

# 2006

First Quarterly Report



**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)  
(Stock Code : 8102)

\*for identification only

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

## FIRST QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (“Board”) of Shanghai Fudan Microelectronics Company Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the three months ended 31 March 2006, together with the unaudited comparative figures for the corresponding period in 2005, as follows:

		Three months ended 31 March	
	<i>Notes</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
<b>Revenue</b>	2	<b>45,275</b>	22,785
Cost of sales		<u>(34,640)</u>	<u>(15,953)</u>
Gross profit		<b>10,635</b>	6,832
Other revenue and gains		857	1,165
Selling and distribution costs		(2,455)	(1,683)
Administrative expenses		(5,448)	(4,812)
Other operating expenses		<u>(5,387)</u>	<u>(4,299)</u>
<b>Loss before tax</b>		<b>(1,798)</b>	(2,797)
Tax	3	<u>(2)</u>	<u>–</u>
<b>Loss for the period</b>		<b><u>(1,800)</u></b>	<b><u>(2,797)</u></b>
<b>Attributable to:</b>			
Equity holders of the parent		(1,829)	(2,801)
Minority interests		<u>29</u>	<u>4</u>
		<b><u>(1,800)</u></b>	<b><u>(2,797)</u></b>
<b>Loss per share</b>			
– Basic	5	<b><u>(0.29)cents</u></b>	<b><u>(0.45)cents</u></b>

Notes:

### 1. Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. Except for available-for-sale equity investments, they have been prepared under the historical cost convention. The accounting policies adopted in preparing these unaudited consolidated results are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2005.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### 2. Revenue

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts; the value of services rendered and gross rental income.

### 3. Tax

For the period ended 31 March 2006, the Company and its Hong Kong subsidiary have 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. For the financial year in which this period ended 31 March 2006 belongs, Sino IC is in its third profit making year and thus is entitled to 50% concession on income tax.

	Three months ended	
	31 March	
	2006	2005
	RMB’000	RMB’000
Current - PRC	<u>2</u>	<u>-</u>

The Group has tax losses, primarily incurred by the Company, of RMB2,225,000 (2005: RMB6,821,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and temporary differences arising from provisions of the Company, 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.

#### 4. Reserves

Details of movements in the reserves of the Group during the three months ended 31 March 2006 together with the comparative figures for the corresponding period in 2005 are set out below:

	Share premium <i>RMB'000</i>	Statutory surplus fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits/ (accu- mulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2006	170,717	272	136	(230)	1,222	172,117
Exchange realignment and total income and expenses recognised in the income statement	-	-	-	(56)	-	(56)
Net loss for the period	-	-	-	-	(1,829)	(1,829)
<b>At 31 March 2006</b>	<b><u>170,717</u></b>	<b><u>272</u></b>	<b><u>136</u></b>	<b><u>(286)</u></b>	<b><u>(607)</u></b>	<b><u>170,232</u></b>
At 1 January 2005	170,717	179	89	20	(6,675)	164,330
Exchange realignment and total income and expenses recognised in the income statement	-	-	-	(9)	-	(9)
Net loss for the period	-	-	-	-	(2,801)	(2,801)
At 31 March 2005	<u>170,717</u>	<u>179</u>	<u>89</u>	<u>11</u>	<u>(9,476)</u>	<u>161,520</u>

#### 5. Loss per share

The calculation of the basic loss per share is based on the unaudited net loss for the period attributable to ordinary equity holders of the parent of approximately RMB1,829,000 (2005: RMB2,801,000) and the weighted average number of 624,354,000 (2005: 624,354,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the current and comparative periods have not been presented as no diluting events existed during these periods.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

### **Business review**

For the three months ended 31 March 2006, the Group recorded turnover of approximately RMB45,275,000 (2005: RMB22,785,000), representing an increase of approximately 99% as compared to the same period in the previous financial year. Loss attributable to shareholders amounted to approximately RMB1,829,000 (2005: RMB2,801,000).

During the period under review, demand in the domestic IC market kept a definite growth. The Group has changed its sales strategy and thus recorded with satisfactory sales performance during the period, nevertheless, the profits on large projects participated were comparatively low and the profit margin was dropped from 30% of the same period in last year to 23% in the current period.

With regard to the sales performance of the Group's products during the period, besides the slightly decreases in the categories of power electronics and motor and automobile electronics, products of IC card chips, consumer electronics and telecommunications electronics have recorded significant increases.

Compared with the same period in last year, the other revenue and gains of the Group have decreased mainly as there were less government subsidies received during the current period. Selling and distribution costs increased by about 46% because of surge in turnover. At the same time, there was an increase of 13% in administrative expenses due to adjustment in staff salaries. An increase of approximately 25% in other operating expenses was primarily related to additional amortisation of deferred research and development costs incurred for increasing new projects.

### **Prospects**

The Group's major product is IC card chips which has already been launched into applications of public transportation and certain government projects, and because of its comprehensive functions and wide applications, the Group will strength its applications in other scopes in order to extend the market roomage. With superior functions and design, the multimedia processor chips that were released last year have been well-received by the market and estimated to have a continuous growth and expected to contribute more interests to the Group for its improvement in results.

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

At 31 March 2006, 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 register 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 ("SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce Invest (Group) Corporation Limited ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, as at 31 March 2006, none of the 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 period 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 March 2006, 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 Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 domestic shares are held in its own name, 34,620,000 domestic shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Co., Ltd. and 14,420,000 domestic shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Limited. The 46,160,000 domestic shares held in its own name represent approximately 7.39% of the registered share capital of the Company.

Save as disclosed above, as at 31 March 2006, 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.



## **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the period, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules.

## **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 three independent non-executive directors of the Company, Mr. Leung Tin Pui, Mr. Xu Juyan and Mr. Cheung Wing Keung. The Group's unaudited financial statements for the three months ended 31 March 2006 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

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

During the period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

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

Shanghai, the PRC, 12 May 2006

*As at the date of this report, the executive directors of the Company are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Ms. Cheng Junxia and Mr. Wang Su; the non-executive directors are Mr. Chen Xiaohong, Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu; the independent non-executive directors are Mr. Leung Tin Pui, Mr. Xu Juyan and Mr. Cheung Wing Keung.*