



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



Annual Report 2002

* for identification only

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CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board of directors, I hereby present the annual results of Shanghai Fudan Microelectronics Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2002.

OBJECTIVE

The Company's principal business objective is to lead the IC design and system integration business in the People's Republic of China (the "PRC") and to become one of the major Application Specific Integrated Circuits ("ASIC") design companies in the world. The Company, with its special "fabless" mode of operation, supports from the Shanghai Fudan University, the collaboration with ASIC and System State-Key Laboratory together with its own sophisticated management team and design professionals, has maintained a renowned and leading position in the industry. The Company will be aggressive in the research and development on system on chip ("SOC") in order to widen the scope of products and increase revenue contribution.

RESULTS

For the year ended 31 December 2002, the Group recorded a turnover of approximately RMB62,003,000 (2001: RMB44,133,000), an increase of approximately 40% as compared to last year. The audited loss attributable to shareholders was approximately RMB7,135,000, increased by approximately 424% as compared with RMB1,362,000 recorded in previous year. The basic loss per share was RMB1.17 cents (2001: RMB0.26 cents) representing an increase by approximately 350% from the last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year 2002, the market remained affected by the fragility of the global economy, however, the depletion of excessive stocks of previous years in the electronics industry enabled the production of semi-conductors to show a slow growth. Under the slowdown of global economy, prices of electronic products have been decreased to maintain sales and competitiveness. Thousands of foreign IC products dumped into the PRC market with an average consequential desperate pricing amongst competitors. Despite these challenges, tough market conditions and decrease in profitability as a result of cuts in selling prices of some products, the Group still managed to achieve a stable growth in turnover with its quality IC design professionals, strong market promotion, flexibility in market strategy and continuous development and research of new products.

A majority of turnover and loss from operating activities of the Group was derived from the principal activities carried out in the PRC mainland. As a result of the continuous economy growth in the PRC, the Group's hard efforts in research and development and launching of new products to combat against decline in product prices, decrease of customs duties on imported goods and together with higher profit margin on new products, the Group's was enabled to achieve an increase in overall gross profit from 24.5% of last year to 28.8% this year. The enlarged loss in this year resulted from drop in interest income of approximately RMB1,012,000 which was caused by decrease in interest rate and there was no technical transfer income during the year as compared to RMB4,000,000 derived in the previous year. The increase in administrative expenses was mainly due to a jump in amortization of fixed assets as the Group had acquired many new equipment to cope with the rapid development in technologies and increase of products under research and development; the provision against doubtful debts for the year was approximately RMB1,022,000 and is slightly higher than last year. Moreover, because of the Group's long operating cycle in research and development and extra time taken for products to be accredited by related authorities, for sake of prudence, the Group has made provision of impairment on deferred assets and expensed certain research and development costs in accordance with relevant accounting standards, the Group's situation was further worsened by an increase of impairment loss of deferred development costs amounted to approximately RMB919,000 and research and development costs of approximately RMB1,622,000, respectively over the last year. Furthermore, the Group's results were deteriorated by the downturn in the business sector of an associate and share of its loss for the year amounted to approximately RMB2,637,000.



An analysis of the performances of the Group's various business streams during the year under review are as follows:

IC Card

IC card products are our core business and key development direction, the turnover of IC card products accounted for more than 50% of the Group's total turnover and this contribution was roughly the same as last year. Despite the decrease in selling price as a result of sales competition, however, sales were satisfactory due to increase in market demand, the Group is fully confident in the IC card business. The contactless IC card products launched during the year were well received by the market and will continue their contributions to the Group's turnover and profit in the coming year. To cope with technology development and market demands, the Group has commenced its research and development on SOC, the Group expects that upon the completion of the acquisition mentioned below under the paragraph "Future plans for material investments", the transformation of present products from a single chip to SOC would be expedited with a view to strengthen the Group's business in SOC applications.

Power Electronics and Consumer Electronics

Within the products of power electronics and consumer electronics, the sales in the markets of earth leakage current detector circuit and automatic power meter readers were quite satisfactory. Despite the undue pressure in selling prices, the turnover and sales volume of the overall products have achieved considerable increase, however, profit margin was dropped and there was only a slight increase in profit.

Motor and Mobile Electronics

The sales growth of motor and mobile electronic products has been slowed down, gross profits were dropped in relation to keen market competition and prices decrease. Despite the increase in volume of sales, the business was adversely affected.

CHAIRMAN'S STATEMENT

Telecommunication Electronics

The business of telecommunication electronics was operated by the Group's associate company, Shanghai Fudan Communication Co., Ltd. ("Fudan Communication"). Facing the stringent competition and rapid changes in technologies of the communication market, the business result was suffered with unexpected drops in sales, selling prices and profits, and has an adverse impact on the Group's results for the year. The business is expected to be operated under unfavourable conditions in the coming year.

SUBSIDIARY

During the year under review, the Group has incorporated a wholly-owned subsidiary in Hong Kong, namely Shanghai Fudan Microelectronics (HK) Limited. Its principal activities are developing and selling of IC products. Its business was commenced at the beginning of the year with business network covering Southeast Asia and North America and had a considerable contribution to the Group.

ASSOCIATE

During the year, the Group has invested in a 39%-owned associate, Fudan Communication. Through this, the Group has extended its business scope in SOC for telecommunication products.

FUTURE PLANS FOR MATERIAL INVESTMENTS

In the year under review, the Company has entered into an acquisition agreement with Shanghai Commercial Investment Enterprise Holdings Limited ("Shanghai Commercial Investment") in relation to the acquisition of a 53.8% controlling interest in Shanghai Commercial High Technology Development Limited ("Shanghai Commercial High Technology") for a cash consideration of RMB15,720,000. Further details are set out in the circular of connected transaction issued by the Company on 13 November 2002. As certain strategic investors in Shanghai have indicated their intention to invest in Shanghai Commercial High Technology together with the Company, the Company has recently entered into a supplementary agreement to extend the conditions fulfillment date for the acquisition agreement to 30 September 2003. The terms of investment are under negotiation between the Company and the said investors and the acquisition is expected to be completed by the end of 2003. The consideration for the acquisition will be financed by the proceeds received from the placing of new H shares during the year.

TECHNOLOGICAL COOPERATION

During the year, the Group enjoyed strong technical supports from the IC Engineering Technology Centre jointly operated with the Shanghai Fudan University and the ASIC System Laboratory which was co-operated with the University of Science & Technology of China.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2002, net assets of the Group amounted to approximately RMB226,056,000 (2001: RMB122,289,000). Current assets amounted to approximately RMB202,792,000 (2001: RMB104,712,000), of which approximately RMB144,877,000 (2001: RMB59,533,000) were cash and bank deposits. The Group has sufficient financial resources and good liquidity to meet its future development and expansion.

As at 31 December 2002, the Company has a fixed deposit of RMB4,346,000 secured for letters of credit issued by the Company (2001: nil). As at 31 December 2002, the Group has not pledged its assets to any third parties (2001: nil).

CAPITAL STRUCTURE

During the year, the Company issued 105,604,000 new H shares of RMB0.10 at a consideration of HK\$1.07 per share. Particulars of use of proceeds are set out in the section headed "Use of proceeds" below.

GEARING RATIO

As at 31 December 2002, the Group's current liabilities amounted to approximately RMB15,836,000 (2001: RMB10,688,000) and had no non-current liabilities (2001: nil). The net assets value per share of the Group was approximately RMB0.362 (2001: RMB0.236). The Group's ratio of current liabilities over current assets was approximately 7.8% (2001: 10.2%) and the gearing ratio was approximately 7% (2001: 8.7%) on the basis of total liabilities over net assets. As at 31 December 2002, the Group had no bank or other borrowings (2001: nil).

INTEREST AND FOREIGN EXCHANGE RISK

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

CAPITAL COMMITMENTS

As at 31 December 2002, the Group had capital commitments amounted to approximately RMB22,382,000 compared with approximately RMB4,055,000 of last year. The capital commitments relate to acquisitions of a property, a company and others.

CONTINGENT LIABILITIES

As at 31 December 2002, the Group has no contingent liabilities (2001: nil).

USE OF CAPITAL AND FUNDING

In addition to its initial public offering, the Company has issued new H shares in the year, therefore, the Group has sufficient working capital and will duly utilise in enhancing business development in accordance with its business objectives.



CHAIRMAN'S STATEMENT

STAFF

As at 31 December 2002, the Group employed approximately 228 (2001: 198) staff. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend. In accordance with the Company Law of the PRC and the Group's Articles of Association, the Group will allocate its reserves to the statutory public welfare fund as staff welfare.

The total staff costs of the Group charged to the income statement for the year ended 31 December 2002 amounted to approximately RMB5,391,000 (2001: RMB4,748,000).

PROSPECTS

If the aforesaid transaction related to the acquisition of Shanghai Commercial High Technology were approved by the independent shareholders and finalised, the Group would gain technological support from Shanghai Commercial High Technology by pooling its expertise into that of the Group in the research and development, manufacture and sales and marketing of the Group's IC products, in particular, the SOC. Furthermore, all of the investee companies of Shanghai Commercial High Technology are the downstream businesses of the Group's core IC card business, which are expected to deploy the IC products developed by the Group and to enlarge the Group's sales channels. Moreover, the directors expect that through the acquisition, the Group will greatly enhance its capability in integrating its chips and SOC and resulted with a positive impact.

With reference to the Company's announcement dated 31 December 2002 in respect of an acquisition agreement of a property located at the Yang Pu District of Shanghai, the PRC, the relevant title and registration of ownership will be completed shortly. Upon moving into the new office building, the Group will be enabled to centralize its operations and strengthen the cooperation and management of the group companies, and to save rental expenditure and other operating costs gradually.

In view of the continuing high growth in the China's economy and its huge market, the Group will remain focus on its core business and on the PRC domestic market. The Group expects to enhance its close contact with government authorities in order to expedite the penetration of its chip products and system into the related market, and to further improve its market presence as well as to strengthen its market position in the PRC.

With the increasing demand of IC products in the PRC market and the expansion of rooms in supply by domestic producers, the Group will continue to seek for cooperation opportunities with potential business partners with a view to achieve advanced technologies and business expansion opportunities. The directors expect that the overall business scope of the Group will be more diversified and its market presence will continue to grow.

APPRECIATION

I would like to take this opportunity to express my deepest gratitude to all my fellow directors, management and the staff members for their hard work, valuable contribution and support dedicated to the Group. Also, I would like to thank our shareholders, customers and business partners for their continued support.

Jiang Guoxing

Chairman

Shanghai, PRC, 25 March 2003

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual business progress for the year ended 31 December 2002

PRODUCT DEVELOPMENT

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

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

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

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

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.

With the extended connections built up by utilizing its know-how and experience in IC designs for telecommunication products, the Group has been cooperating with companies leading in systems to develop advanced IC for use in digital audio-visual 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.

Beside having full support from Fudan University, the Group has cooperated with the renowned University of Science & Technology of China in the PRC and set up an ASIC System Laboratory. At the same time, the Group has closely connected with other IC research organisations in the PRC to enhance the research and development of IC chips and thus maintaining a channel of human resource.



BUSINESS OBJECTIVES REVIEW

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

Actual business progress for the year ended 31 December 2002

MARKETING

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

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

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

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

To strengthen the market relationship, the Group's representative offices in Beijing and Shenzhen were under full operation. Also the Group has incorporated a subsidiary in Hong Kong for the exploration of overseas markets. The business connection of the Hong Kong subsidiary now covers the South East Asia and North America. In consideration of management and costs involved, new overseas sales offices will not be set up in the near future.

REVENUE

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

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

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

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

With solid foundation and extended connection, the Group has built up relationship with sales agents in the region and is now at the early stage of product training and promotion. The directors believe that revenue will be achieved gradually.

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

Actual business progress for the year ended 31 December 2002

COST

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

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

Research and development costs are estimated to amount to approximately HK\$12million (primarily for strengthening the researching and development capabilities of the representative office in Silicon Valley and researching advanced IC technology.)

Marketing costs are estimated to amount to approximately HK\$26 million.

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

During the year, approximately RMB14,200,000 was invested on the research and development of new products and acquisition of related software, which is less than budgeted. As the researches are still in its infancy, no operating costs are expected to occur at this moment, and before the completion of existing researches, development of all further new products will be closely monitored. Moreover, the delay of operation of research institution in the United States resulted in lesser expenditure than anticipated.

During the year, promotion expenses amounted to approximately RMB 4,200,000, which is lesser than estimation. This is mainly due to delay in operating of overseas office and efficient internal cost control.

USE OF PROCEEDS

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") in August 2000, after deduction of related issuance expenses, amounted to approximately RMB109,000,000. Details of use of proceeds as at 31 December 2002 are as follows:

- approximately RMB27.5 million was used for the design, research and development of new products and upgrading of existing products;
- approximately RMB13.3 million was used for the expansion and upgrading of the Group's product design capabilities; and
- approximately RMB31 million was applied as additional working capital of the Group.

Use of proceeds is basically the same as that disclosed in the Company's prospectus issued on 31 July 2000. The reasons for differences between the actual and planned expenditure are that several projects are still at their infancy stage, no material operating costs have occurred so far; and as a result of delay in operating of overseas offices and efficient internal cost control. The remaining proceeds will be applied to the uncompleted business objectives and kept for future development.



BUSINESS OBJECTIVES REVIEW

In addition, the Company has placed new H shares during the year and the net proceeds received amounted to approximately RMB110,900,000 after deducting share issue expenses. As at 31 December 2002, out of the proceeds received, approximately RMB700,000 has been utilised for acquisition of equipment and franchised technique; approximately RMB20,000,000 has been invested in developing telecommunication electronic business and recruitment of IC design professionals; approximately RMB2,600,000 applied to a medium and longer term strategy for the initial development in system application of IC cards, power electronic products and telecommunication products and promotion of SOC. The remaining proceeds will be retained for seeking strategic business partners and for continuing the development in system application of IC cards, power electronic products and telecommunication products and promotion of SOC in accordance with the circular issued on 12 November 2001.

The balance of net proceeds of the above issuances of shares amounted to approximately RMB124,800,000 has been placed with licensed banks in the PRC as working capital and for future development. The directors are not aware of any material adverse changes in the financial position or prospect of the Group that may alter the proposed use of proceeds.



BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Jiang Guoxing (*Chairman*)
Shi Lei (*Managing Director*)
Yu Jun (*Dputy Managing Director*)
Cheng Junxia
Wang Su

NON-EXECUTIVE DIRECTORS

Cheng Xiaohong
Zhang Qianling
He Lixing
Shen Xiaozu

INDEPENDENT NON-EXECUTIVE DIRECTORS

David Yung
Leung Tin Pui
Xu Juyan

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

COMPLIANCE OFFICER

Wang Su

AUTHORISED REPRESENTATIVES

Shi Lei
Wang Su

SPONSOR

BOCI Asia Limited

AUDIT COMMITTEE

David Yung
Leung Tin Pui
Xu Juyan

SUPERVISORS' COMMITTEE

Li Wei
Ding Shengbiao
Xu Lenian

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

No. 220, Handan Road
Shanghai
People's Republic of China

PLACE OF BUSINESS

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98 Granville Road, Tsimshatsui East
Kowloon
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Everbright Bank of China
Shanghai branch

Bank of China
Shanghai branch

STOCK CODE

8102



DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

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

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Jiang Guoxing, aged 49, is the Chairman of the Company. He is primarily responsible for strategic planning and business development. Mr. Jiang is a senior economist and graduate with a degree in computer science from Shanghai Fudan University (Fudan University). Mr. Jiang joined the Company at the time of its establishment in July 1998. He is the general manager of Fudan Enterprise Development company Limited, a wholly-owned legal entity of Fudan University, and the deputy general manager of Shanghai Fuhwa Industrial Joint Stock Company Limited in the PRC. Mr. Jiang is also the managing director of Huayue Science and Technology Company Limited in Hong Kong.

Mr. Shi Lei, aged 36, is the general manager of the Company. He is an economist and graduated with a bachelor degree in management from China University of Technology and a master degree in management from Fudan University. Mr. Shi joined the Company at the time of its establishment in July 1998. Prior to that, Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company and the general manager of Pacific Business Trust Company.

Mr. Yu Jun, aged 35, is the deputy general manager of the Company. He has a master degree and is a senior engineer. Mr. Yu is the deputy director of the Research Institute for Integrated Circuit Designs of Fudan University, and has extensive knowledge and experience in the design of integrated circuits and systems. He was previously the chief engineer of Fudan High Tech. He joined the Company in July 1998.

Ms. Cheng Junxia, aged 56, is the chief engineer of the Company. She is a professor at Fudan University and has extensive knowledge and experience in the design and manufacture of integrated circuits. She was previously the general manager of Fudan High Tech and the director of the Research Institute for Integrated Circuit Designs of Fudan University. She joined the Company in July 1998.

Mr. Wang Su, aged 49, 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.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

NON-EXECUTIVE DIRECTORS

Mr. Chen Xiaohong, aged 45, is the chief economist of the Shanghai Commerce Committee. He is a senior economist and has a master degree in economics. He was previously the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

Ms. Zhang Qianling, aged 66, is a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academic on the study of integrated circuits and a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of Fudan University. She joined the Company in July 1998.

Mr. He Lixing, aged 68, is the chief economist of Shanghai Commerce and Investment. He is a senior economist. He was previously the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

Mr. Shen Xiaozu, aged 53, is the assistant to the general manager of Shanghai Commerce and Investment and the deputy general manager Shanghai Jianlian Real Estate Company. He is a senior economist. He was previously the deputy general manager of Shanghai General Electric Machinery Corporation and the headmaster of Shanghai Mechanical Engineering Industrial College. He joined the Company in July 1998.



INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David Yung, aged 71, he was appointed on 19 July 2000. Mr. Yung has a bachelor of science degree in mechanical engineering from the Massachusetts Institute of Technology in the United States. He has over 40 years experience in the semiconductor industry. He is currently a director of Torex Semiconductor (Hong Kong) Limited, a company principally engaged in the trading of semiconductors. Recently, he founded the 3D-For-U Company Limited which has developed the technique of digital 3D printing on normal ink-jet printers.

Mr. Leung Tin Pui, aged 57, he was appointed on 19 July 2000. Mr. Leung has been appointed Vice-president of The Hong Kong Polytechnic University since January 1995. He was previously the Head and Professor of Department of Mechanical Engineering and Dean of Engineering of The Hong Kong Polytechnic University. Professor Leung is keen on public services, he was the President of the Hong Kong Institution of Engineers for the year from 1993 to 1994 and was the President of the Hong Kong Association for the Advancement of Science and Technology in 1990 to 1991. Mr. Leung is also a member of several advisory boards of the Government of the Hong Kong Special Administrative Region.

Mr. Xu Juyan, aged 68, he was appointed on 12 June 2002 and holds two bachelor degrees. He is the researcher of the Wuxi Microelectronics Research Institute under the Ministry of Information Industry and a doctorate supervisor for Southeast University. He was elected as a fellow member of the PRC Engineering Institute in 1995. He was previously the advisor to the Electronics Development Leadership Group of the State Council; members of the executive committee of Electronics Engineering Department and Association of Electronics of the PRC; the researcher at 13th Research Institute of the 3rd Engineering Division, and director and chief engineer of the 24th Research Institute of the 4th Engineering Division. He is also the advisor of several semi-conductor and electronics associations.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

SUPERVISORS

Mr. Li Wei, aged 31, is the assistant to the general manager of the Company. He has a master degree. Mr. Li specializes in integrated circuit design, and has conducted in-depth research on the coding and integrated protocol bases. He joined the Company in July 1998.

Mr. Ding Shengbiao, aged 40, is the chief economist of the Company. He has a bachelor degree and is an economist. He was previously the manager of the Loans Department of the Shanghai Interbank Loan Centre of the People's Bank of China, and the division head of the Planning Department of the People's Bank of China, Shanghai Branch. He joined the Company in July 1998.

Mr. Xu Lenian, aged 51, is the chairman of Shanghai Pacific Business Trust Company, and the assistant to the general management of Shanghai Commerce and Investment. He has post-secondary qualification and is a senior economist. He was the head of the International Affairs Department and General Affairs Department of China Agricultural Bank Pudong branch. He joined the Company in July 1998.

SENIOR MANAGEMENT

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

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

Ms. Ji Lanhua, aged 52, is the assistant to the general manager of the Company, and has a bachelor degree. She was engaged in the design and development of the Company's motorcycle ignition controller circuits and telephone transmission circuits. Ms. Ji is very experienced in the design and sales of integrated circuits. She was previously the sales manager of Fudan High Tech. She joined the Company in July 1998.

Ms. Zhao Meijin, aged 59, is the deputy chief engineer of the Company. She has a bachelor degree and was previously the chief engineer of Wuxi No. 8390 Factory. She joined the Company in January 1999.

Mr. Li Wing Sum Steven, aged 46, Qualified Accountant and Company Secretary of the Company. He has over 20 years' experience in auditing, accounting and financial management. He has worked for international accounting firm, listed companies in Hong Kong and multi-national organization as group financial controller. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Taxation Institute of Hong Kong. He joined the Company in July 2000.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the “AGM”) of Shanghai Fudan Microelectronics Company Limited (the “Company”) will be held at Multi-function Room of Shaw Technology Building of Shanghai Fudan University, No. 220 Handan Road, Shanghai, the People’s Republic of China on Friday, 23 May 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and the Auditors for the year ended 31 December 2002;
2. To appoint auditors and to authorise the Board of Directors to fix their remuneration;
3. As special business, to consider, if thought fit, pass the following resolutions as Ordinary Resolutions:

“THAT:

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



NOTICE OF ANNUAL GENERAL MEETING

(f) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

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

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

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

4. As set out in the Company's circular dated 13 November 2002 and the announcement dated 3 January 2003 regarding the Company's proposal to appoint Mr. Tsai Kao Chung as executive director. As ordinary business, to consider, if thought fit, pass the following resolution as Ordinary Resolution:

"THAT:

the appointment of Mr. Tsai Kao Chung as an executive director be and is hereby approved."

By order of the Board

Jiang Guoxing

Chairman

Shanghai, PRC, 25 March 2003



NOTICE OF ANNUAL GENERAL MEETING

Registered Office:

No. 220 Handan Road
Shanghai
The People's Republic of China

Principal place of business in Hong Kong:

Flat 12, 7/F., East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon
Hong Kong

Notes:

1. Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 23 April 2003 Wednesday shall be entitled to attend the AGM. Further details are set out in the confirmation slip and explanation thereto.
2. Any member entitled to attend and vote at the AGM is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
3. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 24 hours before the time appointed for the holding of the AGM at the Company's registered office or the Company's principal place of business in Hong Kong as stipulated in the proxy form.
4. The Register of Members of the Company will be closed from Wednesday, 23 April 2003 to Thursday, 22 May 2003 (both dates inclusive) during which period no transfer of shares will be registered.
5. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.



REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company's principal activity has not changed during the year and consists of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the subsidiaries and an associate are set out in notes 15 and 16 to the financial statements, respectively.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 58.

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

USE OF PROCEEDS

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") in August 2000, after deduction of related issuance expenses, amounted to approximately RMB109,000,000. Details of use of proceeds as at 31 December 2002 are as follows:

- approximately RMB27.5 million was used for the design, research and development of new products and upgrading of existing products;
- approximately RMB13.3 million was used for the expansion and upgrading of the Group's product design capabilities; and
- approximately RMB31 million was applied as additional working capital of the Group.

Use of proceeds is basically the same as that disclosed in the Company's prospectus issued on 31 July 2000. The reasons for differences between the actual and planned expenditure are that several projects are still at their infancy stage, no material operating costs have occurred so far; and as a result of delay in operating of overseas offices and efficient internal cost control. The remaining proceeds will be applied to the uncompleted business objectives and kept for future development.

In addition, the Company has placed new H shares during the year and the net proceeds received amounted to approximately RMB110,900,000 after deducting share issue expenses. As at 31 December 2002, out of the proceeds received, approximately RMB700,000 has been utilised for acquisition of equipment and franchised technique; approximately RMB20,000,000 has been invested in developing telecommunication electronic business and recruitment of IC design professionals; approximately RMB2,600,000 applied to a medium and longer term strategy for the initial development in system application of IC cards, power electronic products and telecommunication products and promotion of system on chips ("SOC"). The remaining proceeds will be retained for seeking strategic business partners and for continuing the development in system application of IC cards, power electronic products and telecommunication products and promotion of SOC in accordance with the circular issued on 12 November 2001.

The balance of net proceeds of the above issuance of shares amounted to approximately RMB124,800,000 has been placed with licensed banks in the People's Republic of China ("PRC") as working capital and for future development. The directors are not aware of any material adverse changes in the financial position or prospect of the Group that may alter the proposed use of proceeds.

SUMMARY FINANCIAL INFORMATION

A summary of the consolidated results for each of the two years ended 31 December 2002 and of the consolidated assets, liabilities and minority interests of the Group as at each of the two years then ended and of the results and of the assets and liabilities of the Company for the last three years prepared on the basis set out in the note below, are set out as follows. This summary does not form part of the audited financial statements.

	Group		Company		
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
RESULTS					
Turnover	62,003	44,133	35,845	14,083	2,637
Cost of sales	(44,173)	(33,330)	(26,319)	(8,404)	(1,557)
Gross profit	17,830	10,803	9,526	5,679	1,080
Other revenue and gains	2,946	7,086	2,982	57	36
Selling and distribution costs	(4,170)	(3,608)	(1,942)	(1,143)	(245)
Administrative expenses	(13,876)	(10,361)	(6,505)	(2,602)	(1,141)
Other operating expenses	(7,504)	(4,976)	(1,692)	(1,916)	(651)
Profit/(loss) from operating activities	(4,774)	(1,056)	2,369	75	(921)
Finance costs	—	—	(402)	(140)	(43)
Share of loss of an associate	(2,637)	—	—	—	—
Profit/(loss) before tax	(7,411)	(1,056)	1,967	(65)	(964)
Tax	96	(402)	—	—	—
Profit/(loss) before minority interests	(7,315)	(1,458)	1,967	(65)	(964)
Minority interests	180	96	—	—	—
Net profit/(loss) attributable to shareholders	(7,135)	(1,362)	1,967	(65)	(964)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	242,116	133,381	132,821	20,537	10,080
Total liabilities	15,836	10,688	9,170	8,043	548
Minority interests	224	404	—	—	—
Net assets	226,056	122,289	123,651	12,494	9,532

Note: The summary of the results and of the assets and liabilities of the Company for each of the two years ended 31 December 1999 and the basis of presentation have been extracted from the accountants' report included in the Company's prospectus dated 31 July 2000. The Company's results for the year ended 31 December 1998 was prepared on a basis to reflect the Company's Reorganisation, as if the Reorganisation had been completed as at 1 January 1998, details of which are set out in the Company's prospectus. The Company's results for the year ended 31 December 2000 and the assets and liabilities as at 31 December 2000 have been extracted from the annual report 2001. The consolidated results of the Group for each of the two years ended 31 December 2002, and the consolidated assets, liabilities and minority interests of the Group as at each of the two years ended 31 December 2002 are extracted from the audited financial statements as set out on page 26 to page 27, respectively.

REPORT OF THE DIRECTORS

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at 31 December 2002 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reason therefor, are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for distribution as dividends.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 25% of the total sales for the year and sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 78% of the total purchases for the year and purchases from the largest supplier included therein amounted to 25%.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. David Yung
Mr. Leung Tin Pui
Mr. Xu Juyan (appointed on 12 June 2002)

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 July 2000 which will continue thereafter unless terminated by three months' prior written notice to be given by either party to the other without payment of compensation. Mr. David Yung and Mr. Leung Tin Pui, who are the independent non-executive directors, have signed a letter of appointment with the Company for a period of one year commencing from 19 July 2002 to 18 July 2003. Mr. Xu Juyan, the other independent non-executive director, has signed a letter of appointment with the Company for a period of one year commencing from 12 June 2002.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and supervisors in the share capital of the Company as recorded in the registers maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:

Domestic shares of the Company

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

Note:

These shares are held by the Staff Shareholding Association of the Company (the "SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, at 31 December 2002, none of the directors and supervisors or their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporates, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interest of 10% or more of the share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
SSAC	144,230,000	23.10
Shanghai Fudan High Tech Company (Note 1)	106,730,000	17.09
SCI (Note 2)	95,200,000	15.25

Notes:

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

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

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group are set out at note 28 to the financial statements.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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



REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENT

Details of significant post balance sheet event of the Group are set out in note 27 to the financial statements.

SPONSOR'S INTERESTS

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

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive directors, Mr. David Yung, Mr. Leung Tin Pui and Mr. Xu Juyan. The Company's and the Group's financial statements for the year ended 31 December 2002 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made. The audit committee held four meetings during 2002.

AUDITORS

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

ON BEHALF OF THE BOARD

Jiang Guoxing

Chairman

Shanghai, PRC

25 March 2003



To the members

Shanghai Fudan Microelectronics Company Limited *

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

We have audited the financial statements on pages 26 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

25 March 2003



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
TURNOVER	5	62,003	44,133
Cost of sales		<u>(44,173)</u>	<u>(33,330)</u>
Gross profit		17,830	10,803
Other revenue and gains	5	2,946	7,086
Selling and distribution costs		(4,170)	(3,608)
Administrative expenses		(13,876)	(10,361)
Other operating expenses		<u>(7,504)</u>	<u>(4,976)</u>
LOSS FROM OPERATING ACTIVITIES	6	(4,774)	(1,056)
Share of loss of an associate		<u>(2,637)</u>	<u>—</u>
LOSS BEFORE TAX		(7,411)	(1,056)
Tax	9	<u>96</u>	<u>(402)</u>
LOSS BEFORE MINORITY INTERESTS		(7,315)	(1,458)
Minority interests		<u>180</u>	<u>96</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(7,135)</u>	<u>(1,362)</u>
LOSS PER SHARE	11		
Basic		<u>(1.17) cents</u>	<u>(0.26) cents</u>

The accounting policies and explanatory notes on pages 33 to 58 form an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSET			
Fixed assets	12	15,114	14,007
Construction in progress	13	10	1,803
Intangible assets:	14		
Acquired know-how		—	47
Deferred development costs		11,137	8,812
Interest in an associate	16	9,063	—
Long term investment	17	4,000	4,000
		<u>39,324</u>	<u>28,669</u>
CURRENT ASSETS			
Inventories	18	15,898	19,610
Trade and bills receivables	19	23,497	22,447
Prepayments, deposits and other receivables	20	18,520	3,122
Pledged cash and bank balances	21	4,346	—
Cash and cash equivalents	21	140,531	59,533
		<u>202,792</u>	<u>104,712</u>
CURRENT LIABILITIES			
Trade payables	22	8,100	4,464
Tax payable		74	—
Other payables and accruals	23	7,662	6,224
		<u>15,836</u>	<u>10,688</u>
NET CURRENT ASSETS			
		<u>186,956</u>	<u>94,024</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>226,280</u>	<u>122,693</u>
Minority interests		224	404
		<u>226,056</u>	<u>122,289</u>
CAPITAL AND RESERVES			
Issued capital	24	62,435	51,875
Reserves		163,621	70,414
		<u>226,056</u>	<u>122,289</u>

Jiang Guoxing

Director

Shi Lei

Director

The accounting policies and explanatory notes on pages 33 to 58 form an integral part of the financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

	Issued capital RMB'000 (Note 24)	Share premium account RMB'000 (Note 25)	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2001:						
As previously reported	51,875	70,375	324	324	753	123,651
PRC statutory adjustments (Note (a))	—	—	(324)	(324)	648	—
As restated	51,875	70,375	—	—	1,401	123,651
Net loss for the year	—	—	—	—	(1,362)	(1,362)
Transferred from retained profits	—	—	132	132	(264)	—
PRC statutory adjustments (Note (a))	—	—	(132)	(132)	264	—
At 31 December 2001, as restated	51,875	70,375	—	—	39	122,289
At 1 January 2002:						
As previously reported	51,875	70,375	456	456	(873)	122,289
PRC statutory adjustments (Note (a))	—	—	(456)	(456)	912	—
As restated	51,875	70,375	—	—	39	122,289
Net loss for the year	—	—	—	—	(7,135)	(7,135)
Issue of shares (Note (b))	10,560	109,272	—	—	—	119,832
Share issue expenses (Note (b))	—	(8,930)	—	—	—	(8,930)
At 31 December 2002	62,435	170,717	—	—	(7,096)	226,056

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2002

	Issued capital	Share premium account	Statutory common reserve	Statutory public welfare fund	Retained profits/ (accumulated losses)	Total
	RMB'000 (Note 24)	RMB'000 (Note 25)	RMB'000	RMB'000	RMB'000	RMB'000
Reserves retained by:						
Company and subsidiaries	62,435	170,717	—	—	(4,459)	228,693
Associate	—	—	—	—	(2,637)	(2,637)
At 31 December 2002	62,435	170,717*	—*	—*	(7,096)*	226,056
Company and subsidiaries, as previously reported, at 31 December 2001	51,875	70,375	456	456	(873)	122,289
Company and subsidiaries, as restated, at 31 December 2001	51,875	70,375	—	—	39	122,289

* These reserve accounts comprise the consolidated reserves of RMB163,621,000 (2001: RMB70,414,000) in the consolidated balance sheet.

Notes:

- The statutory common reserve and statutory public welfare fund were adjusted to reflect the adjustments made on the opening retained profits/(accumulated losses) of the Company prepared in accordance with PRC accounting standards and regulations applicable to the Company. Further details of the adjustments are set out in note 25 to the financial statements.
- On 21 February 2002, the Company issued additional 105,604,000 new H shares of RMB0.10 each to investors at HK\$1.07 each through a private placement, as detailed in note 24 to the financial statements.

The accounting policies and explanatory notes on pages 33 to 58 form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	2002 RMB'000	2001 RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operating activities	(4,774)	(1,056)
Adjustments for:		
Interest income	(1,883)	(2,895)
Depreciation	3,825	1,615
Amortisation of intangible assets	1,498	1,459
Gain on disposal of fixed assets	—	(1)
Impairment loss on deferred development costs	1,155	236
Operating loss before working capital changes	(179)	(642)
Increase in trade and bills receivables	(1,050)	(8,732)
Decrease/(increase) in prepayments, deposits and other receivables	(1,560)	2,992
Decrease/(increase) in inventories	3,712	(7,220)
Increase/(decrease) in trade payables	3,636	(576)
Increase in other payables and accruals	1,438	1,598
Cash generated/(outflow) from operation	5,997	(12,580)
PRC profits tax refunded/(paid)	170	(1,542)
Net cash inflow/(outflow) from operating activities	6,167	(14,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(increase) in deposits with original maturity of over three months when acquired	(29,466)	84,591
Interest received	1,883	2,895
Purchases of fixed assets	(1,654)	(11,263)
Increase in construction in progress	(2,682)	(1,803)
Increase in prepayment for a property	(12,641)	—
Proceeds from disposal of fixed assets	—	5
Addition to deferred development costs	(5,246)	(6,842)
Acquisition of long term investment	—	(4,000)
Investment in an associate	(11,700)	—
Net cash inflow/(outflow) from investing activities	(61,506)	63,583

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from minority shareholders of a subsidiary		—	500
Proceeds from government grants		315	295
Proceeds from issue of share capital		119,832	—
Share issue expenses		(8,930)	—
Net cash inflow from financing activities		111,217	795
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		59,533	9,277
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		115,411	59,533
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
	21		
Cash and bank balances		18,783	11,806
Cash and bank balances pledged for bank facilities		4,346	—
Time deposits with original maturity of less than three months when acquired		92,282	47,727
		115,411	59,533

The accounting policies and explanatory notes on pages 33 to 58 form an integral part of the financial statements.



BALANCE SHEET

31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
NON-CURRENT ASSETS			
Fixed assets	12	9,647	7,603
Construction in progress	13	10	1,803
Intangible assets:	14		
Acquired know-how		—	47
Deferred development costs		11,137	8,812
Interests in subsidiaries	15	17,298	8,797
Investment in an associate	16	11,700	—
Long term investment	17	4,000	4,000
		53,792	31,062
CURRENT ASSETS			
Inventories	18	14,903	19,601
Trade and bills receivables	19	22,376	22,431
Prepayments, deposits and other receivables	20	18,434	3,157
Pledged cash and bank balances	21	4,346	—
Cash and cash equivalents	21	131,773	56,222
		191,832	101,411
CURRENT LIABILITIES			
Trade payables	22	8,093	4,436
Other payables and accruals	23	6,194	4,776
		14,287	9,212
NET CURRENT ASSETS			
		177,545	92,199
TOTAL ASSETS LESS CURRENT LIABILITIES			
		231,337	123,261
CAPITAL AND RESERVES			
Issued capital	24	62,435	51,875
Reserves	25	168,902	71,386
		231,337	123,261
Jiang Guoxing		Shi Lei	
<i>Director</i>		<i>Director</i>	

The accounting policies and explanatory notes on pages 33 to 58 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The registered address of Shanghai Fudan Microelectronics Company Limited is located at No. 220 Handan Road, Shanghai, the People's Republic of China (the "PRC"). The Company has established a place of business in Hong Kong, which is located at Flat 12, 7/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon.

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

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

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

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

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised): "Foreign Currency Translation"
- SSAP 15 (Revised): "Cash Flow Statements"
- SSAP 33: "Discontinuing Operations"
- SSAP 34: "Employee Benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The consolidated statement of changes in equity for the current year and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the income statement of a foreign subsidiary is now translated to RMB at an average exchange rate for the year on consolidation, rather than translated in at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. Since the subsidiary in Hong Kong was incorporated in the current year, the adoption of the SSAP has no material impact on the consolidated financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 30 and 31 of the financial statements has been revised in accordance with the new requirements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no impact on these financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiary

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

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserve of an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of the associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in the associate is treated as a long term asset and is stated at cost less any impairment losses.

Impairment of assets

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

Machinery and office equipment	5 years
Motor vehicles	5 years

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

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

Foreign currency transactions

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

On consolidation, the financial statements of a foreign subsidiary are translated to RMB using the net investment method. The income statement of the foreign subsidiary is translated to RMB at the weighted average exchange rates for the year. The balance sheet of the foreign subsidiary is translated to RMB at the exchange rates at the balance sheet date. The resulting translation difference is included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, frequently recurring cash flows of the foreign subsidiary which arise throughout the year are translated to RMB at the weighted average rates for the year.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Acquired know-how

Acquired know-how represents certain technology know-how acquired from Shanghai Fudan High Tech Company ("Fudan High Tech") at the time of the Group's reorganisation. It is stated at cost and amortised on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

Deferred development costs

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

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

Deferred development costs are carried at their costs less any accumulated amortisation and accumulated impairment losses.

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



NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

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

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

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

Revenue recognition

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

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

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

Operating leases

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

Deferred tax

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

Provisions

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

Related parties

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

Cash equivalents

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



NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, over 90% of turnover and loss from operating activities of the Group was derived from principal activities carried out in the PRC. Accordingly, geographical segment information is not shown. Summary details of the business segments are as follows:

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

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



4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, loss and certain assets, liability and expenditure information for the Group's business segments.

	Design, development and selling of IC products		Testing services for IC products		Eliminations		Consolidated	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Segment revenue:								
Sales to external customers	60,923	44,132	1,080	1	—	—	62,003	44,133
Sales to other segments	5,170	—	706	473	(5,876)	(473)	—	—
Total	66,093	44,132	1,786	474	(5,876)	(473)	62,003	44,133
Segment results	(5,646)	(6,974)	(1,895)	(1,168)	(179)	—	(7,720)	(8,142)
Other revenue and gains							2,946	7,086
Loss from operating activities							(4,774)	(1,056)
Share of loss of an associate							(2,637)	—
Loss before tax							(7,411)	(1,056)
Tax							96	(402)
Loss before minority interests							(7,315)	(1,458)
Minority interests							180	96
Net loss from ordinary activities attributable to shareholders							(7,135)	(1,362)
Segment assets	99,220	70,500	8,085	10,014	—	—	107,305	80,514
Income tax recoverable							—	1,140
Interest bearing time deposits							121,748	47,727
Interest in an associate							9,063	—
Long term investment							4,000	4,000
Total assets							242,116	133,381
Segment liabilities	14,483	9,212	1,353	1,476	—	—	15,836	10,688
Total liabilities	14,483	9,212	1,353	1,476	—	—	15,836	10,688
Other segment information:								
Capital expenditure	8,842	13,280	425	6,829	—	—	9,267	20,109
Impairment losses recognised in the income statement	1,155	236	—	—	—	—	1,155	236
Depreciation	2,415	1,190	1,410	425	—	—	3,825	1,615
Amortisation of:								
Deferred expenditure	1,498	1,459	—	—	—	—	1,498	1,459
Other non-cash expenses	1,632	1,103	—	—	—	—	1,632	1,103



NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. TURNOVER AND OTHER REVENUE AND GAINS

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

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

	Group	
	2002	2001
	RMB'000	RMB'000
Turnover		
Sale of goods	60,923	44,132
Services rendered	1,080	1
	<u>62,003</u>	<u>44,133</u>
Other revenue		
Interest income	1,883	2,895
Investment income	69	96
Value added tax refunds	866	—
Subsidy income	118	—
Exchange gains, net	10	—
Service income	—	4,094
	<u>2,946</u>	<u>7,085</u>
Gains		
Gain on disposal of fixed assets	—	1
	<u>2,946</u>	<u>7,086</u>
	<u>64,949</u>	<u>51,219</u>

6. LOSS FROM OPERATING ACTIVITIES

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

	2002 RMB'000	2001 RMB'000
Cost of inventories sold	44,173	33,330
Depreciation	3,825	1,615
Provision for doubtful debts	1,022	886
Other receivables written off	189	—
Provision for inventories	421	217
Impairment loss on deferred development costs**	1,155	236
Minimum lease payments under operating leases:		
land and buildings	1,579	955
Research and development costs:		
Deferred expenditure amortised*	1,498	1,459
Current year expenditure	5,260	3,638
Auditors' remuneration	600	500
Exchange losses, net	—	63
Staff costs (excluding directors' remuneration (note 7)):		
Wages and salaries	6,894	6,739
Retirement benefits costs	1,315	902
	8,209	7,641
Less: amounts capitalised as development costs	(2,818)	(2,893)
	5,391	4,748
Gain on disposal of fixed assets	—	(1)
Investment income	(69)	(96)
Service income	—	(4,094)
Interest income	(1,883)	(2,895)
Value added tax refunds	(866)	—
Subsidy income	(118)	—

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

** The impairment loss on deferred development costs is included in the "Other operating expenses" on the face of the income statement.



NOTES TO FINANCIAL STATEMENTS

31 December 2002

7. DIRECTORS' REMUNERATION

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

	2002	2001
	RMB'000	RMB'000
Fees for an independent, non-executive director	128	128
Salaries and benefits	1,374	1,350
	1,502	1,478

In the year ended 31 December 2002, the salaries and benefits in kind paid to five executive directors were approximately RMB300,000 (2001: RMB300,000), RMB300,000 (2001: RMB300,000), RMB250,000 (2001: RMB250,000), RMB250,000 (2001: RMB250,000) and RMB250,000 (2001: RMB250,000). The salaries and benefits in kind paid to an independent non-executive director amounted to RMB24,000 (2001: nil). None of the four non-executive directors received any fees or emoluments during the year. Of the three independent non-executive directors, one received fees of RMB128,000 (2001: RMB128,000), one has waived the entire remuneration payable of HK\$360,000 covering the period from 19 July 2000 to 18 July 2003; the remaining director received no fees during the year (2001: nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Company included 5 (2001: 5) directors, details of whose remuneration are set out in note 7 above.

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



9. TAX

	2002 RMB'000	2001 RMB'000
Group:		
PRC		
Provision for the year	—	402
Over-provision in prior year	(170)	—
Hong Kong		
Provision for the year	74	—
	<u>74</u>	<u>—</u>
	<u>(96)</u>	<u>402</u>

Under the Income Tax Law of the PRC, the Company is subject to income tax at a basic rate of 33%. On 14 June 2001, the Company obtained a notice from the Shanghai High Technology Enterprise (Products) Identification Office. According to the notice, the Company is qualified as a high technology entity and is subject to an income tax rate of 15% for 2001. With the expiration of the tax concession in 2001, the Company will seek clarification from the tax authorities in respect of its applicable tax rate. For the financial year ended 31 December 2002, the Company has no assessable income and no provision for income tax has been made accordingly.

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year.

The unprovided deferred tax asset for the year amounted to RMB1,148,000 and related primarily to unused tax losses of the Company and a subsidiary aggregately amounting to RMB9,135,000. The unprovided deferred tax asset in 2001 amounted to RMB410,000 related primarily to the accelerated amortisation of acquired know-how.

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is RMB2,826,000 (2001: RMB390,000).



NOTES TO FINANCIAL STATEMENTS

31 December 2002

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2002, is based on the following data:

	2002	2001
	RMB'000	RMB'000
Loss		
Net loss attributable to shareholders	<u>(7,135)</u>	<u>(1,362)</u>
Shares		
Weighted average number of shares in issue	<u>609,309,000</u>	<u>518,750,000</u>

Diluted loss per share for the year ended 31 December 2002 and the comparative diluted loss per share have not been calculated because no diluting events existed during the two years ended 31 December 2002.

12. FIXED ASSETS

Group	Machinery and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	15,460	478	15,938
Additions	1,092	562	1,654
Transfers from construction in progress	3,278	—	3,278
At 31 December 2002	<u>19,830</u>	<u>1,040</u>	<u>20,870</u>
Accumulated depreciation:			
At beginning of year	1,857	74	1,931
Provided during the year	3,673	152	3,825
At 31 December 2002	<u>5,530</u>	<u>226</u>	<u>5,756</u>
Net book value:			
At 31 December 2002	<u>14,300</u>	<u>814</u>	<u>15,114</u>
At 31 December 2001	<u>13,603</u>	<u>404</u>	<u>14,007</u>

12. FIXED ASSETS (continued)

Company

	Machinery and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	8,827	282	9,109
Additions	609	562	1,171
Transfers from construction in progress	3,278	—	3,278
At 31 December 2002	12,714	844	13,558
Accumulated depreciation:			
At beginning of year	1,444	62	1,506
Provided during the year	2,291	114	2,405
At 31 December 2002	3,735	176	3,911
Net book value:			
At 31 December 2002	8,979	668	9,647
At 31 December 2001	7,383	220	7,603

13. CONSTRUCTION IN PROGRESS

	Group and Company
	RMB'000
At beginning of year	1,803
Additions	2,682
Transferred to fixed assets	(3,278)
Transferred to prepayments, deposits and other receivables	(1,197)
At 31 December 2002	10



NOTES TO FINANCIAL STATEMENTS

31 December 2002

14. INTANGIBLE ASSETS

	Group and Company	
	Acquired know-how RMB'000	Deferred development costs RMB'000
Cost:		
At beginning of year	2,380	10,698
Additions	—	4,931
At 31 December 2002	2,380	15,629
Accumulated amortisation and impairment:		
At beginning of year	2,333	1,886
Amortisation provided during the year	47	1,451
Impairment during the year recognised in the income statement	—	1,155
At 31 December 2002	2,380	4,492
Net book value:		
At 31 December 2002	—	11,137
At 31 December 2001	47	8,812

During the year, the Group received cash grants from certain PRC government bodies totalling RMB315,000 (2001: RMB295,000). These cash grants were non-recurring and were for the Group's development of certain products. The cash grants received have been deducted from the deferred development costs.

15. INTEREST IN SUBSIDIARIES

	Company	
	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	16,428	9,000
Due from subsidiaries	1,006	—
Due to subsidiaries	(136)	(203)
	<u>17,298</u>	<u>8,797</u>

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of registered/ issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held</i>				
Sino IC Technology Co., Ltd. ("Sino IC")	PRC 28 April 2001	RMB10,000,000*	90	Provision of testing services for IC products; designing, developing and selling of IC testing software; production of probe card; provision of research and consultancy services of IC technology
Shanghai Fudan Microelectronics (HK) Limited	Hong Kong 23 January 2002	HK\$7,000,000	100	Developing and selling of IC products

* The registered capital of Sino IC has not been fully paid by the minority shareholders as at 31 December 2002. Of the paid-up capital of RMB9.5 million, RMB9.0 million was contributed by the Company in cash.



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16. INTEREST IN AN ASSOCIATE

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	—	—	11,700	—
Share of net assets	9,063	—	—	—
	<u>9,063</u>	<u>—</u>	<u>11,700</u>	<u>—</u>

Particulars of the associate is as follows:

Name	Business structure	Place and date of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
<i>Directly held</i>				
Shanghai Fudan Communication Co., Ltd.	Corporate	PRC 8 March 2002	39	Developing, manufacturing and selling of high-technology products

17. LONG TERM INVESTMENT

	Group and Company	
	2002 RMB'000	2001 RMB'000
Unlisted equity investment, at fair value	<u>4,000</u>	<u>4,000</u>



18. INVENTORIES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Raw materials	5,573	6,931	5,548	6,924
Work in process	2,892	3,507	2,892	3,507
Finished goods	7,433	9,172	6,463	9,170
	15,898	19,610	14,903	19,601

The carrying amount of inventories carried at net realisable value included in the above balance was RMB1,270,000 (2001: RMB2,004,000) as at the balance sheet date.

19. TRADE AND BILLS RECEIVABLE

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

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

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within 3 months	16,174	14,523	15,053	14,507
More than 3 months to within 6 months	5,105	3,465	5,105	3,465
More than 6 months to within 12 months	1,325	3,793	1,325	3,793
More than 12 months	893	666	893	666
	23,497	22,447	22,376	22,431



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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepayments	16,787	891	16,787	864
Tax recoverable	—	1,140	—	1,140
Deposits and other receivables	1,733	1,091	1,647	1,153
	<u>18,520</u>	<u>3,122</u>	<u>18,434</u>	<u>3,157</u>

21. CASH AND CASH EQUIVALENTS AND PLEDGED CASH AND CASH BALANCES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cash and bank balances	23,129	11,806	20,681	8,495
Time deposits with original maturity of less than three months when acquired	92,282	47,727	85,972	47,727
Time deposits with original maturity of over three months when acquired	29,466	—	29,466	—
	<u>144,877</u>	<u>59,533</u>	<u>136,119</u>	<u>56,222</u>
Less: Cash and bank balances pledged for bank facilities	(4,346)	—	(4,346)	—
	<u>140,531</u>	<u>59,533</u>	<u>131,773</u>	<u>56,222</u>

22. TRADE PAYABLES

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

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within 3 months	8,100	4,464	8,093	4,436



23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Accruals	2,536	2,298	2,198	2,298
Other payables	5,126	3,926	3,996	2,478
	<u>7,662</u>	<u>6,224</u>	<u>6,194</u>	<u>4,776</u>

24. ISSUED CAPITAL

	2002	2001
	RMB'000	RMB'000
Registered, issued and fully paid:		
624,354,000 (2001: 518,750,000) shares of RMB0.10 each	<u>62,435</u>	<u>51,875</u>

A summary of the movements during the year for the Company's share capital is as follows:

	Number of shares of RMB0.1 each '000	Share capital RMB'000
At 1 January 2002	518,750	51,875
Placing of new H shares on 21 February 2002	<u>105,604</u>	<u>10,560</u>
At 31 December 2002	<u>624,354</u>	<u>62,435</u>

On 21 February 2002, the Company issued additional 105,604,000 new H shares of RMB0.10 each to investors at HK\$1.07 each through a private placement for a total cash consideration, after deduction of related issuance expenses, of RMB110,902,000.

There was no movement in the Company's issued capital in 2001.



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31 December 2002

25. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 28 to 29 of the financial statements.

Company

	Share premium RMB'000	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2001:					
As previously reported	70,375	324	324	753	71,776
PRC statutory adjustments (Note (a) on page 29)	—	(324)	(324)	648	—
As restated	70,375	—	—	1,401	71,776
Net loss for the year	—	—	—	(390)	(390)
Transferred from retained profits	—	132	132	(264)	—
PRC statutory adjustments (Note (a) on page 29)	—	(132)	(132)	264	—
	<u>70,375</u>	<u>—</u>	<u>—</u>	<u>1,011</u>	<u>71,386</u>
At 31 December 2001 and beginning of year:					
As previously reported	70,375	456	456	99	71,386
PRC statutory adjustments (Note (a) on page 29)	—	(456)	(456)	912	—
As restated	70,375	—	—	1,011	71,386
Net loss for the year	—	—	—	(2,826)	(2,826)
Issue new shares	109,272	—	—	—	109,272
Share issue expenses	(8,930)	—	—	—	(8,930)
At 31 December 2002	<u>170,717</u>	<u>—</u>	<u>—</u>	<u>(1,815)</u>	<u>168,902</u>

25. RESERVES (continued)

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

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

During the year, there were prior year adjustments made to the opening retained profits/(accumulated losses) as reported in the PRC statutory financial statements of the Company. The Company had correspondingly adjusted the SCR and PWF in relation to the adjustments made to the retained profits/(accumulated losses). The Group's SCR and PWF have also been adjusted accordingly.

As the Company reported losses in both the PRC statutory accounts and these financial statements, the Company has no reserve available for distribution as at 31 December 2002 and 2001.



NOTES TO FINANCIAL STATEMENTS

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26. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Contracted, but not provided for in respect of:				
Purchase of fixed assets	6,662	4,055	6,662	3,944
Acquisition of a company (Note 27)	15,720	—	15,720	—
	22,382	4,055	22,382	3,944

(b) Commitments under operating leases

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within one year	1,373	1,200	945	945
In the second to fifth years, inclusive	1,001	1,857	866	1,811
	2,374	3,057	1,811	2,756

27. POST BALANCE SHEET EVENT

On 21 October 2002, the Company entered into an agreement with Shanghai Commercial Investment Enterprise Holdings Limited (the "Vendor") to acquire 53.8% interest in Shanghai Commercial High Technology Development Limited (the "Target Company") at a cash consideration of RMB15.72 million which was determined with reference to 53.8% of the PRC audited net asset value of the Target Company, amounting to approximately RMB16.45 million as at 31 December 2001. The Vendor is 90% held by 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited) which is an initial management shareholder of the Company.

On 3 January 2003, the Company entered into a supplementary agreement with the Vendor to postpone the conditions fulfillment date for the acquisition of the Target Company to 30 September 2003. The investment terms including consideration for and the percentage of shareholding to be held by the Company in the Target Company, have been revisited and are under negotiation by the parties involved and will be adjusted accordingly subject to the finalisation of the the investment terms. The directors of the Company expect the formal agreement to be executed on or before 30 June 2003.

28. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship with the Company	Nature of transaction	2002 RMB'000	2001 RMB'000
Shanghai Fudan University	Owner of Fudan High Tech	Technical and equipment support fee	800	800

The technical and equipment support fee was based on the agreement entered between the Company and the related party with reference to the market price.

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



NOTES TO FINANCIAL STATEMENTS

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29. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, there were prior year adjustments made to the opening retained profits/(accumulated losses) as reported in the PRC statutory financial statements of the Company. The Company had correspondingly adjusted the SCR and PWF in relation to the adjustments made to the retained profits/(accumulated losses). The Group's SCR and PWF have also been adjusted accordingly.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 March 2003.

