



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)

2006 HALF-YEAR RESULTS REPORT

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HALF-YEAR 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 half-year ended 30 June 2006, together with the unaudited comparative figures for the corresponding period in 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Half-year ended 30 June		Three months ended 30 June	
		2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>
REVENUE	2	110,388	52,048	65,113	29,263
Cost of sales		(82,249)	(36,023)	(47,609)	(20,070)
Gross profit		28,139	16,025	17,504	9,193
Other revenue and gains	2	1,397	2,169	540	1,004
Selling and distribution costs		(4,506)	(3,581)	(2,051)	(1,898)
Administrative expenses		(11,521)	(9,824)	(6,073)	(5,012)
Other operating expenses		(7,498)	(11,171)	(2,111)	(6,872)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	6,011	(6,382)	7,809	(3,585)
Impairment loss on long term investment		–	(491)	–	(491)
PROFIT/(LOSS) BEFORE TAX		6,011	(6,873)	7,809	(4,076)
Tax	5	(1,217)	–	(1,215)	–
PROFIT/(LOSS) FOR THE PERIOD		4,794	(6,873)	6,594	(4,076)
Attributable to:					
Equity holders of the parent		4,609	(6,893)	6,438	(4,092)
Minority interests		185	20	156	16
		4,794	(6,873)	6,594	(4,076)
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic	6	0.74 cents	(1.10) cents	1.03 cents	(0.66) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	7	54,860	57,834
Construction in progress		2,400	142
Intangible assets – Deferred development costs		9,126	9,280
Long term investments		4,500	4,500
		<u>70,886</u>	<u>71,756</u>
CURRENT ASSETS			
Inventories		55,875	56,306
Trade and bills receivables	8	41,235	63,179
Short term investment		4,000	–
Prepayments, deposits and other receivables		5,920	3,642
Pledged bank balances		2,900	1,639
Cash and bank balances		120,419	134,994
		<u>230,349</u>	<u>259,760</u>
CURRENT LIABILITIES			
Trade and bills payables	9	38,657	66,629
Other payables and accruals		14,140	22,281
Tax payable		1,536	324
		<u>54,333</u>	<u>89,234</u>
NET CURRENT ASSETS		<u>176,016</u>	<u>170,526</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>246,902</u>	<u>242,282</u>
NON-CURRENT LIABILITIES			
Long term payables		2,710	2,737
Deferred tax liabilities		870	878
		<u>3,580</u>	<u>3,615</u>
NET ASSETS		<u>243,322</u>	<u>238,667</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		62,435	62,435
Reserves	10	176,587	172,117
		<u>239,022</u>	<u>234,552</u>
Minority interests		4,300	4,115
TOTAL EQUITY		<u>243,322</u>	<u>238,667</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2006	62,435	170,717	272	136	(230)	1,222	234,552	4,115	238,667
Net profit for the period	-	-	-	-	-	4,609	4,609	185	4,794
Exchange realignment and total income and expenses for the period recognised directly in equity	-	-	-	-	(139)	-	(139)	-	(139)
At 30 June 2006	<u>62,435</u>	<u>170,717</u>	<u>272</u>	<u>136</u>	<u>(369)</u>	<u>5,831</u>	<u>239,022</u>	<u>4,300</u>	<u>243,322</u>
At 1 January 2005	62,435	170,717	179	89	20	(6,675)	226,765	1,179	227,944
Net loss for the period	-	-	-	-	-	(6,893)	(6,893)	20	(6,873)
Exchange realignment and total income and expenses for the period recognised directly in equity	-	-	-	-	(20)	-	(20)	-	(20)
At 30 June 2005	<u>62,435</u>	<u>170,717</u>	<u>179</u>	<u>89</u>	<u>-</u>	<u>(13,568)</u>	<u>219,852</u>	<u>1,199</u>	<u>221,051</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the half year ended 30 June	
	2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>
Net cash outflow from operating activities	(4,086)	(3,071)
Net cash used in investing activities	(43,089)	(4,330)
Net cash flow from financing activities	—	—
DECREASE IN CASH AND CASH EQUIVALENTS	(47,175)	(7,401)
Cash and cash equivalents at beginning of period	98,633	110,672
Effect of foreign exchange rate changes, net	(139)	(20)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>51,319</u>	<u>103,251</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	48,419	102,611
Bank balances pledged for banking facilities	2,900	640
	<u>51,319</u>	<u>103,251</u>

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 revenue 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.

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

	Half-year ended 30 June		Three months ended 30 June	
	2006 RMB’000	2005 RMB’000	2006 RMB’000	2005 RMB’000
Revenue				
Sale of goods	106,585	49,572	63,205	27,762
Services rendered	3,803	2,476	1,908	1,501
	<u>110,388</u>	<u>52,048</u>	<u>65,113</u>	<u>29,263</u>
Other revenue and gains				
Interest income	854	436	434	210
Value-added tax refunds	–	395	–	311
Subsidy income	137	850	54	166
Exchange gains, net	–	2	–	2
Others	406	486	52	315
	<u>1,397</u>	<u>2,169</u>	<u>540</u>	<u>1,004</u>
	<u>111,785</u>	<u>54,217</u>	<u>65,653</u>	<u>30,267</u>

3. Segment information

The following tables present revenue, profit/(loss) and certain assets, liability and expenditure information for the Group's business segments for the half-year ended 30 June 2006 and the comparative period:

	Design, development and selling of IC products		Testing services of IC products		Eliminations		Consolidated	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Segment turnover:								
Sales to external customers	106,585	49,572	3,803	2,476	-	-	110,388	52,048
Sales to other segments	-	6,046	1,025	772	(1,025)	(6,818)	-	-
Total	<u>106,585</u>	<u>55,618</u>	<u>4,828</u>	<u>3,248</u>	<u>(1,025)</u>	<u>(6,818)</u>	<u>110,388</u>	<u>52,048</u>
Segment results	<u>4,057</u>	<u>(8,492)</u>	<u>557</u>	<u>(59)</u>	<u>-</u>	<u>-</u>	<u>4,614</u>	<u>(8,551)</u>
Other revenue and gains							<u>1,397</u>	<u>2,169</u>
Profit/(loss) from operating activities							6,011	(6,382)
Impairment loss on long term investment							-	(491)
Profit/(loss) before tax							6,011	(6,873)
Tax							(1,217)	-
Net profit/(loss) for the period							4,794	(6,873)
Assets and liabilities								
Segment assets	200,621	190,201	13,911	11,240	-	-	214,532	201,441
Interest bearing time deposits	77,379	52,000	3,000	6,140	-	-	80,379	58,140
Available-for-sale equity investments/Long term investments	4,500	4,000	4,000	-	-	-	8,500	4,000
Total assets	<u>282,500</u>	<u>246,201</u>	<u>20,911</u>	<u>17,380</u>	<u>-</u>	<u>-</u>	<u>303,411</u>	<u>263,581</u>
Segment liabilities	49,559	36,998	6,950	5,532	-	-	56,509	42,530
Total liabilities	<u>49,559</u>	<u>36,998</u>	<u>6,950</u>	<u>5,532</u>	<u>-</u>	<u>-</u>	<u>56,509</u>	<u>42,530</u>
Other segment information:								
Capital expenditure	2,397	3,294	2,142	472	-	-	4,539	3,766
Depreciation	2,249	1,718	1,616	1,371	-	-	3,865	3,089
Amortisation of intangible assets	2,445	1,414	-	-	-	-	2,445	1,414
Other non-cash expenses	<u>670</u>	<u>1,129</u>	<u>-</u>	<u>165</u>	<u>-</u>	<u>-</u>	<u>670</u>	<u>1,294</u>

The Group's information during the period presented by geographical segment is as follows:

	Mainland China <i>RMB'000</i>	Asia Pacific <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the half year ended 30 June 2006					
Segment revenue:					
Sales to external customers	65,286	47,402	5,635	(7,935)	110,388
Other segment information:					
Segment assets	284,916	43,262	–	(24,767)	303,411
Capital expenditure	4,495	43	–	–	4,539
For the half year ended 30 June 2005					
Segment revenue:					
Sales to external customers	47,508	8,040	3,318	(6,818)	52,048
Other segment information:					
Segment assets	188,879	12,562	–	–	201,441
Capital expenditure	3,766	–	–	–	3,766

4. Profit/(Loss) before tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Half-year ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	3,865	3,089	1,955	1,547
Provision for doubtful debts	217	853	17	537
Payments under operating leases in respect of land and buildings	526	1,035	232	545
Amortisation of research and development costs	2,445	1,414	1,269	615
Written back of inventory provision	(16)	(1,246)	(12)	(435)
Interest income	(854)	(436)	(434)	(210)

Note: The amortisation of deferred development costs for the period is included in "Other operating expenses" on the face of the consolidated income statement. Government grants received have been deducted from the research and development costs to which they relate.

5. Tax

For the half-year ended 30 June 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 half-year ended 30 June 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: nil) on the estimated assessable profits arising in Hong Kong during the period.

	Half-year ended 30 June		Three months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Current period				
– PRC	527	–	525	–
– Hong Kong	690	–	690	–
	<u>1,217</u>	<u>–</u>	<u>1,215</u>	<u>–</u>

6. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings/(loss) per share for the half-year and three months ended 30 June 2006 are based on the unaudited net profit/(loss) attributable to ordinary equity holders of the parent of approximately RMB4,609,000 and RMB6,438,000 respectively (half-year and three months ended 30 June 2005: loss of RMB6,893,000 and RMB4,092,000 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.

7. Fixed assets

During the half-year ended 30 June 2006, the Group acquired machinery and office equipment amounted to approximately RMB892,000 (31 December 2005: RMB7,341,000).

8. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit and the credit period is generally up to 90 days. An ageing analysis of trade and bills receivables at 30 June 2006 is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 3 months	22,865	46,954
3 to 6 months	7,663	9,594
6 to 12 months	7,320	5,021
Over 12 months	3,387	1,610
	<u>41,235</u>	<u>63,179</u>

9. Trade and bills payables

An ageing analysis of trade and bills payables at 30 June 2006 is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 3 months	30,215	54,135
3 to 6 months	8,442	12,494
	<u>38,657</u>	<u>66,629</u>

10. Reserves

Other than the profit/(loss) for the period, exchange realignment and minority interests as disclosed in the consolidated statement of changes in equity, there were no movements in the reserves of the Group for the relevant periods in 2006 and 2005.

11. Commitments

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
(a) Capital commitments		
Contracted, but not provided for in respect of:		
Land and buildings	–	150
Plant and machinery	–	20
	<u>–</u>	<u>170</u>

(b) Commitments under operating leases

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within one year	939	1,362
In the second to fifth years, inclusive	942	1,367
	<u>1,881</u>	<u>2,729</u>

12. Related party transactions

During the period, the Group had the following transaction with the related party:

Name of related party	Relationship with the Group	Nature of transaction	Half-year ended 30 June	
			2006 RMB'000	2005 RMB'000
Shanghai Fudan University	Owner of Shanghai Fudan High Tech Company	Rental paid for laboratory	<u>9</u>	<u>–</u>

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2006 (30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the half-year ended 30 June 2006, the Group recorded turnover of approximately RMB110,388,000 (30 June 2005: RMB52,048,000), a sharp increase of approximately 112% as compared to the same period in last year. Profit attributable to shareholders amounted to approximately RMB4,609,000 (30 June 2005: loss of RMB6,893,000).

During the period, following the continuous growth in the economy of the Mainland and the increasing demand in IC market and popularity of electronic products, the sales of the Group's core business of IC products have further expanded. The sharp increase in turnover was a result of the Group's recent change in its marketing strategy by concentrating its participation in huge and government related projects. The Group's major product of IC cards are well equipped with multi-functions, besides the application in various transportation network systems in Shanghai, it has been commonly used in industrial and commercial sectors. The product of multi-fee power control meters has been widely adopted by electricity power consumers. The product of multi-media IC chips has been well received by end users. All these products have very solid and stable base of market demand. With regard to other products, besides the sale of motor and automobile electronics that has dropped due to keen competition, the sales in communication electronics and power electronics products were recorded with satisfactory growth.

The gross profit margin of the Group's overall products has decreased from 30.8% of the same period in last year to 25.5% in the current period. The reasons were that some products have been launched in market for quite a long time, selling prices of which have to be adjusted in order to meet market competition; at the same time, selling prices of certain products have been adjusted accordingly with a view to increase their market shares.

During the period under review, other revenue and gains dropped as general subsidies provided by government authorities have decreased. Selling and distribution costs and administrative expenses increased as a result of raise in turnover. Other operating expenses decreased due to government grants of RMB4,000,000 were received during the period and have been deducted from the research and development costs to which they relate. Because of tightening in credit control, provision for doubtful debts was at a minimal and provision on inventories has recorded a written back due to improved inventory management.

FINANCIAL REVIEW

As at 30 June 2006, net assets of the Group amounted to approximately RMB243,322,000 (31 December 2005: RMB238,667,000). Current assets amounted to approximately RMB230,349,000 (31 December 2005: RMB259,760,000), of which approximately RMB123,319,000 (31 December 2005: RMB136,633,000) were cash and bank deposits. The Group has sufficient financial resources and is able to meet its daily operations and future development.

The Group's current liabilities as at 30 June 2006 amounted to approximately RMB54,333,000 (31 December 2005: RMB89,234,000) and had non-current liabilities amounted to approximately RMB3,580,000 (31 December 2005: RMB3,615,000). The net assets value per share of the Group was approximately RMB0.39 (31 December 2005: RMB0.38). The Group's ratio of current liabilities over current assets was approximately 23.6% (31 December 2005: 34.4%) and the gearing ratio was approximately 23.8% (31 December 2005: 38.9%) on the basis of total liabilities over net assets. As at 30 June 2006, the Group had no bank or other borrowings (31 December 2005: nil).

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group has maintained a conservative policy on management of interest and foreign exchange risk. In order to minimize the risk of interest and foreign exchange, most of the Group's deposits are in local currency with different fixed periods and rates to cover the cash flows of its business operations and fluctuation in interest rates. During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows and no hedging or other arrangements to reduce the currency risk have been implemented.

During the period ended 30 June 2006, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries.

During the period, there was no change in the capital structure of the Company. The capital of the Company comprises of ordinary shares. The Group relies on its internal resources as a source of funding and keeps most of its cash in Renminbi in bank accounts as working capital.

As at 30 June 2006, the Group did not have any material contingent liabilities (31 December 2005: nil). Besides the fixed deposits of RMB2,900,000 (31 December 2005: RMB1,639,000) pledged for banking facilities, the Group has not pledged its assets to any third parties (31 December 2005: nil).

EMPLOYEE INFORMATION

As at 30 June 2006, the Group employed approximately 287 (30 June 2005: 285) staff and the total staff costs reflected in the income statement amounted to RMB12,228,000 (30 June 2005: RMB13,524,000) including amounts capitalised as development costs of RMB4,843,000 (30 June 2005: RMB5,495,000). The decrease in staff costs is mainly due to management control.

PROSPECTS

The Group will continue to widen the sales scope of its IC card products by extending to the various transportation systems in Shanghai and expects these markets can bring with substantial and long term stable turnover to the Group. In the area of consumer electronics, the Group's self-developed product of multi-media processing IC chips on moveable terminals is expected to keep its sales growth and will make a good contribution to the overall turnover and results for the year. The Group will gradually launch its new products which would be adopted to different applications. The directors expect that with dedication in research and development of self-developed products, followed with new products being launched into the market, the Group's results will definitely be further improved.

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

At 30 June 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 June 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 June 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:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
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 Co., Limited, 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 June 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

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

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period ended 30 June 2006.

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 half-year ended 30 June 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period ended June 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry to all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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.

By Order of the Board
Jiang Guoxing
Chairman

Shanghai, PRC, 11 August 2006

* *For identification purpose only*

As at the date of this announcement, 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. Cheung Wing Keung and Mr. Guo Li.

This announcement will remain on the GEM website on the "Latest Company Announcement" pages for at least 7 days from the day of its posting.