

# 2006

Third 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

## **Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)**

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

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

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

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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 this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

### THIRD QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (“Board”) of Shanghai Fudan Microelectronics Company Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 30 September 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>Revenue</b>	2	<b>190,583</b>	102,214	<b>80,195</b>	50,166
Cost of sales		<u>(139,837)</u>	<u>(74,182)</u>	<u>(57,588)</u>	<u>(38,159)</u>
Gross profit		<b>50,746</b>	28,032	<b>22,607</b>	12,007
Other income and gains		<b>2,340</b>	2,981	<b>943</b>	812
Selling and distribution costs		<b>(6,093)</b>	(5,958)	<b>(1,587)</b>	(2,377)
Administrative expenses		<b>(17,656)</b>	(15,038)	<b>(6,135)</b>	(5,214)
Other operating expenses		<b>(12,409)</b>	(16,504)	<b>(4,911)</b>	(5,333)
<b>Profit/(loss) from operating activities</b>		<b>16,928</b>	(6,487)	<b>10,917</b>	(105)
Impairment loss on long term investment		<u>-</u>	<u>(784)</u>	<u>-</u>	<u>(293)</u>
<b>Profit/(loss) before tax</b>		<b>16,928</b>	(7,271)	<b>10,917</b>	(398)
Tax	3	<u>(3,137)</u>	<u>(15)</u>	<u>(1,920)</u>	<u>(15)</u>
<b>Profit/(loss) for the period</b>		<b><u>13,791</u></b>	<b><u>(7,286)</u></b>	<b><u>8,997</u></b>	<b><u>(413)</u></b>
Attributable to:					
Equity holders of the parent		<b>13,477</b>	(7,349)	<b>8,868</b>	(456)
Minority interests		<b>314</b>	63	<b>129</b>	43
		<b><u>13,791</u></b>	<b><u>(7,286)</u></b>	<b><u>8,997</u></b>	<b><u>(413)</u></b>
		<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>Earnings/(loss) per share attributable to ordinary equity holders of the parent</b>					
Basic	5	<b><u>2.16 cents</u></b>	<b><u>(1.18) cents</u></b>	<b><u>1.42 cents</u></b>	<b><u>(0.07) 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, OTHER INCOME AND GAINS

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 nine months ended 30 September 2006, the Company is subject to income tax at a base rate of 33% on its assessable income after deducting tax loss (2005: nil).

Under the Income Tax Law of 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 nine months period ended 30 September 2006 belongs, Sino IC is in its third profit making year and thus is entitled to 50% concession on income tax (2005: nil).

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Nine months ended 30 September		Three months ended 30 September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for the period				
– PRC corporate income tax	1,436	–	909	–
– Hong Kong profits tax	1,701	15	1,011	15
	<u>3,137</u>	<u>15</u>	<u>1,920</u>	<u>15</u>

#### 4. RESERVES

Details of movements in the reserves of the Group during the nine months ended 30 September 2006 are set out below:

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare <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
Net profit for the period	-	-	-	-	13,477	13,477
Exchange realignment and total income and expenses for the period recognised directly in equity	-	-	-	(339)	-	(339)
<b>At 30 September 2006</b>	<b><u>170,717</u></b>	<b><u>272</u></b>	<b><u>136</u></b>	<b><u>(569)</u></b>	<b><u>14,699</u></b>	<b><u>185,255</u></b>
At 1 January 2005	170,717	179	89	20	(6,675)	164,330
Net loss for the period	-	-	-	-	(7,349)	(7,349)
Exchange realignment and total income and expenses for the period recognised directly in equity	-	-	-	(20)	-	(20)
<b>At 30 September 2005</b>	<b><u>170,717</u></b>	<b><u>179</u></b>	<b><u>89</u></b>	<b><u>-</u></b>	<b><u>(14,024)</u></b>	<b><u>156,961</u></b>

#### 5. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share for the nine months and three months ended 30 September 2006 and the comparative periods are based on the unaudited net profit/(loss) attributable to ordinary equity holders of the parent of approximately RMB13,477,000 and RMB8,868,000 respectively (Nine months and three months ended 30 September 2005: loss of RMB7,349,000 and RMB456,000 respectively) and the weighted average number of 624,354,000 (2005: 624,354,000) ordinary shares in issue during the periods.

Diluted earnings/(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 nine months ended 30 September 2006 (2005: nil).

## **BUSINESS REVIEW**

For the nine months ended 30 September 2006, the Group recorded a turnover of approximately RMB190,583,000 (2005: RMB102,214,000), representing an increase of approximately 86% as compared to the same period in last financial year. Unaudited consolidated profit attributable to shareholders for the nine months ended 30 September 2006 amounted to approximately RMB13,477,000 (2005: loss of RMB7,349,000).

During the 3rd quarter ended 30 September 2006, as compared with the corresponding period in last year, the Group's overall sales increased by approximately 86% as aforesaid. IC card chips remained as the Group's key product and because of its increasing scope of applications, continuing growth in sales was recorded and good enough to offset the adverse impact brought by price adjustments of certain products that faced keen competition. Sales in telecommunication electronics decreased as products were a few and have been marketed for a good while. Electric power electronics and automobile electronics which was supported by more stable consumers maintained sales turnover at definite levels. In the area of consumer electronics, sale performance of the multi-media IC chips that were launched by end of last year has been quite satisfactory and would make with a good contribution to the results for the year.

During the period, as a result of price adjustments in certain products being affected by changes in market supply and demand, overall gross profit dropped slightly from 27.4% of the same period in last year to 26.6%. Other income and gains decreased as less general subsidies were received from government authorities. With regard to expenses, selling and distribution costs and administrative expenses were kept at reasonable levels while other operating expenses decreased due to government grants received that have been deducted from the research and development costs to which they relate.

## **FUTURE PROSPECTS**

In addition to its continuing enhancement on functions and application scopes of the existing products, the Group will also apply further resources in research and development of advanced technologies and application systems. The directors expect that the diversification of its products would found a solid ground for the Group's long term business development and would also firm its leading market position as well as expansion in sales network, and anticipate a gradual improvement in the Group's results.

## DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2006, the interests or short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares of the Company or any of 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 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 30 September 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 30 September 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>	<i>Notes</i>	<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 Fudan University.
- (2) SCI is a state-owned enterprise wholly-owned by Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 domestic shares are held in its own name, 34,620,000 domestic shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company, and 14,420,000 domestic shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Limited. The 46,160,000 domestic shares held in its own name represent approximately 7.39% of the registered share capital of the Company.



Save as disclosed above, as at 30 September 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.

## **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 control system of the Group. The audit committee comprises the three independent non-executive directors of the Company, Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li. The Group’s unaudited financial statements for the nine months ended 30 September 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**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period under review.

By Order of the Board  
**Shi Lei**  
*Director*

Shanghai, PRC, 10 November 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 Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu; the independent non-executive directors are Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li.*