such loan or contract; and
  - (4) financial assistance in any other form given by the Company when the Company is insolvent or has no net assets or when such assistance would lead to a substantial reduction in the Company's assets;
- (b) "undertaking" shall include the undertaking of an obligation by the obligor by concluding a contract or an arrangement (whether or not such contract or arrangement is enforceable and whether or not such obligation is undertaken by the obligor individually or jointly with any other person) or by changing its financial position in any other way.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

Where a Director, Supervisor, manager or other senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service, he shall disclose the nature and extent of his interest to the Board at the earliest opportunity, whether or not the aforesaid matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, Supervisor, manager or other senior management officer has disclosed his interest in accordance with the Articles of Association and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested such Director, Supervisor, Manager or Senior Management Officer was not counted in the quorum and had refrained from voting, that contract, transaction or arrangement is voidable by the Company except as against a bona fide party thereto acting without notice of the breach of duty by the Director, Supervisor, manager or other senior management officer concerned. For the purposes of the foregoing, a Director, Supervisor, manager or senior management other officer is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, manager or other senior management officer gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, the notice shall be deemed for the purposes of the preceding paragraph to have disclosed his interest, so far as attributable to the facts stated in the notice, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(vii) *Remuneration*

The emoluments of a Director shall be approved by shareholders in general meeting as referred to under the paragraph headed "Remuneration and payments for loss of office".



<b>APPENDIX V</b>	<b>SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION</b>
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(viii) *Retirement, appointment and removal*

The term of office of the Chairman and Directors shall be three years commencing from the date of appointment or re-election upon the expiration of such term.

A Director is not required to hold shares in the Company.

The Directors shall be elected by the shareholders at shareholders' general meetings.

The Board shall consist of eleven members. External directors (being non-directors not internally employed by the Company, such term having the same meaning as hereinafter appearing) shall account for more than one-half in number of members of the board of Directors, of which there shall be at least two independent non-executive Directors (being a Director independent from the shareholders of the Company and not internally employed by the Company, such term having the same meaning as hereinafter appearing). The Board shall elect from amongst its members one chairman, one vice-chairman and nine other Directors. The chairman can be elected and removed by a simple majority of the Directors.

The Board shall be independent from the controlling shareholder of the Company and shall be free from interference by the board of directors of such controlling shareholder. The number of senior management officers of the controlling shareholder (chairman, vice chairman and executive director) also holding the office on the board of directors (as chairman, vice-chairman or executive directors) of the Company shall not exceed two.

External directors shall have sufficient time and the necessary knowledge and skills in order to be capable of performing their duties. To enable an external director to perform his duties, the Company shall provide all the necessary information. Among other things, independent (non-executive) Directors may report directly to the shareholders' general meeting, the securities supervisory and regulatory body of the State Council and to other relevant departments.

A Director other than a non-executive Director or an independent non-executive Director may assume the office of any other senior management officer of the Company save and except the office of Supervisor.

Subject to the relevant laws and regulations, the Chairman and the vice chairman may be removed by the shareholders by way of an ordinary resolution at a shareholders' general meeting.

There is no stipulation that a Director must retire at a certain age.

(ix) *Borrowing powers*

The Board has powers to formulate proposals for the issue of bonds of the Company (subject to compliance with the relevant PRC laws and regulations, if any) and Company's borrowing and financial strategies.

There are no provisions in the Articles of Association stipulating the manner of varying the borrowing powers exercisable by the Board. However, such powers, as with other provisions in the Articles of Association, may be altered by special resolution of shareholders in general meeting.

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(x) *Connected transactions*

Board resolutions in relation to connected transactions shall take effect only after they have been passed by the independent non-executive Directors.

(xi) *Notice and Minutes of Board Meetings*

Meetings of the Board shall be held at least twice a year. Meetings of the Board shall be convened by the Chairman by giving notice to all Directors five days before the meeting. An emergency Board meeting may be held if it is so requested by more than one-third of the Directors or the general manager of the Company. The Board shall keep minutes of resolutions passed at the Board meetings. The resolutions passed at the meetings of the Board and the person taking minutes shall sign on the minutes of such meetings.

(xii) *Duties*

Each Director, Supervisor, manager or other senior management officer shall in the exercise of his powers or the discharge of his duties, exercise due care, diligence and skill that a reasonable prudent person would exercise under similar circumstances. In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, manager and other senior management officer shall owe a duty to each shareholder, in the exercise of the powers of the Company entrusted to him:

- (a) not to cause the Company to act beyond the scope of business stipulated in its business licence;
- (b) to act honestly in the best interests of the Company;
- (c) not to deprive the Company's property in any way, including without limitation, any opportunities that are beneficial to the Company; and
- (d) not to deprive shareholders of their individual rights and interests, including, without limitation, rights to distribution and voting rights, save and except pursuant to a restructuring of the Company approval by shareholders in general meeting in accordance with the Articles of Association.

Each Director, Supervisor, manager or other senior management officer shall, in the exercise of powers of the Company entrusted to him, observe his fiduciary obligations and not to place himself in a position where there is a conflict between their personal interests and their duties. This principle includes, without limitation, the following:

- (a) to act honestly in the best interests of the Company;
- (b) to exercise the powers within his authority without abuse;
- (c) to exercise the discretion vested in him personally and not allow himself to be manipulated by another person and, unless and to the extent permitted by laws and administrative regulations or the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion to another party;

- (d) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (e) unless otherwise provided for in the Articles of Association or approved by shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (f) unless otherwise approved by shareholders in general meeting, not to use the Company's property in any way for his own benefit;
- (g) not to obtain money from bribery or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp the opportunities beneficial to the Company;
- (h) unless otherwise approved and permitted by shareholders in general meeting, not to accept commissions in connection with the Company's transactions;
- (i) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (j) unless otherwise approved by shareholders in general meeting, not to compete in any way with the Company;
- (k) not to embezzle the Company's funds or lend them to others, and not to deposit the Company's funds in accounts opened in his own name or in the name of other persons and not to use the Company's assets to provide security for the debts of the Company's shareholders or other individuals; and
- (l) unless otherwise approved by shareholders in general meeting, not to disclose confidential information of the Company acquired by him during the course of his office and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of such information to the court or other governmental authorities is permitted if (i) disclosure is made under compulsion of law; (ii) there is a duty to the public to disclose; or (iii) such disclosure is necessary to protect the interests of that Director, Supervisor, manager or other senior management officer of the Company.

A Director, Supervisor, manager or other senior management officer shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, manager or other senior management officer if he is:

- (a) the spouse or minor child of that Director, Supervisor, manager or other senior management officer of the Company;
- (b) a person acting in the capacity of trustee of that Director, Supervisor, manager or other senior management officer or any person referred to in (a) above;
- (c) a person who is a partner of that Director, Supervisor, manager or other senior management officer or any person referred to in (a) and (b) above;

- (d) a company in which that Director, Supervisor, manager or other senior management officer, alone or jointly with one or more persons referred to in (a), (b) and (c) above or other Director, Supervisors, managers or other senior management officers, has de facto control; or
- (e) a Director, Supervisor, manager or other officer of a company referred to in (D) above.

The fiduciary duties of a Director, Supervisor, manager or other senior management officers do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

Subject to the provisions with regard to the duties of controlling shareholders defined in paragraph (r) below towards other shareholders as set out in the Articles of Association, a Director, Supervisor, manager or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of shareholders in general meeting.

#### **(B) Alterations to constitutional documents**

The Company may amend the Articles of Association in accordance with the following procedures:

- (i) the Board shall adopt a proposal to amend the Articles of Association in accordance with the Articles of Association and shall formulate proposal for amendments;
- (ii) shareholders shall be informed of the proposal for amendments and a meeting of shareholders shall be convened to vote on the amendments;
- (iii) the amendments shall be approved by more than two-third of the voting rights represented by the shareholders present at meeting (or through their proxies); and
- (iv) any amendments to the Articles of Association involving the contents of the Mandatory Provisions shall be effective only after approved by the relevant department authorised by the State Council. With respect to matters involving registration, any change of registration shall be effected according to law.

#### **(C) Variation of rights of existing shares or classes of shares**

Rights conferred on any class of shareholders in the capacity of shareholders (“class rights”) may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) the increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;

- (ii) change of all or part of the shares of such class into shares of another class, conversion of all or part of the shares of another class into share of such class or the grant of the right to effect such change or conversion;
- (iii) the removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;
- (iv) the reduction or removal of any preference to dividends or any preference to a distribution of asset upon the Company's liquidation;
- (v) the addition, removal or reduction of share conversion rights, options, voting rights, transfer rights or pre-emptive rights or rights to acquire securities of the Company attached to shares of such class;
- (vi) the removal or reduction of rights to receive payment in particular currencies from the Company attached to shares of such class;
- (vii) the creation of a new class of shares having voting rights or distribution rights or other privileges equal or superior to the shares of such class;
- (viii) the imposition of restrictions on the transfer or ownership of the shares of such class;
- (ix) the issuance of rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) the increase of the rights or privileges of shares of another class;
- (xi) the restructuring of the Company which will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (xii) the variation or abrogation of provisions in Chapter 9 of the Articles of Association.

**(D) Ordinary and special resolutions — majority required**

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one half of the votes represented by the shareholders (including proxies) present at the meeting in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the shareholders (including proxies) at the shareholders' general meeting exercised in favour of the resolution.

Shareholders (including proxies) present at the shareholders' general meeting in exercising their voting rights have to show explicitly whether they vote for or against each resolution proposed to be passed at that meeting. Abstention or failure to vote shall be disregarded by the Company as voting rights for the purpose of calculating the result of that resolution.

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**(E) Voting rights (generally, on a poll and right to demand a poll)**

Holders of Domestic Shares and H Shares present at a shareholders' general meeting have one vote for each share they hold.

At any meeting of shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders having the right to vote either present in person or by proxy;  
or
- (iii) by one or more shareholders present in person or by proxy and representing not less than one tenth of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the results of a show of hands and an entry to that effect in the minutes of the Company, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

When a poll is taken at a meeting, a shareholder entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one extra vote.

**(F) Requirements for shareholders' general meetings**

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

The Board shall convene an extraordinary shareholder's general meeting within two months of the occurrence of the following events:

- (i) when the number of Directors falls below the number required by the Company Law or two-thirds of the number prescribed in the Articles of Association;
- (ii) when the losses of the Company which have not been made up amount to one-third of the total share capital of the Company;

- (iii) upon requisition of shareholders holding 10% or more of the issued shares carrying voting rights for the convening of an extraordinary shareholders' general meeting; or
- (iv) when the Board deems necessary or the supervisory committee proposes to convene the same.

**(G) Accounts and audit**

The Company shall formulate its own financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the State Council finance department.

The Company shall prepare financial reports at the end of each financial year. Such reports shall be examined and verified according to laws.

The board of Directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent local and central governmental authorities to be prepared by the Company.

The financial reports of the Company shall be deposited at the Company for inspection by its shareholders not later than 20 days before the annual general meeting. Each shareholder of the Company shall be entitled to receive the financial statements referred to in this paragraph.

The Company shall send by prepaid mail the above reports to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place overseas where the Company's Shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company must also be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where the Company's Shares are listed.

The Company shall publish two financial reports in every financial year namely an interim reports within 60 days after the end of the first six months of the financial year and an annual report within 120 days after the end of the financial year.

The appointment, dismissal or termination of the office of an auditor shall be determined at shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove an auditor before his term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditor. Any right of the auditor to claim against the Company in connection with his removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of an auditor, such auditor who is to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditor shall have the right to present its views at the following shareholders' general meetings:

- (i) the shareholders' general meeting at which its term of office would otherwise have expired;
- (ii) any shareholders' general meeting at which it is proposed to fill the casual vacancy caused by its removal; or
- (iii) any shareholders' general meeting convened on its resignation.

**(H) Notice of meetings and business to be conducted thereat**

The shareholders' general meeting is the authority of the Company.

Notice of meetings of shareholders shall be given before the meeting. A notice of meeting of shareholders shall:

- (i) be in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the general nature of the business to be transacted at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, manager or other senior management officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, manager or other senior management officer in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be moved at the meeting;
- (vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting.



## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

In respect of holders of H Shares, notice of general meetings of shareholders shall be served on each shareholder, whether or not entitled to vote thereat, by delivery or prepaid mail to the address of any such shareholder as appearing on the register of holders of H Shares. In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 of 50 days prior to the meeting in one or more publications specified by the State Council authorities. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

### **(I) Transfer of shares**

All fully paid H shares listed in Hong Kong are freely transferable pursuant to the Articles of Association. The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (i) payment of HK\$2.50 or higher charge as agreed by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents relating to or which may affect the title to the shares;
- (ii) the instrument of transfer only involves H Shares listed in Hong Kong;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificates and evidence that the transferor has the right to transfer such shares as reasonably required by the Board have been provided;
- (v) if the shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and
- (vi) the Company has no lien over the relevant shares.

The overseas listed foreign shares of the Company shall be transferred in an ordinary or regular way or a way acceptable to the board of Directors; such instrument of transfer may be executed by way of affixing of seal in mode of printing. All instruments of transfer shall be placed at the legal address of the Company or any such place designated by the board of Directors from time to time.

### **(J) Register of shareholders**

The Company shall keep a register of shareholders and enter therein the following particulars:

- (i) the names, addresses, occupations or descriptions of shareholders, the class and the number of each class of shares held, the amount paid or payable for the shares and, the serial number of the share certificates held by each shareholder.
- (ii) the date on which each person was entered in the register as a shareholder; and
- (iii) the date on which any person ceased to be a shareholder.

## **APPENDIX V      SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS AND THE ARTICLES OF ASSOCIATION**

The Company shall have a complete register of shareholders which shall be comprised of the following parts:

- (i) a register maintained at the Company's domicile in relation to shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;
- (ii) a register maintained in Hong Kong relating to holders of H Shares listed on the Stock Exchange; and
- (iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to manage the register of shareholders outside the PRC. A duplicate of parts of the register of shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's place of domicile. The appointed overseas agents shall ensure that the original of any overseas part of the register of shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of shareholders. The alteration and rectification of each part of the register of shareholders shall be made in accordance with the laws of its situs. The register of shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

### **(K) Power of the Company to purchase its own shares and reduce its share capital**

Subject to governmental approvals, the Company may, subject to the provisions set out in the Articles of Association, repurchase its own shares. A share repurchase may be made under the following circumstances:

- (i) a general offer to all shareholders in proportion to their respective holdings;
- (ii) repurchase through open transactions on a stock exchange; or
- (iii) by an off-market contract.

The Company may, with the prior consent of shareholders in accordance with the Article of Association, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. The Company shall not assign its rights under a contract to repurchase its own shares.

Unless the Company has commenced liquidation:

- (i) where the Company repurchases its own shares at nominal value, payment may be made out of distributable profits in the books of the Company and out of proceeds of a fresh issue of shares made for that purpose;

- (ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value may be made out of the distributable profits in the books of the Company and out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:
- (A) if the shares being repurchased were issued at nominal value, payment shall be made out of distributable profits in the books of the Company;
  - (B) if the shares being repurchased were issued at a premium, payment shall be made out of distributable profits in the books of the Company and out of proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased nor the amount of the Company's capital reserve fund account at the time of such repurchase including the premiums on the fresh issue of shares;
- (iii) payment by the Company in consideration for:
- (A) the acquisition of rights to repurchase its own shares;
  - (B) the variation of any contract to repurchase its own shares; or
  - (C) the release of any of the Company's obligations under any contract to repurchase shares of the Company;

shall be made out of the Company's distributable profits.

Shares redeemed or repurchased by the Company shall be cancelled and the amount of the Company's registered capital shall be reduced by the par value of those shares accordingly. The amount which has been deducted from the distributable profits and which has been used for repurchasing the nominal value of the shares shall be credited to the capital surplus reserve fund account.

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in a newspaper within 30 days thereof. Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 90 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide corresponding security in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of capital.

**(L) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(M) Dividends and other methods of distribution**

Unless otherwise resolved at a shareholders' general meeting, the board of directors as authorised by shareholders in general meeting has the authority to distribute profits of the Company.

The Company may distribute dividends by way of cash dividends and/or bonus shares.

Cash dividends and other distributions payable on Domestic Shares shall be paid in Renminbi. Cash dividends and other distributions payable in respect of H Shares shall be declared in Renminbi and payable in Hong Kong dollars in accordance with relevant provisions of foreign exchange control of the State.

When distributing dividends, the Company shall make such withholdings for income tax from dividends payable to shareholders as may be required in accordance with PRC tax law.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of H Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong.

There is no stipulation of any time limit after which any entitlement to dividends lapses.

**(N) Proxies**

Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the shareholder to speak at the meeting;
- (ii) have authority to demand or join in demanding a poll; and
- (iii) have the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a company either under seal or under the hand of a director or attorney duly authorised. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notorially certified copy of that power of attorney or other authority shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the meeting or adjourned meeting at which the proxy proposes to vote or the time appointed for the taking of the poll.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favour of or against each resolution dealing with the business to be transacted at the meeting. Such a form shall contain a statement that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the

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principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting or adjourned meeting at which the proxy is used.

**(O) Calls on Shares and forfeiture of Shares**

There are no provisions in the Articles relating to the making of call on Shares or for the forfeiture of Shares.

**(P) Inspection of register of shareholders and shareholders' other rights to information**

The ordinary shareholders of the Company shall enjoy the following rights:

- (i) to receive dividends and other distributions in proportion to the number of Shares held;
- (ii) to attend or appoint a proxy to attend on his behalf shareholders' general meetings and to vote thereat;
- (iii) to supervise the business operations and activities of the Company and to give advice or raise questions;
- (iv) to transfer his Shares according to applicable laws, administrative regulations and the provisions of the Articles of Association;
- (v) to receive any relevant information in accordance with the Articles of Association;
- (vi) to participate in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of Shares held;
- (vii) other rights conferred by the Articles of Association and the relevant laws and regulations.

The right of the shareholders to information includes, without limitation, the following:

- (i) the right to a copy of the Articles of Association for a charge to cover units fee;
- (ii) the right to inspect and copy for reasonable charges:
  - (a) all parts of the register of shareholders;
  - (b) particulars of Directors, Supervisors, manager and other senior management officers of the Company including:
    - (1) his present forename and surname and any former forename or surname and any aliases;
    - (2) his principal residential address;
    - (3) his nationality;

- (4) his primary and all other business occupations; and
  - (5) his identification document and its number.
- (c) the state of the Company's share capital;
  - (d) reports showing the number and par value of Shares repurchased by the Company since the end of the last financial year, the aggregate amount paid by the Company for the Shares repurchased and the maximum and minimum price paid in respect of each class of Shares repurchased; and
  - (e) minutes of shareholders' meetings.

**(Q) Quorum for shareholder's meetings and class meetings**

A shareholder proposing to attend a shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a shareholders' general meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting reaches half of the total number of shares of the Company carrying the right to vote, then the Company may hold the shareholders' general meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholder's general meeting.

The above procedure applies mutatis mutandis to shareholders of the relevant class of shares in respect of class meetings.

**(R) Rights of minority shareholders in relation to fraud or oppression**

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which H Shares of the Company are listed, a Controlling Shareholder (defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or part of the shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve a Director or Supervisor (for his own benefit or for the benefit of another person) taking in any manner, the Company's assets, including without limitation, opportunities beneficial to the Company; or
- (iii) to approve a Director or Supervisor (for his own benefit or for the benefit of another person) taking the individual rights of other shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a restructuring of the Company submitted to the shareholders for approval in accordance with the Articles.

For these purposes, a “Controlling Shareholder” means a person who satisfies any one of the following conditions:

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;
- (ii) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he alone or acting in concert with others holds 30% or more of the Shares of the Company;  
or
- (iv) he alone or acting in concert with others in any other manner controls the Company in fact.

**(S) Shareholders’ rights relating to, and procedures on, liquidation**

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) where the shareholders’ general meeting resolves that the Company should be dissolved;
- (ii) where dissolution is necessary as a result of the merger or division of the Company;
- (iii) where the Company is declared insolvent according to law because it is unable to pay its debts as they fall due;
- (iv) when the Company is ordered to be closed down by reason of its violation of laws or administrative regulations.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening a general meeting of shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i) above, it shall set up within 15 days thereof a liquidation team, the members of which shall be determined by an ordinary resolution passed in the general meeting; if the team has not been set up within the said period, its creditors may petition to the People’s Court for the designation of the members of the liquidation team so as to proceed with the liquidation thereof.

In the event the Company shall be dissolved under the provisions of (iii) above, the People’s Court shall form a liquidation team comprising of the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (iv) above, the relevant competent authorities shall form a liquidation team comprising of the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof. Upon the passing of a resolution to liquidate the Company, all powers of Directors shall cease. The liquidation team shall:

- (i) not less than once each year report to the shareholders on the team's receipts and payments, the business of the Company and the progress of liquidation;
- (ii) present a final report to the shareholders' general meeting on completion of the liquidation; and
- (iii) comply with the instructions from shareholders in general meeting.

**(T) Other provisions material to the Company or its shareholders**

(i) *Scope of Business*

The major scope of the Company's operations include the provision of ground safety service to domestic and foreign air transport enterprises and travellers; the leasing of self-owned housing and aeronautical commercial premises within the airport; external investments.

(ii) *Effect of the Articles of Association*

The Articles of Association have become effective upon approval by the approving department authorised by the State Council. From the date when the Articles of Association take effect, the Articles of Association constitute a legally binding document regulating the relationship between the Company and each shareholder and among the shareholders. A shareholder may bring an action against the Company and vice versa and against each other or against the Directors, Supervisors, managers or other senior management officers in respect of rights and obligations concerning the affairs of the Company arising out of the Articles of Association. For these purposes, actions include court proceedings and arbitration proceedings.

(iii) *Legal form of the Company*

- (a) The Company is a joint stock limited company. It is an independent legal entity, governed and protected by laws, regulations and other governmental provisions of PRC.

The Company has perpetual existence unless and until terminated and liquidated in accordance with the Articles of Association.

The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of its capital contribution. The Company shall not become a shareholder with unlimited liability of any other economic bodies.



(b) Shares and transfers.

Upon approval by the State Council securities regulatory authority, the Company may issue Domestic Shares and Foreign Shares. Foreign Shares are subscribed by foreign investors (including investors from the regions of Hong Kong, Macau and Taiwan) in foreign currencies. Domestic Shares are subscribed for in Renminbi by investors within the PRC other than investors from the territories referred to above.

Foreign Shares listed overseas are known as overseas listed foreign shares (including, but not limited to H shares). H shares are foreign shares listed on the Stock Exchange, which are subscribed for and traded in Hong Kong dollars.

Save as otherwise provided in the Articles, holders of Domestic Shares and holders of Foreign Shares shall enjoy the same rights and assume the same obligations. The rights and obligations in respect of the Company enjoyed and assumed by shareholders shall be limited to the extent of the number of Shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.

The total amount of Shares to be issued by the Company under the Articles of Association as currently constituted shall be not less than 500,000,000 Shares and shall not exceed 518,750,000 Shares including (i) 375,000,000 promoter Shares already in issue at the time of establishment of the Company; and (ii) not less than 125,000,000 and not more than 143,750,000 overseas listed foreign shares.

The Company may, based on its business development requirements and in accordance with the Articles, increase its total registered capital. The increase in registered capital may be effected by the following methods:

- (1) by an issue of new shares to unspecified investors;
- (2) by a placing of new shares to the existing shareholders;
- (3) by a bonus issue of shares to the existing shareholders; and
- (4) by any other method authorised by law and/or administrative regulations.

Any increase or alteration of the registered capital of the Company shall be effected in accordance with the Articles and procedures required by laws and administrative regulations of PRC. The actual registered capital of the Company shall be determined with reference to the actual funds contributed. The Company shall file the figure of actual registered capital to the State Council's company scrutinising and approving body for record upon all capital becoming available.

(iv) *Legal notices*

Notices, information and written statements to be given by the Company to holders of H Shares must be served on the H Shareholders by delivery to the registered address of each H Shareholder or by post addressed to each H Shareholder at the address shown in the register of shareholders. Notices to be given by the Company to holders of Domestic Shares shall be published in one or more publications specified by PRC securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received such notice.

Where a notice is sent by post, the notice shall be deemed to have been effected by properly addressing, prepaying and posting the letter containing the notice and which shall be deemed to have been effected 48 hours after the letter containing the same is posted.

(v) *Shareholders' obligations*

Ordinary shareholders of the Company shall assume the following obligations:

- (a) to abide by the Articles of Association;
- (b) to pay subscription monies according to the number of Shares subscribed and the method of subscription; and
- (c) other obligations imposed by the Articles and relevant laws and regulations.

(vi) *Company secretary*

The Company shall have one Secretary of the Board. The secretary is a senior management officer of the Company.

The secretary shall be a natural person who has the requisite professional knowledge and experience appointed by the Board. The management staff of the controlling shareholder shall not concurrently hold the office of the Secretary.

If the Company shall have two secretaries, they shall be respectively responsible for the Company's affairs in the PRC and in Hong Kong. However, any one of them shall have all the powers to act alone as the Company secretary. The secretary responsible for the PRC's affairs shall be mainly responsible for ensuring that the constitutional documents and records of the Company are in order, that the necessary reports and documents are prepared and submitted to relevant PRC authorities in accordance with the laws, that the register of shareholders of the Company is properly maintained and that persons entitled to records and documents of the Company are furnished with such records and documents without delay.

The secretary who is responsible for Hong Kong's affairs shall be mainly responsible for reporting and submitting relevant information and documents to the Stock Exchange in accordance with the Hong Kong Listing Rules, preparing various documents in connection with the shareholders' general meetings and meetings of Board and submitting to the registrar of companies in Hong Kong documents relating to the Company in accordance with the instructions of the Board.

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Where the Company has only one secretary, he shall undertake all the above mentioned responsibilities of the secretary for both PRC and Hong Kong affairs.

### *(vii) Supervisory committee*

The Company shall have a supervisory committee. The supervisory committee is the Company's standing internal supervisory organ. Its responsibilities are to exercise supervision over the Board and its members and other senior management officers to prevent any abuse of powers, infringement of the legitimate rights of the Company, its shareholders and workers.

The supervisory committee shall comprise of three members (each a "Supervisor"). External Supervisors (being supervisors not internally employed by the Company, such term having the same meaning as hereinafter appearing) shall account for more than one-half in number of members of the supervisory committee, of which there shall be at least two independent Supervisors (being Supervisors independent from the shareholders of the Company and not internally employed by the Company, such term having the same meaning as hereinafter appearing).

Two-thirds of members of the supervisory committee shall be representatives of shareholders (including persons qualified to be an external Supervisor and an independent Supervisor) and the remaining Supervisors shall be representatives of the staff and workers of the Company.

The supervisory committee is accountable and reports to shareholders in general meetings and shall exercise the following powers:

- (1) to examine the Company's financial affairs;
- (2) to supervise the Directors, managers and other senior management officers to see whether they violate any laws, regulations or the Articles in performing their duties;
- (3) to require the Directors, managers and other senior management officers to rectify their acts which are harmful to the Company;
- (4) to verify financial reports, business reports, profit distribution plans and such other information proposed to be tabled at a shareholders' general meeting and to appoint, in the name of the Company, a registered accountant or practising auditor to assist in reviewing them should any queries arise;
- (5) to propose to convene extraordinary general meetings of shareholders;
- (6) to represent the Company in negotiating with any Director or in initiating legal proceeding against any Director; and
- (7) other powers as stipulated in the Articles.

Supervisors are entitled to observe Board meetings. The supervisory committee may opine on the appointment of the accounting firm of the Company, and where necessary, may separately appoint an accounting firm in the name of the Company to audit the accounts of the Company,

and may directly report to the securities supervisory and regulatory body of the State Council and to other relevant departments. The election or removal of the chairman of the Supervisory Committee shall be decided by two-thirds or more of the Supervisors. Decisions of the Supervisory Committee shall be made by the affirmative note of two-thirds or more of the Supervisors.

External supervisors shall report independently to the shareholders' general meeting in relation to the performance of diligence and honesty of the Company's senior management staff.

*(viii) Qualification of Directors, Supervisors, manager and other senior management officers*

The management staff of the controlling shareholder shall not concurrently hold the office of the Company's manager, assistant manager, financial controller, sales controller or Secretary.

*(ix) Dispute resolutions*

If any dispute or claim arise in relation to the Articles of Association or any rights or obligations conferred by any laws or regulations or the affairs of the Company between (A) a holder of foreign shares and the Company; (B) a holder of foreign invested shares and a Director, Supervisor, manager or other senior management officer of the Company; or (C) a holder of foreign shares and a holder of Domestic Shares, such dispute or claim shall, unless otherwise provided in the Article of Association, be submitted for arbitration, at the option of the applicant, by either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules.

Where a dispute or claim described above is submitted for arbitration, such dispute or claim shall be in its activity, and all persons (being shareholders of the Company Directors, Supervisors, managers or other senior management officers of the Company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the settlement of such dispute or claim shall abide by arbitration. The award of the arbitration shall be final and binding on each party.

Unless otherwise provided in laws and administrative regulations, any disputes or claims referred to above shall be resolved in accordance with the laws of the PRC.

Commerce & Finance Law Offices, the Company's legal advisers on PRC laws, has sent to the Company a letter confirming that, inter alia, they have reviewed the summary of the Articles of Association and that in their opinion, such summary is a correct summary of the Company's Articles of Association.

**4. PRC LEGAL MATTERS**

Commerce & Finance Law Office, the Company's legal adviser on PRC law, has sent to the Company a letter dated 31st July, 2000 confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between Hong Kong company law and the Company Law in so far as they relate to PRC law as contained in this Appendix, the summary of PRC taxation laws and the summary of PRC foreign exchange laws and regulations contained in Appendices III and IV, respectively, and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This letter is available for inspection as referred to in the section headed "Documents Delivered and Available for Inspection" in Appendix VIII.

Any person wishing to have detailed advice on PRC laws and the laws of any jurisdiction is recommended to seek independent legal advice.

This Appendix sets out a summary of the principal provisions of the articles of association of the Staff Shareholding Association (the “SSA Articles”) which were adopted by the Company on 19th July, 2000. A copy of the full text of the SSA Articles (in Chinese) is available for inspection as mentioned in the section headed “Documents delivered to the Registrar of Companies and documents available for inspection” in Appendix VIII.

**(a) Members of the Staff Shareholding Association**

Members of the Staff Shareholding Association (“Members”) are persons having employment relationship with the Company and have subscribed in cash (or by other legal means) for the Company’s domestic shares through the Staff Shareholding Association (the “Association”).

Rights conferred on Members include: right of entitlement to dividends according to their respective investment contribution to the Association; right to participate and vote at Members’ general meeting; right to appoint and replace members of the management committee; right to inspect the records relating to the financing, investment, allocation policies of the Association and other related records; and right to participate in the assets of the Staff Shareholding Association upon its dissolution or insolvency.

The Members shall be bound by the Articles of Association, the SSA Articles and other regulations of the Association and be liable for the liabilities of the Association for an amount up to their respective investment contribution. No member may withdraw its investment contribution or transfer his/her interest in the Association without the prior approval of the Association.

**(b) Aggregate share capital of the Association**

The Association, being one of the Promoters of the Company, has contributed, in cash, to an amount of RMB5,000,000, representing 38.46 per cent. of the total share capital of the Company (before the completion of the Capitalisation Issue and the Placing).

The shareholding of the Association in the Company may be further increased under the following circumstances: (i) the Association subscribing for further Domestic Shares issued by the Company in a rights issue; (ii) the Association purchasing Domestic Shares from other shareholders of the Company; (iii) capitalisation issue from the Company’s reserve funds; or (iv) a bonus issue of Domestic Shares by the Company.

**(c) Financing and investment strategies of the Association**

The maximum amount of funds to be raised by the Association from the Members shall not exceed 50 per cent. of the total share capital of the Company and the funds raised therefrom may only be used to invest in the Company and must not be used to invest in other companies or to purchase shares or securities of other companies. Any investment income of the Association’s may only be employed for the following three purposes, namely for the distribution of dividends to the Members, purchase of the Domestic Shares from other shareholders of the Company or to subscribe for the new Domestic Shares to be issued by the Company.

**(d) Organisational structure and regulations of the Association**

The Members' meeting is the final decision-making body of the Association, which has, among others, the power to amend the SSA Articles and to approve the annual financial statements of the Association. The Members' meeting shall be held twice a year, one before and one after the annual shareholders' meeting of the Company.

The Association shall establish a management committee comprising 3 to 5 persons to be elected by the Members. The management committee is primarily responsible for the administration of the Association including the management of the investment contributions received from the Members, and the payment of dividend to Members. The manager of the management committee shall act as the Association's representative and to attend, on behalf of the Association, the shareholders' meetings of the Company. Members of the management committee hold office for an initial term of 3 years, and will be eligible for re-election.

**(e) Management of the Domestic Shares held by the Members**

In case a Member ceases to be an employee of the Company by reason of retirement or dismissal by the Company, the Association may acquire from such Member his interest in the Domestic Shares held by the Association on his behalf. However, the Association has a discretion to waive this right if in its view such employee is to be considered as a promoter of the Company or has made significant contribution to the Company.

The Association shall appoint a financial controller to maintain records of the Members' investment contribution, dividend distribution and allocation of new Domestic Shares of the Company. The financial controller shall also draw up an annual financial report reflecting the same.

**(f) Liquidation**

The Association may be dissolved and proceed to liquidation under the following circumstances:—

- (i) by Members' resolution in general meeting;
- (ii) by the Company shareholders' resolution;
- (iii) bankruptcy of the Company;
- (iv) the merger of the Company with another entity or its subdivision; or
- (v) pursuant to a legal requirement to dissolve.

Upon liquidation or dissolution of the Association, its assets shall be distributed in accordance with “關於設立職工持股會的試點方法” (The Trial Methods Concerning the Establishment of Employees' Shareholding Union) in force in Shanghai and “中華人民共和國民法通則” (The Civil Law General Principles of the PRC”).

In case of liquidation in accordance with (i) above, the Company's shareholders shall resolve that (a) the status of the Members be converted to that of promoters of the Company; or (ii) their interest in the Domestic Shares be transferred to the other promoters of the Company.

## 1. THE COMPANY

The Company was established as a joint stock limited company in the PRC under the Company Law on 10th July, 1998 with the Staff Shareholding Association, Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, Mr. Jiang Guoxing and Mr. Shi Lei as promoters.

The business address of the Company is at 7th Floor, East Tower, Shanghai Integrated Circuit Centre (ICC) Qun Fang District, No. 668 Beijing East Road, Huang Pu District, Shanghai, the PRC. The Company has established a place of business in Hong Kong at 2/F, K.C. Commercial Building, 19 Hennessy Road, Hong Kong and has submitted an application to be registered as an overseas company under Part XI of the Companies Ordinance. Such application contains a notice of appointment of Mr. Shaw Lut of 2/F., K.C. Commercial Building, 19 Hennessy Road, Hong Kong as its process agent for the acceptance of service of process in Hong Kong.

The establishment of the Company and the conversion of the Company into a public subscription company involved the following procedures and approvals:

- (a) On 4th June, 1998, Shanghai Municipal People's Government issued an approval (AFTGS [1998] No.050) confirming that the Company has been approved to be established by means of promotion.
- (b) On 8th June, 1998, the inaugural meeting of the Company was held whereby the initial articles of association of the Company were adopted and the initial directors and supervisors of the Company were appointed.
- (c) On 18th March, 1999, the Shanghai State Administration of Industry and Commerce issued the business licence of the Company (registration number: 3100001005424) whereby the Company was incorporated as a company limited by shares and with the status of an enterprise legal person under PRC law.
- (d) The Company had a registered share capital of RMB10,000,000 on incorporation, made up of 10,000,000 Domestic Shares of nominal value RMB1.00 each, of which 3,700,000 Domestic Shares were issued to Fudan High Tech, 1,600,000 Domestic Shares were issued to Shanghai Commerce and Investment, 1,200,000 Domestic Shares were issued to Shanghai Pacific, 500,000 Domestic Shares were issued to Shanghai Gaozhan Consultancy, 500,000 Domestic Shares were issued to Ningbo Lirong, 2,000,000 Domestic Shares were issued to the Staff Shareholding Association and 250,000 Domestic Shares were issued to each of Mr. Jiang Guoxing and Mr. Shi Lei.
- (e) On 10th September, 1999, the Shanghai Commission for Restructuring the Economic System approved the increase in the registered share capital of the Company. The registered share capital of the Company was then increased from RMB10,000,000 to RMB13,000,000 by the creation of 3,000,000 Domestic Shares of nominal value RMB1.00 each. The additional Domestic Shares were subscribed for in cash at RMB1.02 per share by the Staff Shareholding Association.
- (f) On 2nd November, 1999, BOCI Asia submitted an application to the CSRC for the approval of the issuing and the listing of the H Shares on the GEM.



- (g) On 12th February, 2000, the CSRC issued an approval (ZJFXZ [2000] No.4) consenting to the Company proceeding with the issue of H Shares and applying for the listing of the H Shares on the GEM.
- (h) On 1st April, 2000, the Company submitted an application to the CSRC for the approval of the sub-division of the Company's shares from one share of nominal value of RMB1 each into ten shares of RMB0.10 each.
- (i) On 17th April, 2000, the CSRC issued an approval (ZJFXZ [2000] No.46) confirming that the Company's proposed sub-division of shares referred to in paragraph (h) above has been approved.
- (j) On 19th July, 2000, the Company convened a shareholders' extraordinary meeting, at which it was resolved that:
  - (i) the Company be converted into a public subscription company;
  - (ii) each share in the Company of nominal value RMB1.00 be sub-divided into ten shares of nominal value RMB0.10 each;
  - (iii) after such sub-division, the 130,000,000 shares in issue be classified as Domestic Shares and the 125,000,000 shares to be issued pursuant to the Placing (and the maximum of 18,750,000 further shares that may be issued pursuant to the exercise of the Over-allotment Option) be classified as overseas listed foreign invested shares (or H Shares);
  - (iv) 125,000,000 H Shares be issued pursuant to the Placing and a maximum of 18,750,000 further H Shares be issued pursuant to the exercise of the Over-allotment Option in connection with the Placing;
  - (v) the Placing be approved;
  - (vi) the Directors were authorised to adopt the new Articles of Association dated 19th July, 2000 subject to any changes required by the competent PRC authorities, and any increase in the registered share capital of the Company as a result of the exercise of the Over-allotment Option; and
  - (vii) the Directors were authorised to approve, execute and sign any documents and take any other necessary actions in connection with the Placing;

- (viii) it was resolved that conditional on the share premium account of the Company being credited as a result of the Placing, a total of RMB24,500,000 of such amount credited was to be capitalised and applied in paying up in full 245,000,000 Domestic Shares in total for allotment and issue to the following shareholders in the following proportions:

<b>Shareholder</b>	<b>Amount capitalised (RMB)</b>	<b>Number of Domestic Shares to be allotted and issued</b>
Fudan High Tech	6,973,000	69,730,000
Shanghai Commerce and Investment	3,016,000	30,160,000
Shanghai Pacific	2,262,000	22,620,000
Shanghai Gaozhan Consultancy	942,000	9,420,000
Ningbo Lirong	942,000	9,420,000
Staff Shareholding Association	9,423,000	94,230,000
Mr. Jiang Guoxing	471,000	4,710,000
Mr. Shi Lei	471,000	4,710,000
	<u>24,500,000</u>	<u>245,000,000</u>

- (k) On 19th July, 2000, a meeting of the board of Directors was held, at which, inter alia:
- (i) Mr. Jiang Guoxing was appointed as Chairman of the board of Directors;
  - (ii) Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Ms. Cheng Junxia and Mr. Wang Su were elected as executive Directors;
  - (iii) Mr. Chen Xiaohong, Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu were elected as non-executive Directors;
  - (iv) Mr. David Yung and Mr. Leung Tin Pui were appointed as independent non-executive Directors;
  - (v) Mr. Li Wei, Mr. Ding Shengbiao and Mr. Xu Lenian were appointed as Supervisors;
  - (vi) Mr. Li Wing Sum, Steven was appointed as the company secretary of the Company;
  - (vii) Mr. Wang Su was appointed as the compliance officer of the Company in accordance with the requirements of the GEM Listing Rules;
  - (viii) Mr. Li Wing Sum, Steven was appointed the qualified accountant of the Company in accordance with the requirements of the GEM Listing Rules;
  - (ix) Mr. Shi Lei and Mr. Wang Su were appointed as the Company's authorised representatives in accordance with the requirements of the GEM Listing Rules; and
  - (x) an audit committee comprising Mr. David Yung and Mr. Leung Tin Pui was appointed in accordance with the requirements of the GEM Listing Rules.

## 2. SUBSIDIARIES AND JOINT VENTURE ARRANGEMENTS

The Company does not presently have any subsidiary or any shareholding or investment in any other company or entity or any interest in any joint venture company.

## 3. DISCLOSURE OF INTERESTS

### (a) Director's Service agreement

Each of the executive Directors has entered into a service agreement with the Company, in each case with effect from 19th July, 2000. Each service agreement is for an initial term of 3 years from the date of appointment (subject to the right of termination in certain circumstances such as material breach of obligations) and shall continue thereafter unless terminated by three months' prior written notice to be given by either party to the other without payment of compensation.

The executive Directors, Supervisors and other senior managers may be granted cash bonus with reference to the profitability of the Company upon the Board's approval (which the interested Directors shall abstain from voting). The executive Directors and the Supervisors shall be entitled to welfare benefits in accordance with the relevant PRC laws and regulations (including retirement benefit and medical insurance). Non-executive Directors are not entitled to any cash bonus. Each Supervisor will receive an annual salary as specified below. The Supervisors will not be paid any benefits in kind other than those generally available to other employees.

The salaries and benefits in kind paid by the Company to the executive and non-executive Directors for the year ended 31st December, 1999 were as follows:

	<i>RMB</i>
<b>Executive Directors</b>	
Jiang Guoxing	—
Shi Lei	87,000
Yu Jun	95,000
Cheng Junxia	92,000
Wang Su	82,000
<b>Non-executive Directors</b>	
Chen Xiaohong	—
Zhang Qianling	—
He Lixing	—
Shen Xiao Zu	—

The salaries and benefits in kind paid by the Company to the Supervisors for the year ended 31st December, 1999 were as follows:

	<i>RMB</i>
Li Wei	91,000
Ding Shengbiao	57,000
Xu Lenian	—

Each of the independent non-executive Directors has signed a letter of appointment with the Company. Each letter of appointment is for a term of one year from 19th July, 2000 up to 18th July, 2001.

(b) *Directors' remuneration*

Under the current arrangements, the Directors will be entitled to receive remuneration for the period ending 31st December, 2000 which is expected to be approximately RMB922,000 in aggregate.

So far as the Directors are aware, the following persons will, immediately following the completion of the Capitalisation Issue and the Placing, be interested in a total of 375,000,000 Domestic Shares, representing approximately 75% of the Shares carrying rights to vote in all circumstances at general meetings of the Company (approximately 72.23%, if the Over-allotment Option is exercised in full).

<b>Shareholders</b>	<b>Number of Domestic Shares held</b>
Staff Shareholding Association	144,230,000
Fudan High-Tech	106,730,000
Shanghai Commerce and Investment	46,160,000
Shanghai Pacific	34,620,000
Shanghai Gaozhan Consultancy	14,420,000
Ningbo Lirong	14,420,000
Mr. Jiang Guoxing ( <i>Note</i> )	7,210,000
Mr. Shi Lei ( <i>Note</i> )	7,210,000

*Note:*

Apart from the Domestic Shares held in each of Mr. Jiang Guoxing's and Mr. Shi Lei's own name, they are interested in an additional 1,442,300 and 12,980,000 Domestic Shares respectively held through the Staff Shareholding Association.

(c) *Directors' interests in the share capital of the Company*

Immediately following the completion of the Capitalisation Issue and the Placing and assuming that the Over-allotment Option is not exercised, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the H Shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register

referred to therein, once the H Shares are listed, or pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed will be as follows:

<b>Directors</b>	<b>Personal interest</b>	<b>Interests held through the Staff Shareholding Association</b>
Jiang Guoxing	7,210,000	1,442,300
Shi Lei	7,210,000	12,980,000
Yu Jun	—	10,961,530
Cheng Junxia	—	8,076,920
Wang Su	—	7,211,530
Chen Xiaohong	—	7,211,530
Zhang Qianling	—	1,733,650
He Lixing	—	1,442,300
Shen Xiaozu	—	1,442,300
	<u>14,420,000</u>	<u>52,502,060</u>

(d) Save as disclosed herein, but taking no account of any H Shares which may be taken up under the Placing, the Directors are not aware of any legal person or individual who will, immediately following the completion of the Capitalisation Issue and the Placing, be directly or indirectly interested in 10% or more of the Shares then in issue (assuming that the Over-allotment Option is not exercised).

<b>Party interested in Shares</b>	<b>Number of Domestic Shares directly or indirectly interested</b>	<b>Percentage of registered share capital (assuming the Over-allotment Option is not exercised)</b>
Staff Shareholding Association ( <i>Note 1</i> )	144,230,000	28.85
Fudan University ( <i>Note 2</i> )	106,730,000	21.35
Fudan High Tech ( <i>Note 2</i> )	106,730,000	21.35
Shanghai Commerce and Investment ( <i>Note 3</i> )	95,200,000	19.04

*Notes:*

- (1) The Staff Shareholding Association is constituted by members consisting of the executive and non-executive Directors, the Supervisors, certain of the Company's employees and ex-employees, various employees of University Laboratory and Shanghai Commerce and Investment, as well as various individuals engaged in technological co-operation with University Laboratory.
- (2) The shareholding in which Fudan University is interested is held through Fudan High Tech which is wholly-owned by Fudan University.
- (3) Of the 19.04% shareholding in which Shanghai Commerce and Investment is interested, 9.23% is held in its own name, 6.92% is held by Shanghai Pacific, a wholly-owned subsidiary of Shanghai Commerce and Investment, and 2.89% is held by Ningbo Lirong, a 74.3% owned subsidiary of Shanghai Commerce and Investment.

(e) Save as disclosed in this Prospectus:

- (i) none of the Directors has any interest in any Shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, in each case once the H Shares are listed on GEM. For this purpose, the relevant provisions of the SDI Ordinance will be interpreted as if they applied to the Supervisors;
- (ii) none of the Directors or the Supervisors or any of the parties listed in paragraph 14 of this Appendix is interested in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;
- (iii) none of the Directors or the Supervisors or any of the parties listed in paragraph 14 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;
- (iv) none of the parties listed in paragraph 14 of this Appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in the Company;
- (v) none of the Directors or Supervisors has entered or proposes to enter into a service contract with Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (vi) no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such amount or benefit intended to be paid or given.

#### **4. AGENCY FEES OR COMMISSION RECEIVED**

The Underwriters will receive a commission of 3.5% of the aggregate Issue Price payable for the Placing Shares initially being placed pursuant to the Placing, out of which they will pay any sub-underwriting commission. Such commission, together with the Hong Kong Stock Exchange listing fees, the Hong Kong Stock Exchange transaction levy payable by the Company, legal and other professional fees, printing and other expenses relating to the Placing, are estimated to amount to approximately HK\$15,000,000 in aggregate. Subject to this, the aforesaid fees, commissions and expenses will be payable by the Company.

## 5. TAX INDEMNITY AND ESTATE DUTY

Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, the Staff Shareholding Association, Mr Jiang Guoxing and Mr Shi Lei (the “Indemnifiers”) have entered into a deed of indemnity (“indemnity”) with and in favour of the Company (being a material contract) that they will indemnify and keep the Company indemnified against any and all tax liability falling on the Company which might be payable by the Company in respect of any income, profits or gains earned, accrued or received on or before the date of the Underwriting Agreement.

The above indemnity shall not apply:

- (i) to the extent that provision has been made for such taxation in the audited accounts of the Group up to 31st December, 1999;
- (ii) where such liability has arisen as a result of any act or omission by the Company voluntarily effected otherwise than in the ordinary course of business after 31st December, 1999;
- (iii) for which the Company is liable as a result of any transaction entered into by it in the ordinary course of its business after 31st December, 1999; and
- (iv) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the date of the indemnity or to the extent that such claim arises or is increased by an increase in rates of taxation after the date of the indemnity with retrospective effect.

The Directors have been advised that the Company does not have any liability for estate duty under PRC law.

## 6. MATERIAL CONTRACTS



The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this prospectus and are or may be material:

- (a) a co-operation agreement dated 10th July, 1998 and entered into between University Laboratory and the Company whereby University Laboratory agreed to provide the Company with technical support and services in consideration of a fee of RMB200,000 in 1998 and RMB800,000 in 1999 (the agreement was terminated with effect from 8th March, 2000);
- (b) a co-operation agreement dated 8th March, 2000 and entered into between Fudan High Tech, University Laboratory and the Company whereby Fudan High Tech and University Laboratory agreed to second 12 members of staff to the Company and to grant the Company the right to use certain computer equipment for a term of 10 years commencing from 8th March, 2000 in consideration of an annual fee of RMB800,000;
- (c) the Underwriting Agreement;

- (d) a deed of indemnity dated 28th July, 2000 given by Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, the Staff Shareholding Association, Mr Jiang Guoxing and Mr Shi Lei in favour of the Company containing the indemnities in respect of taxation referred to in paragraph 5 of this Appendix; and
- (e) a sponsor's agreement dated 28th July, 2000 and entered into between the Company and the Sponsor relating to the requirement under Rules 6.01 and 11.09 of the GEM Listing Rules.

## 7. INTELLECTUAL PROPERTY RIGHTS

The intellectual property rights which are currently registered in the name of the Company are set out in the table below. The Company has applied for or has registered the following trademarks with the Trademarks Bureau of the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理局商標局).

	Place of registration	Class	Registration period	Products covered
	PRC	9	pending	Integrated circuits, computer software, computer, analog circuit, comparators, digital circuit, DSP, MCU and MPR.
	PRC	9	14th October, 1997 to 13th October, 2007	Integrated circuits, computer software, computer, analog circuit, comparators, digital circuit, DSP, MCU and MPR.

The Company has applied for the registration of a patent relating to a telephone anti-interference device at the Patents Bureau of the PRC (中國專利局) and approval of such application is pending.

## 8. LITIGATION

The Company is not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against the Company.

## 9. SPONSOR

BOCI Asia has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the H Shares.

In accordance with the requirements of the GEM Listing Rules, BOCI Asia has agreed to provide advisory services to the Company to ensure compliance with the GEM Listing Rules. The Company has agreed to pay an annual fee for such services.



## 10. NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial position or prospects of the Company since 31st December, 1999 (being the date to which the latest audited financial statements of the Company were made up).

## 11. MISCELLANEOUS

(a) Save as disclosed in this Prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no founders, management or deferred shares of the Company have been issued or agreed to be issued; and
- (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company;

(b) the preliminary expenses of the Company incurred are approximately RMB200,000 and are payable by the Company;

(c) the promoters in connection with the establishment of the Company under the Company Law were Fudan High Tech, Shanghai Commerce and Investment, Shanghai Pacific, Shanghai Gaozhan Consultancy, Ningbo Lirong, the Staff Shareholding Association, Mr. Jiang Guoxing and Mr. Shi Lei; no amount or benefit has been paid or given within the two years preceding the date of this prospectus to the Promoters in connection with the Placing or any related transactions described in this prospectus nor is any such amount intended to be paid or given;

(d) none of BOCI Asia, Ernst & Young, Commerce and Finance Law Office and Vigers Hong Kong Limited nor any of their respective director, employee and associate:

(i) is interested legally or beneficially in any Shares; or

(ii) has any right or option to subscribe for or nominate persons to subscribe for any Shares;

(e) following the completion of the Placing, the Company intends to consider with its PRC legal adviser as to whether to apply for the status of sino-foreign joint stock limited company under PRC law; and

(f) the Directors confirm that there has not been any interruption in the business of the Company which has had a material adverse effect on the financial position of the Company in the 24 months preceding the date of this prospectus.

**12. BINDING EFFECT**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**13. CONSENTS**

Ernst & Young, as the Company's independent auditors, Commerce and Finance Law Office, as the Company's legal adviser on PRC law, and Vigers Hong Kong Limited, as the Company's independent property valuers, have given and have not withdrawn their respective consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

**14. QUALIFICATION OF EXPERTS**

The qualification of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified public accountants
Vigers Hong Kong Limited	Chartered surveyors and independent valuers
Commerce and Finance Law Office	Licensed PRC legal advisers on PRC law

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents” in Appendix VII, the material contracts referred to in the paragraph headed “Material Contracts” in Appendix VII and a copy of the statement of adjustments referred to in paragraph headed 2(d) of this Appendix.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents (together with the certified English translation (if required)) will be available for inspection at the offices of Chao and Chung during normal business hours at 26th Floor, Asia Pacific Finance Tower, Citibank Plaza, 3 Garden Road, Hong Kong up to and including 14th August, 2000:

- (a) the Articles of Association of the Company;
- (b) the articles of association of the Staff Shareholding Association;
- (c) the accountants’ report on the Company prepared by Ernst & Young, the text of which is set out in Appendix I;
- (d) the statement of adjustments in respect of the accountants’ report on the Company prepared by Ernst & Young;
- (e) the letter, summary of valuation and valuation certificate relating to the property interests of the Company prepared by Vigers Hong Kong Ltd., the texts of which are set out in Appendix II;
- (f) the PRC legal opinion dated 31st July, 2000 issued by Commerce and Finance Law Offices, the legal advisers to the Company on PRC laws;
- (g) the material contracts referred to in the paragraph headed “Material Contracts” of Appendix VII;
- (h) the service agreements referred to in the paragraph headed “Disclosure of Interests” of Appendix VII;
- (i) the written consents referred to in the paragraph headed “Consents” of Appendix VII;
- (j) the Company Law, the Special Regulations and the Mandatory Provisions together with their unofficial English translations; and
- (k) the PRC audited financial statements of the Company for the period from 10th July, 1998 to 31st December, 1998 and the year ended 31st December, 1999.