



**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 2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors of countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

	<i>Pages</i>
<b>CHAIRMAN'S STATEMENT</b>	2-6
<b>CORPORATE INFORMATION</b>	7
<b>DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES</b>	8-10
<b>NOTICE OF ANNUAL GENERAL MEETING</b>	11-14
<b>REPORT OF THE DIRECTORS</b>	15-22
<b>REPORT OF THE AUDITORS</b>	23
<b>AUDITED FINANCIAL STATEMENTS</b>	
CONSOLIDATED:	
Income statement	24
Balance sheet	25
Statement of changes in equity	26
Cash flow statement	27-28
COMPANY:	
Balance sheet	29
<b>NOTES TO FINANCIAL STATEMENTS</b>	30-54

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 2004.

## **OBJECTIVE**

Having focused on its core business and applied the "fabless" mode of operation, the Group was enabled to cope with keen competition and rapid market changes in a flexible manner, to achieve its business objectives, to establish a leading position in the industry of IC design and system in the People's Republic of China (the "PRC") and to become one of the major IC card chips production and Application Specific Integrated Circuits ("ASIC") design companies.

## **RESULTS**

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB132,710,000 (2003: RMB97,456,000), an increase of approximately 36% as compared to the previous year. The audited profit attributable to shareholders was approximately RMB7,239,000 (2003: loss of RMB6,550,000). The basic earnings per share was RMB1.16 cents (2003: loss of RMB1.05 cents).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

Following the recovery in 2003, the global market demand for ICs surged in 2004 and the domestic market in the PRC recorded with significant growth. With aggressive performance and considerable experience in the industry, the Group recorded a growth of 36% increase in its turnover. As the Group has continued its business development objectives and focused in the domestic market, majority of its turnover and operating profit were contributed from the principal activities carried out in the mainland China. Certain products of the Group have already replaced the market of imported products and thus overall products could maintain reasonable profit margins and the overall gross profit margin of 35% was the same as last year. The turnabout of the Group's results from loss to profit was due to the reasons that market promotion was strengthened to increase the market share and sales. In addition, the Group has improved its management on inventories control and debt collection, hence, there was a written back in provision for doubtful debts and provision for inventories was kept at last year's low level. In the selling and distribution and administrative expenses, even though there was a considerable growth in turnover, there were slightly increases of 7% and 9% respectively in these expenses. In other operating expenses, an increase of 36% was recorded as compared with previous year; as certain of the Group's products were still under research and development, cost of research and development was therefore at a rather high level. During the year, the Group has disposed of its 20% interest in Shanghai Fudan Communication Co., Ltd. ("Fudan Communication"), which contributed a profit of approximately RMB4,459,000 to the Group; the Group has shared the loss of this associate amounted to approximately RMB831,000 before disposal of its interest and a provision of RMB716,000 was made for impairment of long term investment on the remaining 19% interest.

An analysis of the performance of the Group's various business segments during the year under review is as follows:

### *IC Card*

IC card products were still our core business and its segment sales were the highest of the Group. The sales of IC card products for the year accounted for approximately 64% of the Group's total turnover and surged by 57% over the last year. The Group's circuits for contactless IC card products have been well received and accredited by the market with satisfactory sales performance and reasonable profit margin, and therefore was a major source of contribution of the Group's turnover and profit.

### *Power Electronics*

In the segment of power electronics products, because of the growth in the domestic economy of the PRC, increasing in demand of electricity was a consequence of popularity of electrical home appliances. The Group's own-developed earth leakage current detector circuit and multi-fee power control meters were well equipped with extensive functions and flexible applications and hence still could maintain their market shares; however, due to adjustments in selling prices to cope with the market demand, the profit margins of these products have been decreased.

### *Motor and Mobile Electronics*

During the year, the business of motor and mobile electronic products was stable. The Group has adjusted selling prices of these products to achieve increases in sales volume and a slight increase in turnover.

### *Telecommunication Electronics*

The business of telecommunication electronics was the weakest amongst the Group's segments. In view of market saturation and keen market competition, the Group has limited its resources in this business, and as there were only a few products launched, business performance was more or less the same as last year.

### *Consumer Electronics*

The consumer electronics business has been a segment of low turnover as there were numerous products in the market and the profit was rather thin. During the year, the karaoke microphone launched by the Group has attracted the market attention and an overall increase of 8% in segment turnover was achieved.

### *IC Testing*

The IC testing business was operated by the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") and being well performed in its business, the company has becoming a notable IC testing company in the industry with considerable contribution to the Group's overall results for the year.

### *Subsidiaries*

During the year under review, other than the business of Sino IC which was set out above, there was no material change in the subsidiaries of the Group.

## Associates

During the year, the Group has disposed of part of its 39% equity interest in Fudan Communication and decreased to hold a 19%-interest as a long term investment, however, the cooperation in telecommunication electronics business has been continued between the parties.

## Future Plans for Material Investments

The Company will actively keep on looking for strategic cooperative partners and has no material investment plan at the moment.

## Technological Cooperation

The IC Engineering Technology Centre and the ASIC System Laboratory, which were jointly operated and co-operated by the Group with the Shanghai Fudan University and the University of Science & Technology of China respectively, have continued their technical supports to the Group during the year.

## Financial Resources and Liquidity

As at 31 December 2004, net assets of the Group amounted to approximately RMB226,765,000 (2003: RMB219,542,000); current assets amounted to approximately RMB189,141,000 (2003: RMB185,346,000), of which approximately RMB110,672,000 (2003: RMB123,511,000) were cash and bank deposits.

The Group's financial resources and liquidity are in a healthy status and the Group is able to meet its ordinary course of business and future development.

As at 31 December 2004, the Group had a deposit of RMB772,000 (2003: RMB775,000) secured for letters of credit issued by the Company. As at 31 December 2004, the Group had not pledged its assets to any third parties (2003: nil).

## Capital Structure

During the year, there was no change in the capital structure of the Company.

## Gearing Ratio

As at 31 December 2004, the Group's current liabilities amounted to approximately RMB35,545,000 (2003: RMB22,675,000) and non-current liabilities of approximately RMB5,615,000 (2003: nil). The net assets value per share of the Group was approximately RMB0.36 (2003: RMB0.35). The Group's ratio of current liabilities over current assets was approximately 18.8% (2003: 12.2%) and the gearing ratio was approximately 18.2% (2003: 10.3%) on the basis of total liabilities over net assets. As at 31 December 2004, the Group had no bank or other borrowings (2003: nil).

## Interest and foreign Exchange Risk

As the Group has no bank or other borrowings, there was no risk in interest fluctuation. The Group has a slight foreign currency risk as part of the Group's purchases of equipment, application software and raw materials are denominated in U.S. dollars. As most of 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 business of the Group.



## Capital Commitments

As at 31 December 2004, the Group had capital commitments amounted to approximately RMB590,000 (2003: RMB11,413,000). The capital commitments relate primarily to purchases of equipment.

## Contingent Liabilities

As at 31 December 2004, the Group had no contingent liabilities (2003: nil).

## Use of Capital and Funding

The Group currently has a stable financial position and sufficient working capital which will be allocated to carrying out researches on new products and identifying cooperative partners as appropriate.

## Staff

As at 31 December 2004, the Group employed approximately 279 (2003: 258) 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 2004 amounted to approximately RMB18,900,000 (2003: RMB17,663,000).

## PROSPECTS

The Group is now developing circuits for the applications of audio and visual interface on mobile media, products of which will be launched to the market by second half of 2005 and expected to make a contribution to the Group's performance. Beside, in view of the satisfactory sales in products of contactless IC card chips and their reasonable profit margins, the Group will allocate its technology resources in research and development in order to enhance product quality and functions; to widen the application scope of products to satisfy the consumers' demands and to increase the market presence in related market. For other product categories, the Group also concentrated on the research and development of self-developed products and application functions in the areas like electronic intelligent labels for logistic industry and multi-fee power control meters. Meanwhile, the Group has also actively participated in several government projects and developed the related market opportunities.

The directors expect that the growth in global market of IC products in 2005 will slow down, however, the domestic market will continue to grow rapidly. Numerous of domestic enterprises have recently joined the IC design industry, nonetheless, there was an increase in PRC's imported IC chips and this implies that there is a huge room within the industry. Moreover, the Group also expects that the economy of the PRC will maintain a steady growth and the demand of electronic products will continue to surge, therefore, the Group believes that with advance technology know-how and comparatively low production cost, its products will replace the imported market in the coming future. Looking forward, the Group will keep on research and development of self-developed products as well as the scope of applications in contactless IC card chips with a view to maintain competitive and expend its business in order to strengthen its leading position in the PRC market.

## **APPRECIATION**

Lastly, I was proud of the several awards granted to the Group and its staff by various entities and institutions. On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to our shareholders, customers, suppliers and business partners for their continuous support, and the management and all staff for their hard workings and contributions in last year.

**Jiang Guoxing**

*Chairman*

Shanghai, the People's Republic of China

21 March 2005



## BOARD OF DIRECTORS

### Executive Directors

Jiang Guoxing (*Chairman*)  
Shi Lei (*Managing Director*)  
Yu Jun (*Deputy Managing Director*)  
Cheng Junxia  
Wang Su  
Tsai Kao Chung

### Non-executive Directors

Cheng Xiaohong  
Zhang Qianling  
He Lixing  
Shen Xiaozu

### Independent Non-executive Directors

David Yung  
Leung Tin Pui  
Xu Juyan  
Cheung Wing Keung *FCCA,AHKICPA*

## COMPANY SECRETARY

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

## QUALIFIED ACCOUNTANT

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

## COMPLIANCE OFFICER

Wang Su

## AUTHORISED REPRESENTATIVES

Shi Lei  
Wang Su

## AUDIT COMMITTEE

Leung Tin Pui  
David Yung  
Xu Juyan  
Cheung Wing Keung *FCCA,AHKICPA*

## 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

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

## SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Everbright Bank of China  
Shanghai branch  
  
Shanghai Pudong Development Bank  
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 51, 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 38, 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 37, 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 58, 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 51, 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.

**Mr. Tsai Kao Chung**, aged 44, was appointed as executive director in May 2003. He is also the managing director of Best Yield Development Consulting, Inc. which is a Taiwan direct investment company. He has over 11 years' working experience in Taiwan investment banking field and has substantial experience in corporate finance activities in relation to IC related business.

### Non-executive directors

**Mr. Chen Xiaohong**, aged 47, is a senior economist and has a master degree in economics. He was previously the director of the Corporate Finance Department of the Finance Bureau of Shanghai, the chief economist of the Shanghai Commerce Committee, the chief economist of the Shanghai Economic and Trade Committee and the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

# Directors and Senior Management Biographies

**Ms. Zhang Qianling**, aged 68, 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 70, is a senior economist. He was previously the chief economist of Shanghai Commerce and Investment and 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 55, 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 73, 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 41 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 59, 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. Professor Leung was awarded by the Hong Kong Government Justice of Peace in 1995 and awarded the Bronze Bauhinia Star in 2003.

**Mr. Xu Juyan**, aged 70, 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.

**Mr. Cheung Wing Keung**, aged 39, a fellow member of the Association Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 14 years' working experience in auditing, accounting, corporate management and consultancy. He has worked in accounting firms and the Hong Kong Inland Revenue Department and has held senior positions in certain Hong Kong's private group companies.

## SUPERVISORS

**Mr. Li Wei**, aged 33, 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 42, 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 53, 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 54, 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 61, 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 48, Qualified Accountant and Company Secretary of the Company. He has over 26 years' experience in auditing, accounting and financial management. He has worked in an international accounting firm, listed companies in Hong Kong and a 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 Institute of Certified Public Accountants and a fellow member of the Taxation Institute of Hong Kong. He joined the Company in July 2000. He is also an independent non-executive director of a company listed on the Main Board of the Stock Exchange.

**NOTICE IS HEREBY GIVEN** that the annual general meeting (the “AGM”) of Shanghai Fudan Microelectronics Company Limited (the “Company”) will be held at Building 4, Lane 127, Guotai Road, Shanghai, the People’s Republic of China (the “PRC”) on 27 May 2005 at 10:00 a.m. for the following purposes: –

## ORDINARY RESOLUTIONS

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 2004;
2. To re-elect directors and to authorize the Board of Directors (“Board”) to fix their remuneration;
3. To appoint auditors and to authorise the Board to fix their remuneration;

## SPECIAL RESOLUTIONS

4. As special business, to consider, if thought fit, pass the following resolutions as Special Resolutions:

**“THAT:**

- (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board 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 the domestic invested shares of RMB0.10 each in the share capital of the Company (“Domestic Shares”) and/or the foreign invested shares of RMB0.10 each in the share capital of the Company (“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;



# Notice of Annual General Meeting

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

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

- (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.”



5. To authorize the board of directors to repurchase H Shares of the Company up to a maximum of 10 percent of the aggregate nominal value of the H Shares in issue of the Company:

**“THAT:**

- (a) subject to the paragraphs (b) and (c) below, the Relevant Period (as defined in paragraph 4(f) above) during which the board of directors may exercise all the powers of the Company to repurchase H Shares in issue of the Company on the Stock Exchange, subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the Stock Exchange or of any other governmental or regulatory body he and is hereby approved;
- (b) the aggregate nominal value of H Shares authorised to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
- (c) the approval in paragraph (a) above shall be conditional upon:
  - (i) the passing of a special resolution in the same terms as the resolution set out in this paragraph (except for this sub-paragraph (c)(i)) at the extraordinary general meeting for holders of H Shares of the Company (“H Shareholders’ EGM”) and the extraordinary general meeting for holders of domestic shares of the Company (“Domestic Shareholders’ EGM”) both to be held on 27 May 2005 (or on such adjourned date as may be applicable);
  - (ii) the approval of the China Securities Regulatory Commission and any other regulatory authorities as may be required by laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
  - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedure set out in Article 23 of the Articles of the Company;
- (d) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board be hereby authorised to:
  - (i) make such amendments to the Articles of the Company accordingly as it thinks fit so as to reduce the registered share capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares of the Company as contemplated in paragraph (a) above; and
  - (ii) file the amended Articles of the Company with the relevant governmental authorities of the PRC.”

# Notice of Annual General Meeting

6. **“THAT:**

conditional upon special resolutions numbered 4 and 5 above and the special resolutions numbered 1 and 2 as set out in the notices of H Shareholders’ EGM and Domestic Shareholders’ EGM respectively, being passed, the aggregate nominal amount of H Shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in special resolution numbered 5 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to special resolution numbered 4 above.”

By order of the Board  
**Jiang Guoxing**  
Chairman

Shanghai, the People’s Republic of China, 21 March 2005

*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 27 April 2005 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 27 April 2005 to 26 May 2005 (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 AGM if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. An explanatory statement containing further details regarding the proposed Resolutions nos.4 to 6 set out in the above notice as required by the Rules Governing the Listing of Securities on GEM will be dispatched to shareholders together with the 2004 Annual Report of the Company.

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## **PRINCIPAL ACTIVITIES**

The Company's principal activities consist of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the Company's subsidiaries and associates are set out in notes 15 and 16 to the financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 54.

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

## **SUMMARY FINANCIAL INFORMATION**

A summary of the consolidated results for each of the four years ended 31 December 2004 and of the consolidated assets, liabilities and minority interests of the Group as at each of the four years then ended and of the results for the year ended 31 December 2000 and of the assets and liabilities as at 31 December 2000 of the Company, as extracted from the published audited financial statements, is set out as follows. This summary does not form part of the audited financial statements.

## SUMMARY FINANCIAL INFORMATION (Continued)

	Group				Company
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
<b>RESULTS</b>					
Turnover	<b>132,710</b>	97,456	62,003	44,133	35,845
Cost of sales	<b>(85,386)</b>	(62,938)	(44,173)	(33,330)	(26,319)
Gross profit	<b>47,324</b>	34,518	17,830	10,803	9,526
Other revenue and gains	<b>6,860</b>	2,907	2,946	7,086	2,982
Selling and distribution costs	<b>(6,292)</b>	(5,875)	(4,170)	(3,608)	(1,942)
Administrative expenses	<b>(19,010)</b>	(17,512)	(13,876)	(10,361)	(6,505)
Other operating expenses	<b>(20,491)</b>	(15,092)	(7,504)	(4,976)	(1,692)
Profit/(loss) from operating activities	<b>8,391</b>	(1,054)	(4,774)	(1,056)	2,369
Finance costs	–	–	–	–	(402)
Share of losses of associates	<b>(835)</b>	(5,228)	(2,637)	–	–
Profit/(loss) before tax	<b>7,556</b>	(6,282)	(7,411)	(1,056)	1,967
Tax	<b>(57)</b>	(72)	96	(402)	–
Profit/(loss) before minority interests	<b>7,499</b>	(6,354)	(7,315)	(1,458)	1,967
Minority interests	<b>(260)</b>	(196)	180	96	–
Net profit/(loss) attributable to shareholders	<b><u>7,239</u></b>	<b><u>(6,550)</u></b>	<b><u>(7,135)</u></b>	<b><u>(1,362)</u></b>	<b><u>1,967</u></b>
<b>ASSETS, LIABILITIES AND MINORITY INTERESTS</b>					
Total assets	<b>269,104</b>	242,636	242,116	133,381	132,821
Total liabilities	<b>(41,160)</b>	(22,675)	(15,836)	(10,688)	(9,170)
Minority interests	<b>(1,179)</b>	(419)	(224)	(404)	–
	<b><u>226,765</u></b>	<b><u>219,542</u></b>	<b><u>226,056</u></b>	<b><u>122,289</u></b>	<b><u>123,651</u></b>

## **SUMMARY FINANCIAL INFORMATION** *(Continued)*

*Note:*

The Company's 2000 results and the Group's consolidated results for each of the two years ended 31 December 2002 have been extracted from the 2000, 2001 and 2002 annual reports. The consolidated results of the Group for each of the two years ended 31 December 2004 are extracted from the audited financial statements as set out on page 24.

The Company's assets and liabilities as at 31 December 2000 and the Group's consolidated assets, liabilities and minority interests as at each of the two years ended 31 December 2002 have been extracted from the 2000, 2001 and 2002 annual reports. The Group's consolidated assets, liabilities and minority interests as at 31 December 2003 and 2004 are extracted from the audited financial statements as set out on page 25.

### **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.

### **SHARE CAPITAL**

There were no movements in either the Company's authorised or issued share capital during the year.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China (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**

As at 31 December 2004, the Company had no reserves available for distribution as dividends. In addition, according to the PRC Company Law, an amount of approximately RMB170,717,000 standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issue.

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 30% (2003: 31%) of the total sales for the year and sales to the largest customer included therein amounted to 10% (2003: 12%). Purchases from the Group's five largest suppliers accounted for 74% (2003: 68%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 32% (2003: 27%).

## **MAJOR CUSTOMERS AND SUPPLIERS** *(Continued)*

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  
Mr. Tsai Kao Chung

### *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  
Mr. Cheung Wing Keung (appointed on 28 May 2004)

The Company has received independence confirmations from the independent non-executive directors, namely Mr. David Yung, Mr. Leung Tin Pui, Mr. Xu Juyan and Mr. Cheung Wing Keung, and considers them to be independent.

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 headed "Directors and Senior Management's Biographies" of the annual report.



## **DIRECTORS' SERVICE CONTRACTS**

Mr. Cheung Wing Keung has a service contract with the Company as an independent non-executive director and audit committee member for a period commencing from 28 May 2004 until the next annual general meeting ("AGM") is held and is subject to termination by either party giving no less than one month's written notice.

Apart from the foregoing, each of the executive directors except for Mr. Tsai Kao Chung has entered into a service contract with the Company for a term of three years commencing on 19 July 2003 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. Tsai Kao Chung, the executive director, has signed a letter of appointment with the Company for a period commencing from 23 May 2004 until the next AGM is held. 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 2004 to 18 July 2005. 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 on 12 June 2004.

Each of the non-executive directors has entered into a service contract with the Company for a term of three years commencing on 19 July 2003 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.

## **DIRECTORS' INTERESTS IN CONTRACTS**

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

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests and short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registers required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in domestic shares of the Company:

	Number of issued shares held, capacity and nature of interest					Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust (Note)	Total	
<i>Directors</i>						
Mr. Jiang Guoxing	7,210,000	–	–	1,442,300	8,652,300	1.38
Mr. Shi Lei	7,210,000	–	–	12,980,000	20,190,000	3.23
Mr. Yu Jun	–	–	–	10,961,530	10,961,530	1.76
Ms. Cheng Junxia	–	–	–	8,076,920	8,076,920	1.29
Mr. Wang Su	–	–	–	7,211,530	7,211,530	1.16
Mr. Chen Xiaohong	–	–	–	7,211,530	7,211,530	1.16
Ms. Zhang Qianling	–	–	–	1,733,650	1,733,650	0.28
Mr. He Lixing	–	–	–	1,442,300	1,442,300	0.23
Mr. Shen Xiaozu	–	–	–	1,442,300	1,442,300	0.23
	<u>14,420,000</u>	<u>–</u>	<u>–</u>	<u>52,502,060</u>	<u>66,922,060</u>	<u>10.72</u>
<i>Supervisors</i>						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.97
Mr. Ding Shengbiao	–	–	–	7,211,530	7,211,530	1.16
Mr. Xu Lenian	–	–	–	865,380	865,380	0.14
	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,134,600</u>	<u>14,134,600</u>	<u>2.27</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.

## **DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(Continued)*

Save as disclosed above, as at 31 December 2004, no directors, supervisors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in domestic shares of the Company:

<b>Name</b>	<b>Notes</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
SSAC		Directly beneficially owned	144,230,000	23.10
Shanghai Fudan High Tech Company	(1)	Directly beneficially owned	106,730,000	17.09
SCI	(2)	Directly beneficially owned and through a controlled corporation	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 Limited, and 14,420,000 shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Ltd. The 46,160,000 domestic shares held in its own name represent approximately 7.39% of the registered share capital of the Company.

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(Continued)*

Save as disclosed above, as at 31 December 2004, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section "Directors', supervisors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions of the Group are set out in note 27 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 businesses of the Group.

## **BOARD PRACTICES AND PROCEDURES**

In the opinion of the directors, the Company has complied with the requirements of board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the accounting period covered by the annual report.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises the four independent non-executive directors of the Company, Mr. Leung Tin Pui, Mr. David Yung, Mr. Xu Juyan and Mr. Cheung Wing Keung. The Company's and Group's financial statements for the year ended 31 December 2004 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 2004.

## **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, the People's Republic of China  
21 March 2005



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 24 to 54 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 financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 2004 and of the profit 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

21 March 2005

# Consolidated Income Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>TURNOVER</b>	5	<b>132,710</b>	97,456
Cost of sales		<u>(85,386)</u>	<u>(62,938)</u>
Gross profit		<b>47,324</b>	34,518
Other revenue and gains	5	<b>6,860</b>	2,907
Selling and distribution costs		<b>(6,292)</b>	(5,875)
Administrative expenses		<b>(19,010)</b>	(17,512)
Other operating expenses		<u>(20,491)</u>	<u>(15,092)</u>
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	6	<b>8,391</b>	(1,054)
Share of losses of associates		<u>(835)</u>	<u>(5,228)</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>7,556</b>	(6,282)
Tax	9	<u>(57)</u>	<u>(72)</u>
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>7,499</b>	(6,354)
Minority interests		<u>(260)</u>	<u>(196)</u>
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<u><b>7,239</b></u>	<u>(6,550)</u>
<b>EARNINGS/(LOSS) PER SHARE</b>			
Basic	11	<u><b>1.16 cents</b></u>	<u>(1.05) cents</u>



# Consolidated Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	67,208	38,540
Construction in progress	13	138	–
Intangible assets	14	7,629	10,670
Interests in associates	16	241	4,080
Long term investments	17	4,747	4,000
		<u>79,963</u>	<u>57,290</u>
<b>CURRENT ASSETS</b>			
Inventories	18	37,487	24,784
Trade and bills receivables	19	34,773	30,757
Other receivables	20	6,209	6,294
Pledged cash and bank balances	21	772	775
Cash and cash equivalents	21	109,900	122,736
		<u>189,141</u>	<u>185,346</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	22	21,038	12,569
Other payables and accruals	23	14,507	10,106
		<u>35,545</u>	<u>22,675</u>
<b>NET CURRENT ASSETS</b>			
		<u>153,596</u>	<u>162,671</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>233,559</u>	<u>219,961</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables	23	5,615	–
<b>MINORITY INTERESTS</b>			
		<u>1,179</u>	<u>419</u>
		<u>226,765</u>	<u>219,542</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	62,435	62,435
Reserves		164,330	157,107
		<u>226,765</u>	<u>219,542</u>

Jiang Guoxing  
Director

Shi Lei  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Issued share capital <i>RMB'000</i> <i>(Note 24)</i>	Share premium account <i>RMB'000</i> <i>(Note 25)</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note 25)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(Note 25)</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accu- mulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2003	62,435	170,717	–	–	–	(7,096)	226,056
Exchange realignment and net gains and losses not recognised in the income statement	–	–	–	–	36	–	36
Net loss for the year	–	–	–	–	–	(6,550)	(6,550)
At 31 December 2003 and beginning of year	62,435	170,717*	–*	–*	36*	(13,646)*	219,542
Exchange realignment and net gains and losses not recognised in the income statement	–	–	–	–	(16)	–	(16)
Transfer to/(from) reserves	–	–	179	89	–	(268)	–
Net profit for the year	–	–	–	–	–	7,239	7,239
<b>At 31 December 2004</b>	<b>62,435</b>	<b>170,717*</b>	<b>179*</b>	<b>89*</b>	<b>20*</b>	<b>(6,675)*</b>	<b>226,765</b>
Reserves retained by:							
Company and subsidiaries	62,435	170,717	179	89	20	(6,671)	226,769
Associate	–	–	–	–	–	(4)	(4)
<b>31 December 2004</b>	<b>62,435</b>	<b>170,717*</b>	<b>179*</b>	<b>89*</b>	<b>20*</b>	<b>(6,675)*</b>	<b>226,765</b>
Company and subsidiaries	62,435	170,717	–	–	36	(5,781)	227,407
Associate	–	–	–	–	–	(7,865)	(7,865)
31 December 2003	62,435	170,717*	–*	–*	36*	(13,646)*	219,542

\* These reserve accounts comprise the consolidated reserves of RMB164,330,000 (2003: RMB157,107,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		7,556	(6,282)
Adjustments for:			
Share of losses of associates		835	5,228
Interest income	6	(1,156)	(1,496)
(Gain)/loss on disposal of fixed assets		(23)	11
Impairment loss on long term investments	6	716	–
Gain on disposal of interest in an associate	6	(4,459)	–
Depreciation	6	7,927	4,772
Amortisation of deferred development costs	6	4,151	2,526
Impairment loss on deferred development costs	6	2,045	1,463
Operating profit before working capital changes		17,592	6,222
Increase in inventories		(12,703)	(8,886)
Increase in trade and bills receivables		(4,016)	(7,260)
Decrease in other receivables		85	1,473
Increase in trade and bills payables		8,469	4,469
Increase in other payables and accruals		1,960	2,444
Cash generated from/(used in) operations		11,387	(1,538)
Profits tax paid		(57)	(146)
Net cash inflow/(outflow) from operating activities		11,330	(1,684)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease/(increase) in deposits with original maturity of over three months when acquired		14,000	(3,534)
Interest received		1,156	1,496
Purchases of fixed assets	12	(28,690)	(17,446)
Receipt of government grants	14	2,332	1,550
Proceeds from disposal of fixed assets		36	–
Additions to intangible assets	14	(5,487)	(5,072)
Proceeds from disposal of interest in an associate	16	6,000	–
Investment in an associate		–	(245)
Net cash outflow from investing activities		(10,653)	(23,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contribution from minority shareholders of a subsidiary		500	–
Net cash inflow from financing activities		500	–
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		90,511	115,411
Effect of foreign exchange rate changes, net		(16)	35
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>91,672</b>	<b>90,511</b>

continued/...

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	<b>58,900</b>	61,736
Cash and cash equivalent pledged for bank facilities	21	<b>772</b>	775
Time deposits with original maturity of less than three months when acquired	21	<b>32,000</b>	28,000
		<b>91,672</b>	90,511

# Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	58,408	33,064
Construction in progress	13	138	–
Intangible assets	14	5,469	8,487
Investments in subsidiaries	15	16,428	16,428
Interests in associates	16	245	11,945
Long term investments	17	4,747	4,000
		<u>85,435</u>	<u>73,924</u>
<b>CURRENT ASSETS</b>			
Inventories	18	35,850	21,412
Due from a subsidiary	15	4,707	2,497
Trade and bills receivables	19	31,404	29,158
Other receivables	20	5,084	6,031
Pledged cash and bank balances	21	772	775
Cash and cash equivalents	21	99,231	115,713
		<u>177,048</u>	<u>175,586</u>
<b>CURRENT LIABILITIES</b>			
Due to a subsidiary	15	227	126
Trade and bills payables	22	21,037	12,569
Other payables and accruals	23	10,792	7,677
		<u>32,056</u>	<u>20,372</u>
<b>NET CURRENT ASSETS</b>		<u>144,992</u>	<u>155,214</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>230,427</u>	<u>229,138</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables	23	5,615	–
		<u>224,812</u>	<u>229,138</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	62,435	62,435
Reserves	25	162,377	166,703
		<u>224,812</u>	<u>229,138</u>

**Jiang Guoxing**  
Director

**Shi Lei**  
Director

## 1. CORPORATE INFORMATION

The registered office 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 cards; as well as the provision of research and consultancy services of IC technology.

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

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following HKFRSs are effective for the first time for the current year's financial statements:

- HKFRS 1: "First-time Adoption of Hong Kong Financial Reporting Standards"
- SSAP 36: "Agriculture"
- Interpretation 22: "The Appropriate Policies for Infrastructure Facilities"

The above recently issued HKFRSs have no material impact on the Group's financial statements for the year ended 31 December 2004.

In addition, the Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong (collectively referred to as "HKGAAAP") 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.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. 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.

#### Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

#### Associates

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 reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are 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 associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

#### 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.

#### 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 and its net selling price.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### *Impairment of assets (Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

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.

#### *Fixed assets and depreciation*

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that 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:

Buildings	50 years
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 the 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.

#### *Intangible assets*

##### *Research and 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. Product development expenditure which does not meet these criteria is expensed when incurred.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Intangible assets *(Continued)*

##### *Research and development costs (Continued)*

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products, not exceeding three years, commencing from the date when the products are put into commercial production.

#### 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 values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to comparison of price/earnings ratios 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.

#### 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 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.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

#### 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- \* except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- \* in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the assets and released to the income statement by way of a reduced depreciation charge.

#### 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) from the rendering of services, in the period in which services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) tax refunds and subsidy income, when approvals and the amounts involved are received from the relevant PRC authorities.

#### Retirement benefits costs

The employees of the Company and its subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Company and its subsidiary are required to contribute 22.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The Group's subsidiary in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's subsidiary contributions vest fully with the employees when contributed into the MPF Scheme.

#### Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Renminbi ("RMB").

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### *Foreign currencies (Continued)*

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 at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of an overseas subsidiary are translated into RMB using the net investment method. The income statement of the overseas subsidiary is translated into RMB at the weighted average exchange rates for the year, and its balance sheet is translated into RMB at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

#### *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

### 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 the other business segments. Summary details of the business segments are as follows:

- the design, development and selling of IC products segment ("Design, development and selling of IC products"); and
- the provision of testing services for IC products segment ("Testing services for IC products").

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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



## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Design, development and selling of IC products		Testing services for IC products		Eliminations		Consolidated	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Segment revenue:								
Sales to external customers	126,623	92,989	6,087	4,467	–	–	132,710	97,456
Intersegment sales	–	–	2,710	1,306	(2,710)	(1,306)	–	–
Total	<u>126,623</u>	<u>92,989</u>	<u>8,797</u>	<u>5,773</u>	<u>(2,710)</u>	<u>(1,306)</u>	<u>132,710</u>	<u>97,456</u>
Segment results	<u>(852)</u>	<u>(5,497)</u>	<u>2,342</u>	<u>1,702</u>	<u>41</u>	<u>(166)</u>	<u>1,531</u>	<u>(3,961)</u>
Other revenue and gains							6,860	2,907
Profit/(loss) from operating activities							8,391	(1,054)
Share of losses of associates							(835)	(5,228)
Profit/(loss) before tax							7,556	(6,282)
Tax							(57)	(72)
Profit/(loss) before minority interests							7,499	(6,354)
Minority interests							(260)	(196)
Net profit/(loss) from ordinary activities attributable to shareholders							<u>7,239</u>	<u>(6,550)</u>
Segment assets	<u>198,515</u>	<u>163,923</u>	<u>14,601</u>	<u>9,633</u>	<u>–</u>	<u>–</u>	<u>213,116</u>	<u>173,556</u>
Interest-bearing time deposits							51,000	61,000
Interests in associates							241	4,080
Long term investments							4,747	4,000
Total assets							<u>269,104</u>	<u>242,636</u>
Segment liabilities	<u>38,346</u>	<u>21,603</u>	<u>2,814</u>	<u>1,072</u>	<u>–</u>	<u>–</u>	<u>41,160</u>	<u>22,675</u>
Total liabilities	<u>38,346</u>	<u>21,603</u>	<u>2,814</u>	<u>1,072</u>	<u>–</u>	<u>–</u>	<u>41,160</u>	<u>22,675</u>
Other segment information:								
Capital expenditure	34,419	30,259	5,482	1,462	–	–	39,901	31,721
Impairment losses recognised in the income statement	2,761	1,463	–	–	–	–	2,761	1,463
Depreciation	5,780	3,331	2,147	1,441	–	–	7,927	4,772
Amortisation of intangible assets	4,151	2,526	–	–	–	–	4,151	2,526
Other non-cash expenses	1,404	2,526	–	–	–	–	1,404	2,526

# Notes to Financial Statements

31 December 2004

## 4. SEGMENT INFORMATION *(Continued)*

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	Year ended 31 December 2004				Consolidated RMB'000
	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Eliminations RMB'000	
Segment revenue:					
Sales to external customers	<u>129,514</u>	<u>14,019</u>	<u>6,954</u>	<u>(17,777)</u>	<u>132,710</u>
Other segment information:					
Segment assets	267,728	13,925	–	(12,549)	269,104
Capital expenditure	<u>39,901</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>39,901</u>

	Year ended 31 December 2003				Consolidated RMB'000
	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Eliminations RMB'000	
Segment revenue:					
Sales to external customers	<u>80,478</u>	<u>27,762</u>	<u>4,542</u>	<u>(15,326)</u>	<u>97,456</u>
Other segment information:					
Segment assets	241,986	14,746	–	(14,096)	242,636
Capital expenditure	<u>29,538</u>	<u>2,183</u>	<u>–</u>	<u>–</u>	<u>31,721</u>

## 5. TURNOVER AND OTHER REVENUE AND GAINS

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

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

	Group	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Turnover</b>		
Sale of goods	126,623	92,989
Rendering of services	6,087	4,467
	<u>132,710</u>	<u>97,456</u>
<b>Other revenue and gains</b>		
Interest income	1,156	1,496
Gain on disposal of interest in an associate ( <i>note 16</i> )	4,459	–
Gain on disposal of fixed assets	23	–
Value-added tax refunds	996	961
Subsidy income	216	167
Exchange gains, net	–	190
Others	10	93
	<u>6,860</u>	<u>2,907</u>
	<u>139,570</u>	<u>100,363</u>

# Notes to Financial Statements

31 December 2004

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

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Cost of inventories sold	<b>82,813</b>	60,466
Cost of services provided	<b>2,573</b>	2,472
Depreciation	<b>7,927</b>	4,772
Minimum lease payments under operating leases:		
Land and buildings	<b>2,034</b>	2,734
Research and development costs:		
Deferred expenditures amortised*	<b>4,151</b>	2,526
Current year expenditures	<b>17,508</b>	12,383
Auditors' remuneration	<b>650</b>	650
Staff costs (excluding directors' remuneration – (note 7)):		
Wages and salaries	<b>17,933</b>	15,749
Retirement benefits costs	<b>1,926</b>	1,818
	<b>19,859</b>	17,567
Less: Amounts capitalised as development costs	<b>(2,494)</b>	(1,406)
	<b>17,365</b>	16,161
Exchange (gains)/loss, net	<b>105</b>	(190)
Impairment loss on deferred development costs**	<b>2,045</b>	1,463
Impairment loss on long term investments	<b>716</b>	–
(Reversal of)/provision for bad and doubtful debts	<b>(87)</b>	1,126
Provision for inventories	<b>1,491</b>	1,400
Interest income	<b>(1,156)</b>	(1,496)
Value-added tax refunds	<b>(996)</b>	(961)
Gain on disposal of interest in an associate	<b>(4,459)</b>	–
(Gain)/loss on disposal of fixed assets	<b>(23)</b>	11
Subsidy income	<b>(216)</b>	(167)

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

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

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the listing of securities on the GEM and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Fees for two independent non-executive directors	147	128
Other emoluments:		
Salaries, allowances and benefits in kind	1,388	1,374
	<u>1,535</u>	<u>1,502</u>

For the year ended 31 December 2004, the salaries and benefits in kind paid to the six executive directors were approximately RMB300,000 (2003: RMB300,000), RMB300,000 (2003: RMB300,000), RMB250,000 (2003: RMB250,000), RMB250,000 (2003: RMB250,000), RMB250,000 (2003: RMB250,000) and nil (2003: Nil). None of the four non-executive directors received any fees or emoluments during the year (2003: Nil). Of the four independent non-executive directors, one received a fee of RMB128,000 (HK\$120,000) (2003: RMB128,000 or HK\$120,000), one waived the entire remuneration payable of HK\$480,000 covering the period from 19 July 2000 to 18 July 2004 and HK\$120,000 covering the period from 19 July 2004 to 18 July 2005. The benefits in kind and fee paid to the remaining two independent non-executive directors amounted to RMB38,000 (2003: RMB24,000) and RMB19,000 (HK\$17,500) (2003: Nil) respectively.

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2003: one) non-director, highest paid employee of the Group for the year are as follows:

	Group	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Salaries, allowances and benefits in kind	355	345
Pension scheme contributions	13	6
	<u>368</u>	<u>351</u>

# Notes to Financial Statements

31 December 2004

## 8. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<u>1</u>	<u>1</u>

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

## 9. TAX

Under the Income Tax Law of the PRC, the Company is subject to income tax at a rate of 33%. Pursuant to an approval document dated 15 January 2004 issued by the local municipal tax bureau, the Company was subject to a preferential income tax rate of 15% from 1 January 2004 to 31 December 2004. For the financial year ended 31 December 2004, the Company had no assessable income and no provision for income tax has been made accordingly.

Under the Income Tax Law of the PRC, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to a preferential income tax rate of 15%. Pursuant to an approval document dated 8 October 2004 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2004, Sino IC is exempt from corporate and local income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years.

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2004	2003
	RMB'000	RMB'000
Group:		
Current – Hong Kong	<u>57</u>	<u>72</u>
Total tax charge for the year	<u>57</u>	<u>72</u>



## 9. TAX (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### Group – 2004

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>7,236</u>		<u>320</u>		<u>7,556</u>	
Tax at the applicable tax rates	1,085	15.0	56	17.5	1,141	15.1
Income not subject to tax	(835)	(11.5)	(1)	(0.3)	(836)	(11.1)
Tax concession	(878)	(12.1)	–	–	(878)	(11.6)
Expenses not deductible for tax	1,047	14.4	2	0.6	1,049	13.9
Tax losses utilised from previous periods	<u>(419)</u>	<u>(5.8)</u>	<u>–</u>	<u>–</u>	<u>(419)</u>	<u>(5.5)</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>57</u>	<u>17.8</u>	<u>57</u>	<u>0.8</u>

### Group – 2003

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	<u>(5,625)</u>		<u>(657)</u>		<u>(6,282)</u>	
Tax at the applicable rates	(844)	15.0	(115)	17.5	(959)	15.3
Unprovided deferred tax assets	673	(12.0)	188	(28.6)	861	(13.7)
Income not subject to tax	–	–	(1)	0.1	(1)	–
Tax concession	(526)	9.4	–	–	(526)	8.4
Expenses not deductible for tax	936	(16.6)	–	–	936	(14.9)
Tax losses utilised from previous periods	<u>(239)</u>	<u>4.2</u>	<u>–</u>	<u>–</u>	<u>(239)</u>	<u>3.8</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>72</u>	<u>(11.0)</u>	<u>72</u>	<u>(1.1)</u>

The Group has tax losses, primarily incurred by the Company, of RMB5,171,000 (2003: RMB7,965,000) that are available for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as it is uncertain as to whether the Company will be able to fully utilise the unused tax losses which can only be carried forward for a maximum period of five years and after considering tax incentives arising from the additional deductible allowance for qualified research and development expense to be incurred by the Company.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil).

# Notes to Financial Statements

31 December 2004

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB4,326,000 (2003: RMB2,199,000) (note 25).

## 11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the follow data:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Earnings/(loss)</b>		
Net profit/(loss) attributable to shareholders	<u>7,239</u>	<u>(6,550)</u>
	2004	2003
<b>Shares</b>		
Weighted average number of ordinary shares in issue ('000)	<u>624,354</u>	<u>624,354</u>

Diluted earnings per share for the year ended 31 December 2004 and the comparative diluted loss per share for the year ended 31 December 2003 have not been presented as no diluting events existed during these years.

## 12. FIXED ASSETS

### Group

	<b>Buildings</b> <i>RMB'000</i>	<b>Machinery and office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Cost:				
At beginning of year	18,795	28,926	1,312	49,033
Additions	–	13,638	120	13,758
Transfers from construction in progress	18,614	4,037	199	22,850
Disposals	–	(24)	(100)	(124)
<b>At 31 December 2004</b>	<b><u>37,409</u></b>	<b><u>46,577</u></b>	<b><u>1,531</u></b>	<b><u>85,517</u></b>
Accumulated depreciation:				
At beginning of year	120	9,946	427	10,493
Provided during the year	637	7,042	248	7,927
Disposals	–	(16)	(95)	(111)
<b>At 31 December 2004</b>	<b><u>757</u></b>	<b><u>16,972</u></b>	<b><u>580</u></b>	<b><u>18,309</u></b>
Net book value:				
<b>At 31 December 2004</b>	<b><u>36,652</u></b>	<b><u>29,605</u></b>	<b><u>951</u></b>	<b><u>67,208</u></b>
At 31 December 2003	<u>18,675</u>	<u>18,980</u>	<u>885</u>	<u>38,540</u>

# Notes to Financial Statements

31 December 2004

## 12. FIXED ASSETS (Continued)

### Company

	<b>Buildings</b> <i>RMB'000</i>	<b>Machinery and office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Cost:				
At beginning of year	18,795	20,347	1,116	40,258
Additions	–	11,042	–	11,042
Transfers from construction in progress	18,614	1,470	–	20,084
Disposals	–	(24)	(100)	(124)
<b>At 31 December 2004</b>	<b><u>37,409</u></b>	<b><u>32,835</u></b>	<b><u>1,016</u></b>	<b><u>71,260</u></b>
Accumulated depreciation:				
At beginning of year	120	6,734	340	7,194
Provided during the year	637	4,939	193	5,769
Disposals	–	(16)	(95)	(111)
<b>At 31 December 2004</b>	<b><u>757</u></b>	<b><u>11,657</u></b>	<b><u>438</u></b>	<b><u>12,852</u></b>
Net book value:				
<b>At 31 December 2004</b>	<b><u>36,652</u></b>	<b><u>21,178</u></b>	<b><u>578</u></b>	<b><u>58,408</u></b>
At 31 December 2003	<u>18,675</u>	<u>13,613</u>	<u>776</u>	<u>33,064</u>

## 13. CONSTRUCTION IN PROGRESS

	<b>Group</b> <i>RMB'000</i>	<b>Company</b> <i>RMB'000</i>
At beginning of year	–	–
Additions	22,988	20,222
Transferred to fixed assets	(22,850)	(20,084)
<b>At 31 December 2004</b>	<b><u>138</u></b>	<b><u>138</u></b>

## 14. INTANGIBLE ASSETS

Deferred development costs:	<b>Group</b> <i>RMB'000</i>	<b>Company</b> <i>RMB'000</i>
Cost:		
At beginning of year	19,151	16,968
Additions	3,155	3,178
<b>At 31 December 2004</b>	<b><u>22,306</u></b>	<b><u>20,146</u></b>
Accumulated amortisation and impairment:		
At beginning of year	8,481	8,481
Amortisation provided during the year	4,151	4,151
Impairment during the year recognised in the income statement	2,045	2,045
<b>At 31 December 2004</b>	<b><u>14,677</u></b>	<b><u>14,677</u></b>
Net book value:		
<b>At 31 December 2004</b>	<b><u>7,629</u></b>	<b><u>5,469</u></b>
At 31 December 2003	<u>10,670</u>	<u>8,487</u>

During the year, the Group received government grants aggregately amounting to RMB2,332,000 (2003: RMB1,550,000). These cash grants were non-recurring in nature and were designated for the purpose of developing certain of the Group's products. The cash grants received have been deducted from the deferred development costs in arriving at their carrying amount. There are no unfulfilled conditions or contingencies relating to these grants.

## 15. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	<b>16,428</b>	16,428
Due from a subsidiary	<b>4,707</b>	2,497
Due to a subsidiary	<b>(227)</b>	(126)
	<b><u>20,908</u></b>	<u>18,799</u>

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31 December 2004

## 15. INVESTMENTS IN SUBSIDIARIES (Continued)

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
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 cards; and the provision of research and consultancy services of IC technology
Shanghai Fudan Micro-electronics (HK) Limited	Hong Kong 23 January 2002	HK\$7,000,000	100	Developing and selling of IC products

\* Sino IC is registered as a contractual joint venture company under the PRC law.

## 16. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	–	–	245	11,945
Share of net assets	241	4,080	–	–
	<b>241</b>	<b>4,080</b>	<b>245</b>	<b>11,945</b>

Particulars of the associate are as follows:

Name	Business structure	Place and date of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai Fu En Electronic Company Limited	Corporate	PRC 23 May 2003	49	Dormant



## 16. INTERESTS IN ASSOCIATES *(Continued)*

As at 31 December 2004, the Group's long term investments (note 17) included the remaining equity interest in Shanghai Fudan Communication Co., Ltd. ("FC") which was an associate of the Group. In accordance with the terms of a disposal agreement and a supplemental agreement dated 18 March 2004 and 19 March 2004 respectively, the Company transferred its 20% equity interest in FC to Shanghai Investment Enterprise Holdings Limited ("SCIE") at a cash consideration of RMB6,000,000. SCIE is 90% held by Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company.

## 17. LONG TERM INVESTMENTS

	Group and Company	
	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at fair value and after impairment loss	<u>4,747</u>	<u>4,000</u>

## 18. INVENTORIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials	10,007	6,663	9,150	6,627
Work in process	5,136	5,820	5,136	5,820
Finished goods	<u>22,344</u>	<u>12,301</u>	<u>21,564</u>	<u>8,965</u>
	<u>37,487</u>	<u>24,784</u>	<u>35,850</u>	<u>21,412</u>

At 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

## 19. TRADE AND BILLS RECEIVABLES

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.

# Notes to Financial Statements

31 December 2004

## 19. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date is as follows:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 3 months	19,338	19,375	15,989	17,799
3 to 6 months	11,100	6,661	11,100	6,661
6 to 12 months	3,713	3,353	3,713	3,353
Over 12 months	622	1,368	602	1,345
	<u>34,773</u>	<u>30,757</u>	<u>31,404</u>	<u>29,158</u>

## 20. OTHER RECEIVABLES

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Prepayments	5,145	5,195	4,647	5,018
Deposits and other receivables	1,064	1,099	437	1,013
	<u>6,209</u>	<u>6,294</u>	<u>5,084</u>	<u>6,031</u>

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED CASH AND BANK BALANCES

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Cash and bank balances	59,672	62,511	49,003	55,488
Time deposits with original maturity of less than three months when acquired	32,000	28,000	32,000	28,000
Time deposits with original maturity of over three months when acquired	19,000	33,000	19,000	33,000
Cash and cash equivalents	110,672	123,511	100,003	116,488
Less: Cash and bank balances pledged for bank facilities	(772)	(775)	(772)	(775)
	<u>109,900</u>	<u>122,736</u>	<u>99,231</u>	<u>115,713</u>

## 22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date is as follows:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 3 months	<u>21,038</u>	<u>12,569</u>	<u>21,037</u>	<u>12,569</u>

## 23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Payable for purchases of software	8,056	–	8,056	–
Portion classified as long term	<u>(5,615)</u>	<u>–</u>	<u>(5,615)</u>	<u>–</u>
Current portion	2,441	–	2,441	–
Accruals	2,462	1,584	2,156	1,583
Other payables	9,604	8,522	6,195	6,094
	<u>14,507</u>	<u>10,106</u>	<u>10,792</u>	<u>7,677</u>

## 24. ISSUED CAPITAL

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Registered, issued and fully paid: 624,354,000 (2003: 624,354,000) shares of RMB0.10 each	<u>62,435</u>	<u>62,435</u>

There was no movement in the Company's issued capital in 2004.

## 25. RESERVES

### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

# Notes to Financial Statements

31 December 2004

## 25. RESERVES (Continued)

Company

	Share premium account RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2003	170,717	(1,815)	168,902
Net loss for the year	—	(2,199)	(2,199)
At 31 December 2003 and beginning of year	170,717	(4,014)	166,703
Net loss for the year	—	(4,326)	(4,326)
<b>At 31 December 2004</b>	<b><u>170,717</u></b>	<b><u>(8,340)</u></b>	<b><u>162,377</u></b>

In accordance with the Company Law of the PRC and the articles of association of the Company and its PRC subsidiary, the Company and the subsidiary are required to allocate 10% of their profits after tax (after deducting accumulated losses incurred in previous years), as determined in accordance with the applicable PRC accounting standards and regulations (the "PRC accounting standards"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the respective company. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association, the SSR 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 and the subsidiary are required to transfer 5% to 10% of their profits after tax (after deducting accumulated losses incurred in previous years), as determined in accordance with the PRC accounting standards, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of liquidation of the Company or the subsidiary. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the property of the Company and the subsidiary.

The directors of Sino IC have proposed to transfer RMB179,000 and RMB89,000 to the SSR and the PWF, respectively (2003: Nil). The transfers represent 10% and 5% of Sino IC's profit after tax, as determined in accordance with the PRC accounting standards. The transfers have been incorporated in the financial statements.

At 31 December 2004, in accordance with the Company Law of the PRC, approximately RMB170,717,000 (2003: RMB170,717,000) standing to the credit of the Company's share premium account was available for distribution by way of future capitalisation issue.

## 25. RESERVES (Continued)

### Company (Continued)

According to the relevant regulations in the PRC, the amount of retained profits available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under HK GAAP.

As the Company reported accumulated losses in both the PRC statutory accounts and these financial statements, the Company had no reserve available for distribution as at 31 December 2004 and 2003.

## 26. COMMITMENTS

The Group and the Company had the following commitments at the balance sheet date:

### (a) Capital commitments

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Contracted, but not provided for:				
Purchases of fixed assets	590	5,413	590	1,897
Authorised, but not contracted for:	—	6,000	—	—
	<u>590</u>	<u>11,413</u>	<u>590</u>	<u>1,897</u>

### (b) Commitments under operating leases

At 31 December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	922	1,341	198	1,189
In the second to fifth years, inclusive	80	3,087	28	3,087
	<u>1,002</u>	<u>4,428</u>	<u>226</u>	<u>4,276</u>

## 27. RELATED PARTY TRANSACTIONS

- (a) In addition to the transaction and balances detailed elsewhere in these financial statements, the Group had the following material transactions with the following related party:

Name of related party	Relationship with the Group	Nature of transaction	2004 RMB'000	2003 RMB'000
Shanghai Fudan University ("SFU")	Owner of Fudan High Tech Company	Technical and equipment support fee	<u>255</u>	<u>800</u>

On 8 March 2000, the Company and SFU entered into an agreement ("the Agreement") under which the Company was required to pay a fee of RMB800,000 to SFU per annum for the provision of technical and equipment support.

On 12 August 2003, the Company and SFU entered into an agreement to terminate the Agreement and with effect from 1 January 2004, all technical and equipment support service provided by SFU will be charged based on a price mutually agreed by the two parties.

- (b) During the year, the Group disposed of its 20% equity interest in FC to SCIE at a cash consideration of RMB6,000,000. Further details of the transaction are included in note 16 to the financial statements.

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

## 28. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to confirm with the current year's presentation.

## 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2005.