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**If you have sold or transferred** all your shares in Shanghai Fudan Microelectronics Company Limited, you should at once hand this circular together with the accompanying confirmation slip and form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**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)*

## **CONNECTED TRANSACTION**

**Acquisition of a 53.8% interest in  
Shanghai Commercial High Technology Development Limited\***

**Financial Adviser to Shanghai Fudan Microelectronics Company Limited\***



**Barits Securities (Hong Kong) Limited**

**Independent Financial Adviser to the Independent Board Committee**



**CSC Asia Limited**

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*This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for 7 days from the date of its posting.*

*\* For identification purposes only*

13th November, 2002

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## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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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 further 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 Stock 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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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise.*

“Acquisition”	the acquisition of a 53.8% interest in Shanghai Commercial High Technology by the Company from Shanghai Commercial Investment at a consideration of RMB15.72 million (or about HK\$14.83 million)
“Acquisition Agreement”	the agreement dated 21st October, 2002 entered into between the Company and Shanghai Commercial Investment in relation to the Acquisition
“Associate”	has the meaning as defined in the GEM Listing Rules
“Board”	the board of Directors
“Company”	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 PRC and whose H Shares are listed on GEM
“Completion”	completion of the Acquisition Agreement
“CSC Asia”	CSC Asia Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the Independent Financial Adviser
“Directors”	the directors (including independent non-executive directors) of the Company
“Domestic Shares”	the domestic invested shares of nominal value of RMB0.10 each in the share capital of the Company, which are subscribed for in RMB
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“H Shares”	the overseas listed foreign invested shares of nominal value of RMB0.10 each in the share capital of the Company, which are listed on GEM and subscribed for and traded in HK\$
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IC” or “integrated circuit”	circuits that integrate many electric devices and produced with the semiconductor technology

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## DEFINITIONS

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“IC cards”	cards embedded with an IC chip which are now commonly used in the form of bank account cards and credit cards
“IC chip”	packaged integrated circuits
“Independent Board Committee”	an independent committee of the Board comprising Mr. David Yung, Mr. Leung Tin Pui and Mr. Xu Juyan who are independent non-executive Directors
“Independent Shareholders”	Shareholders other than 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited*) and its associates
“Independent Third Party(ies)”	parties who are independent of and not connected with the promoters, directors, supervisors, chief executive, substantial shareholders or management shareholders of the Company or an associate of any of them
“Latest Practicable Date”	12th November, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SGM” or “Special General Meeting”	the special general meeting of the Company to be convened for the purpose of approving, among other things (if any), the transactions contemplated under the Acquisition Agreement
“Shanghai Commercial High Technology”	上海商業高新技術發展有限公司 (Shanghai Commercial High Technology Development Limited*), a company incorporated in the PRC, which is held as to 27.4%, 3.4% and 69.2% by 上海郵電發展總公司 (Shanghai Postal and Telecommunication Development Company*), 上海合康科技發展實業有限公司 (Shanghai He Kang Technology Development Industrial Company Limited*) and Shanghai Commercial Investment respectively
“Shanghai Commercial Investment”	上海商投實業集團有限公司 (Shanghai Commercial Investment Enterprise Holdings Limited*), a company incorporated in the PRC, which is held as to 90% by 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited*) and as to 10% by 上海蔬菜(集團)有限公司 (Shanghai Vegetables (Group) Company Limited*), an Independent Third Party
“Shares”	Domestic Shares and H Shares

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## DEFINITIONS

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“Shareholders”	holders of Domestic Shares and of H Shares
“SOC”	system on chip, a new design technique which allows a complex electric system (which, in the past, had to be made up of a number of electric boards) to be integrated into a chip
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

(In this circular, unless otherwise indicated, the exchange rate at HK\$1.00 = RMB1.06 has been used for the purpose of illustration only and it does not constitute a representation that any amount has been or could have been or may be exchanged at such exchange rate.)

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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# 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)*

*Executive Directors:*

Jiang Guoxing (*Chairman*)

Shi Lei

Yu Jun

Cheng Junxia

Wang Su

*Non-executive Directors:*

Chen Xiaohong

Zhang Qianling

He Lixing

Shen Xiaozu

*Independent non-executive Directors:*

David Yung

Leung Tin Pui

Xu Juyan

*Registered office:*

No. 220 Handan Road

Shanghai

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

13th November, 2002

*To the Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTION**

#### **Acquisition of a 53.8% interest in Shanghai Commercial High Technology**

#### **INTRODUCTION**

On 23rd October, 2002, the Board announced that on 21st October, 2002 the Company and Shanghai Commercial Investment entered into the Acquisition Agreement in relation to the acquisition of a 53.8% interest in Shanghai Commercial High Technology at a cash consideration of RMB15.72 million (or about HK\$14.83 million).

The purpose of this circular is to provide you with further details of the Acquisition and to seek your approval of the Acquisition at the SGM.

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## LETTER FROM THE BOARD

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### ACQUISITION AGREEMENT

Date:	21st October, 2002
Parties:	Shanghai Commercial Investment as vendor and the Company as purchaser
Assets to be acquired:	53.8% interest in Shanghai Commercial High Technology. Upon Completion, 15.4% interest in Shanghai Commercial High Technology will still be held by Shanghai Commercial Investment which intends to sell all such remaining interest to other two existing shareholders of Shanghai Commercial High Technology shortly.

### Consideration under the Acquisition

The consideration under the Acquisition Agreement is RMB15.72 million (or about HK\$14.83 million), which would be fully settled by cash and payable on the date of Completion. The consideration, which was determined with reference to 53.8% of the audited net asset value of Shanghai Commercial High Technology of approximately RMB16.45 million (or about HK\$15.52 million) as at 31st December, 2001, represented a discount of approximately 4.44% to such net asset value. The consideration was determined based on normal commercial terms and arrived at after arm's length negotiations. The Directors are of the view that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

### Conditions of the Acquisition Agreement

Completion is conditional on, among other things, the following conditions having been fulfilled:

1. the Acquisition being approved by the board of directors of Shanghai Commercial Investment;
2. the Acquisition being approved by the Independent Shareholders at the SGM; and
3. the obtaining of all approvals in relation to the Acquisition from the relevant PRC government authorities.

In the event that the above conditions are not fulfilled on or before 31st January, 2003 (or such later date as the parties may otherwise agree), the Acquisition Agreement shall lapse.

### Completion

Completion shall take place when all the conditions precedent set out in the Acquisition Agreement are fulfilled and all necessary procedures for change of shareholder of Shanghai Commercial High Technology have been completed. The Directors expect that Completion shall take place on or before the end of February 2003.



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## LETTER FROM THE BOARD

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### INFORMATION ON SHANGHAI COMMERCIAL HIGH TECHNOLOGY

Shanghai Commercial High Technology was established in the PRC in 1995 and is held as to 69.2% by Shanghai Commercial Investment and as to 27.4% and 3.4% by two Independent Third Parties, namely 上海郵電發展總公司 (Shanghai Postal and Telecommunication Development Company\*) and 上海合康科技發展實業有限公司 (Shanghai He Kang Technology Development Industrial Company Limited\*), respectively. It is principally engaged in the development of computer software, the integration of computer system, the management of electronic consumer cards, the design and installation of office automation system, the design and installation of control and security alarm system, the sale of computer peripheral products and the repair of cashier and related products in the PRC, which are businesses that may involve the application of IC cards produced by the Group. Besides, Shanghai Commercial High Technology also focuses on the development of commercial applications of IC cards and the management of information security devices. For each of the financial years 2000 and 2001, revenue from development of computer software accounted for 18.01% and 1.94% respectively of total turnover and revenue from development of commercial applications of IC cards represented about 63.04% and 52.40% respectively of total turnover. The balance of turnover for each period was attributable to other businesses set out above.

Currently, Shanghai Commercial High Technology is promoting its several key software products, “副食品行業超市計算機管理系統通用軟件包” (Computer management system software package for non-staple foodstuffs of supermarket), which was classified as the 國家示範工程 (State Demonstrative Project) and commended by 國家經濟貿易委員會 (State Economic & Trade Commission of PRC) and 國家金卡辦 (National GoldCard Office); “中型百貨商場計算機管理系統通用軟件包” (Applied computer management system software package for medium-sized department store), which has been awarded a 科技二等獎 (Technology Grade II Award) by 上海市經濟委員會 (Shanghai Economic Commission) and classified as the 國家示範工程 (State Demonstrative Project); and “商用收款機在信用卡受理系統中的應用軟件” (Applied software for commercial cashier in the credit card management system), which has been awarded a 上海市優秀新產品三等獎 (Outstanding New Products Grade III Award of the Shanghai Municipality). The Directors believe that upon Shanghai Commercial High Technology becoming a subsidiary of the Company, its software products would be beneficial to the financial performance of the Company in the long run in view that such software products would require the use of IC card products developed by the Group with reference to the specific requirements of each software product.

In addition, Shanghai Commercial High Technology intends to launch the All-in-one Cards (一卡通) project in the next one to two years, subject to the timing of approval granted by relevant PRC authorities. All-in-one Cards project is a development project of commercial application of IC cards and their operating systems.

The All-in-one Cards project consists of commercial application systems and IC cards dedicated for the collection and sharing of consumer information and their consumption patterns to achieve marketing and promotion purposes. Consumers can pay through their IC cards for small amount transactions. The All-in-one Cards are mainly applicable in supermarkets or department stores which are installed with relatively advanced computer management systems. The All-in-one Cards will have great market potential given the increasing need of railway IC cards, transportation IC cards and personal identity IC cards which are largely promoted by the state government.

## LETTER FROM THE BOARD

As at 31st December, 2001, the audited net assets of Shanghai Commercial High Technology amounted to approximately RMB30.57 million (or about HK\$28.84 million). Shanghai Commercial High Technology recorded an audited net profit after tax of approximately RMB30,011 (or about HK\$28,312) for the year ended 31st December, 2000 and an audited net loss after tax of approximately RMB980,000 (or about HK\$920,000) for the year ended 31st December, 2001. The loss-making situation in 2001 was principally due to the drop in revenue from development of commercial applications of IC cards as the promotion of IC cards application by the government authorities in the PRC was not on schedule. Upon launch of All-in-one Cards project which involves the use of the software package of Shanghai Commercial High Technology, the Directors expect that the financial performance of Shanghai Commercial High Technology shall improve.

Shanghai Commercial High Technology has invested into four companies of which details are set out as follows:

Name of investee company	Total registered capital	Shanghai Commercial High Technology's existing interest in the company	Time of investment by Shanghai Commercial High Technology	Principal activities
上海共享商業增值 網絡服務有限公司 (Shanghai Sharing Commercial Value Added Network Service Company Limited*) (Note 1)	RMB5 million	51%	April 1996	It is principally engaged in the provision of value-added commercial services like electronic data exchange, electronic payment and electronic commerce as well as the development and sales of software and hardware products.
上海亞太計算機 信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited*) (Note 2)	RMB5 million	40%	February 1996	It is principally engaged in the development and sale of computer application software, the integration of computer system and the sale and repair of computers and its related peripheral products.

## LETTER FROM THE BOARD

Name of investee company	Total registered capital	Shanghai Commercial High Technology's existing interest in the company	Time of investment by Shanghai Commercial High Technology	Principal activities
上海商和電子有限公司 (Shanghai Shanghe Electronics Company Limited*) (Note 3)	USD0.3 million	20%	September 1995	It is principally engaged in the development and manufacture of computer application software and the development, design, installation and testing of computer network system, automatic system and security system.
上海雅高企業服務有限公司 (Shanghai Yagao Corporate Services Company Limited*) (Note 4)	USD2 million	3.75%	April 2000	It is principally engaged in the provision of management, strategic planning and consultancy services of all kinds for food and beverage through catering services cards.

*Note 1:* 上海信息產業有限公司 (Shanghai Information Industry Company Limited\*), an Independent Third Party, holds 49% interests.

*Note 2:* 長江計算機(集團)有限公司 (Chang Jiang Computer (Group) Company Limited\*) and 上海六百實業有限公司 (Shanghai Liu Bai Industrial Company Limited\*), both Independent Third Parties, hold 40% and 20% interests respectively.

*Note 3:* 日本國株式會社陽和 (Japan Yang He Company Limited\*), an Independent Third Party, holds 80% interests.

*Note 4:* 法國雅高股份有限公司 (France Yagao Company Limited\*) and 中國出口商品基地建設上海公司 (China Export Goods Construction Base Shanghai Company\*), both Independent Third Parties, hold 92.5% and 3.75% interests, respectively.

The integration of integrated circuit systems, development of software and application of catering services cards are among the businesses the four investee companies are engaged into and such businesses are complimentary to the application and promotion of IC cards and the relevant system developed by the Group in the area of banking and electronic consumption system.

With the development of Shanghai Commercial Value Added Network (“SCVAN”), which is a key infrastructure construction project under the government of Shanghai Municipality, 上海共享商業增值網絡服務有限公司 (Shanghai Sharing Commercial Value Added Network Service Company Limited\*) focuses on providing transportation switching and processing, electronic data interchange, electronic ordering, terminal deployment and maintenance, internet electronic shopping mall and other value added services.

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## LETTER FROM THE BOARD

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Starting from 1996, 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*) has endeavored to develop computer systems for use in various fields ranging from banking and finance to education and health care. 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*) is determined to integrate imported and self-developed technology and is building up liaison with more Shanghai enterprises. 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*) is awarded as the 工業系統優秀企業 (Outstanding Enterprises in Industrial System\*) in 1999 and 2001 by the government of Shanghai Municipality. A number of enterprises and government bodies such as the 中國人民銀行 (People Bank of China\*) and 上海石油集團 (SINOPEC Shanghai Petrochemical Company Limited\*) in the PRC are its customers.

上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*) has entered into contracts with large PRC enterprises which are expected to generate demand for the Group's products, notwithstanding that as at the Latest Practicable Date, no contract has been entered into between the Group and 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*). For example, the Company has contracted with one of the PRC petrol giants which involve the use of value-added cards (a type of product of the Group) for fuel refilling.

上海商和電子有限公司 (Shanghai Shanghe Electronics Company Limited\*) possesses strong research and development capability in computer network, system engineering, software and automated system development. As such, it acts as the main unit for development, sales and client servicing of commercial automated application software for Shanghai Commercial High Technology, whilst in the meantime, it actively participates in the GoldCard and Infoport projects in the PRC. With regard to the GoldCard project in developing electronic catering system, since early 1999, 上海雅高企業服務有限公司 (Shanghai Yagao Corporate Services Company Limited\*), which utilizes its hotel networks and expertise in catering servicing, has co-operated with Shanghai Commercial High Technology, which provides the necessary technology know-how, particularly in the control of electronic card readers within the system.

The businesses of these four companies aforementioned, which are downstream businesses of the Group, are in the interests of Shanghai Commercial High Technology and accordingly, they are expected to deploy the IC cards developed by the Company upon the Acquisition.

### REASONS FOR THE ACQUISITION

The Company is an application specific integrated circuit (ASIC) design and system integration company based in the PRC and is mainly engaged in the design and sale of integrated circuits for industrial applications. Currently, the Group's products have a wide range of industrial applications, and these products include telecommunication products, integrated IC cards, motor/automobile electronic products, power electronic products and consumer electronic products. It is the Company's major business objective to capture a significant share of the IC design and system integration business in the PRC and to become one of the leading ASIC design companies in the world.

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## LETTER FROM THE BOARD

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Through the Acquisition, the Company and Shanghai Commercial High Technology could provide mutual support in aspects such as technology, research and development and manufacturing, especially on the SOC given that the businesses of the investee companies of Shanghai Commercial High Technology are downstream businesses to the core IC business of the Group. The Directors believe that the application of SOC will become increasingly popular in the future given the increasing use of railway IC cards, transportation IC cards and personal identity IC cards largely promoted by the state government. Meanwhile, the Directors expect that the Acquisition will greatly enhance the Company's capability in integrating its chips and the operating systems used on the chips.

In line with the section headed "Reasons for the placing and use of proceeds" in the Company's circular dated 12th November, 2001 in relation to the placing of its H Shares, the Directors believe that the Acquisition is favorable to the growth of the Group and its long term development by diversifying itself into business areas which are complementary to the core IC design business of the Group. The Acquisition will be financed by proceeds from aforesaid placing and upon Completion, the Company will appoint two directors (out of four) into the board of Shanghai Commercial High Technology.

### **APPOINTMENT OF NEW EXECUTIVE DIRECTOR**

The Company proposes to appoint Mr. Tsai Kao Chung as an executive Director effective from the date of the SGM if such resolution be approved by Shareholders in the SGM. Mr. Tsai Kao Chung is the managing director of Best Yield Development Consulting, Inc. ("Best Yield") which is a direct investment company in Taiwan focusing on high technology investments and alliance formation. His role as director of Best Yield would help the development of the Company by introducing strategic investors in line with the development requirements of the Group like new technology and capital. He has over 10 years working experience in Taiwan investment banking field and has substantial experience in corporate finance activities in relation to IC related businesses. He is independent of and not connected with the promoters, directors, supervisors, chief executive, substantial shareholders or management shareholders of Shanghai Commercial High Technology or an associate of any of them.

### **SPECIAL GENERAL MEETING**

The notice of the SGM to be held at 10:00 a.m. on 10th January, 2003 at 2/F., Shaw Lecture Hall of Shanghai Fudan University, No. 220 Handan Road, Shanghai, the PRC is set out on pages 27 to 28 of this circular.

A form of proxy is enclosed with this circular. Whether or not you are able to attend (if you are so entitled to) the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office (for Shareholders of Domestic Shares), or the Company's principal place of business in Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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A confirmation slip for the SGM is also enclosed. You are requested to complete and sign the confirmation slip (if you are entitled to attend the meeting) and return the signed slip to the Company's registered office (for Shareholders of Domestic Shares), or the Company's principal place of business in Hong Kong on or before 20th December, 2002 in accordance with the instructions printed thereon.

Shanghai Commercial Investment, the vendor in the Acquisition Agreement, is held as to 90% by 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited\*) and as to 10% by an Independent Third Party while 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited\*), which is formerly known as 上海商業投資公司 (Shanghai Commerce and Investment Co.\*), is an initial management shareholder of the Company. As such, Shanghai Commercial Investment is a connected person of the Company as defined under the GEM Listing Rules. Accordingly, the Acquisition constitutes a connected transaction under Chapter 20 of the GEM Listing Rules.

Since the consideration for the acquisition is above the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, the Acquisition is subject to the Independent Shareholders' approval at the SGM. 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited\*) and its associates will abstain from voting for the resolution in relation to the Acquisition in the SGM.

### RECOMMENDATION

The Directors believe that the terms of the Acquisition are fair and reasonable and the Acquisition is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of all the resolutions to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to the letters from the Independent Board Committee and CSC Asia and the general information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**Shanghai Fudan Microelectronics Company Limited**  
**Jiang Guoxing**  
*Chariman*

\* For identification purposes only



**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)*

13th November, 2002

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION**

**Acquisition of a 53.8% interest in  
Shanghai Commercial High Technology**

We have been appointed as the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 13th November, 2002 (the “Circular”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Acquisition and the principal factors, reasons and opinion of CSC Asia as set out on pages 13 to 22 of the Circular, we are of the view that the terms of the Acquisition are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the resolutions, set out in the SGM Notice, to approve the Acquisition and the transaction(s) contemplated thereunder.

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**David Yung      Leung Tin Pui      Xu Juyan**

\* *For identification purposes only*

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## LETTER OF ADVICE FROM CSC ASIA

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*The following is the text of a letter of advice from CSC Asia Limited to the Independent Board Committee in respect of the Acquisition, and is prepared for inclusion in this circular.*



### **CSC ASIA LIMITED**

28/F., COSCO Tower

Grand Millennium Plaza

183 Queen's Road Central

Hong Kong

13th November, 2002

*To the Independent Board Committee of  
Shanghai Fudan Microelectronics Company Limited*

Dear Sir or Madam,

### **CONNECTED TRANSACTION**

#### **Acquisition of a 53.8% interest in Shanghai Commercial High Technology**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition, details of which are set out in this circular, of which this letter forms a part. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in this circular. We recommend the Independent Board Committee to advise the Shareholders to read this circular carefully before they decide whether the Acquisition is fair and reasonable.

On 21st October, 2002, the Company and Shanghai Commercial Investment entered into the Acquisition Agreement in relation to the acquisition of a 53.8% interest in Shanghai Commercial High Technology at a cash consideration of RMB15.72 million (or about HK\$14.83 million), which was determined with reference to 53.8% of the audited net asset value of Shanghai Commercial High Technology amounting to approximately RMB16.45 million (or about HK\$15.52 million) as at 31st December, 2001.



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## LETTER OF ADVICE FROM CSC ASIA

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Shanghai Commercial Investment, the vendor in the Acquisition Agreement, is held as to 90% by 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited\*) and as to 10% by an Independent Third Party, namely 上海蔬菜(集團)有限公司 (Shanghai Vegetables (Group) Company Limited\*), while 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited\*), which is formerly known as 上海商業投資公司 (Shanghai Commerce and Investment Co.\*), is an initial management shareholder of the Company. As such, Shanghai Commercial Investment is a connected person of the Company as defined under the GEM Listing Rules. The Acquisition constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules and is subject to the Independent Shareholders' approval at the SGM.

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in this circular and information provided to us by the Company and its Director(s). We have assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true at the date of the SGM. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in this circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its Director(s) and have no reason to doubt that any relevant material facts have been withheld or omitted.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group, Shanghai Commercial High Technology, Shanghai Commercial Investment or any of their associates nor have we carried out any independent verification of the information supplied.

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## LETTER OF ADVICE FROM CSC ASIA

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### CONNECTED TRANSACTION

In giving our advice to the Independent Board Committee, we have taken into account the following factors in considering whether or not the terms of the Acquisition are fair and reasonable.

#### Rationale of the Acquisition

The following table shows some of the key financial figures extracted from the interim and annual report of the Group and the unaudited and audited financial information of Shanghai Commercial High Technology for the 6 months ended 30th June, 2002 and the years ended 31st December, 2001 and 2000:

#### Financial Figures

	<b>For the 6 months ended/as at 30th June, 2002 RMB'000</b>	<b>For the year ended/as at 31st December, 2001 RMB'000</b>	<b>31st December, 2000 RMB'000</b>
<b>Shanghai Fudan (the "Company")</b>			
Turnover	19,808	44,133	35,845
Net (Loss)/Profit Attributable to Shareholders	(4,797)	(1,362)	1,967
Cash	149,591	59,533	93,868
Net Assets	228,401	122,289	123,651
<b>Shanghai Commercial High Technology</b>	<b>Note 1</b>	<b>Note 2</b>	<b>Note 2</b>
Net (Loss)/Profit	(802)	(985)	30
Net Assets	29,769	30,571	31,556
Net Tangible Assets	29,589	30,366	31,405

*Note 1.* Information is extracted from unaudited financial information provided by the Company.

*Note 2.* Information is extracted from audited financial information provided by the Company.

The Company is an application specific integrated circuit (ASIC) design and system integration company based in the PRC and is mainly engaged in the design and sale of integrated circuits for industrial applications.

As revealed from the above table, the Group posted losses attributable to the Shareholders of approximately RMB4.80 million (or about HK\$4.53 million) and RMB1.36 million (or about HK\$1.28 million) for the 6 months ended 30th June, 2002 and for the year ended 31st December, 2001. A profit attributable to the Shareholders of approximately RMB1.97 million (or about HK\$1.86 million) was recorded by the Group for the year ended 31st December, 2000.

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## LETTER OF ADVICE FROM CSC ASIA

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As stated in the 2002 interim report and 2001 annual report of the Company, the tumbling in profit in year 2001 and worsening in loss-making position in the first half of 2002 was mainly attributable to the stringent competition coming from market competitors leading to the shrinkage in profit margin for some outdated products. Increase in research and development cost and salaries for the sales and marketing team of the Group constituted another major reasons to the decrease in the profit attributable to the Shareholders from the year ended 31st December, 2000 to the 6 months ended 30th June, 2002.

Shanghai Commercial High Technology recorded an audited net profit after tax of approximately RMB30,011 (or about HK\$28,312) for the year ended 31st December, 2000 and an audited net loss after tax of approximately RMB985,000 (or about HK\$929,000) and RMB802,000 (or about HK\$757,000) for the year ended 31st December, 2001 and six months ended 30th June, 2002. The loss-making situation in the year 2001 and first half of year 2002 was principally due to the drop in revenue from development of commercial applications of IC cards as the promotion of IC cards application by the government authorities in the PRC was not on schedule. Upon launch of All-in-one Cards project which involves the use of the software package of Shanghai Commercial High Technology, the Directors expect that the financial performance of Shanghai Commercial High Technology shall improve. In this regard, the Directors are of the opinion that historical financial performance of Shanghai Commercial High Technology may not be reflective of the future benefit created to the Group.

In a bid to improving the performance of the Group in the future, the Group is seeking to acquire a controlling stake of 53.8% in Shanghai Commercial High Technology in order to take advantage of:

- its expertise in the area of computer software development, and downstream businesses provided by its four investee companies (as described in note (b) below) in IC cards industry in the PRC that is complimentary to the Group's technical know-how and existing activities respectively; and
- the future business opportunity offered by the All-in-one Cards project.

as detailed below:

(a) *Pooling of expertise of Shanghai Commercial High Technology into the Group*

Shanghai Commercial High Technology is focusing on the development of commercial application of IC cards and the management of information security devices on top of its principal business activities in the development of computer software, the integration of computer system, the management of electronic consumer cards, the design and installation of office automation system, the design and installation of control and security alarm system, the sale of computer peripheral products and the repair of cashier and related products in the PRC. For the 6 months ended 30th June, 2002, years ended 31st December, 2001 and 2000, revenue from development of computer software accounted for 100%, 1.94% and 18.01% respectively of the total turnover and revenue from development of

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## LETTER OF ADVICE FROM CSC ASIA

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commercial applications of IC cards represented about 0%, 52.4% and 63.04% respectively. The balance of turnover for each period was attributable to other business set out above. The drop in the revenue from development of commercial applications of IC cards from year 2000 to the first half of year 2002 was mainly due to fact that the promotion of IC cards application by the government authorities in the PRC was not on schedule as mentioned in the foregoing.

According to the prospectus of the Company dated 31st July, 2000, the Company's overall business objective is to capture a significant share of the IC design and system integration business in the PRC. In view of that, Shanghai Commercial is engaged in development of commercial application of IC cards and computer system integration, the Acquisition is in tie with the Group's overall business objective.

Furthermore, according to the circular of the Company dated 12th November, 2001 regarding a placing of H Shares, the Directors stated that the application of SOC will become increasingly popular in the future. The Directors consider that the ability to combine a wide range of intellectual property to develop SOC is a critical factor in determining future success of the Group.

As advised by the Directors, apart from commercial applications of IC cards products, Shanghai Commercial High Technology is also engaged and experienced in the computer software development while the Group's main strength is in the design and development of IC cards. Since SOC is the integration of computer systems and IC cards, the expertise and technical know-how from the Shanghai Commercial High Technology is important to the development of SOC.

In view of this, the Directors expect that through the Acquisition, the Company would gain technological support from Shanghai Commercial High Technology by pooling its expertise in computer software development into the Group's experience of design and development of IC cards in the research and development, manufacture and sales and marketing of the Group's IC products, in particular, the SOC. As such, research and development costs to be incurred by the Group in the area of IC products, in particular, the SOC will be saved by making use of the existing research experience of Shanghai Commercial High Technology. Also the pooling of expertise will generate synergy effect on the development of the Group's IC card business.

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## LETTER OF ADVICE FROM CSC ASIA

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- (b) *The four investee companies of Shanghai Commercial High Technology providing complimentary downstream business to the Group:*

Shanghai Commercial High Technology has invested in four investee companies as detailed:

	<b>Shanghai Commercial High Technology's existing interest in the company</b>
<b>Description</b>	
(i) 上海共享商業增值網絡服務有限公司 (Shanghai Sharing Commercial Value Added Network Service Company Limited*) which is engaged in the provision of value-added commercial services like electronic data exchange, electronic payment and electronic commerce as well as the development and sales of software and hardware products;	51%
(ii) 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited*) which is engaged in the development and sale of computer application software, the integration of computer system and the sale and repair of computers and its related peripheral products;	40%
(iii) 上海商和電子有限公司 (Shanghai Shanghuo Electronics Company Limited*) which is engaged in the development and manufacture of computer application software and the development, design, installation and testing of computer network system, automatic system and security system, and	20%
(iv) 上海雅高企業服務有限公司 (Shanghai Yagao Corporate Services Company Limited* ) which is engaged in the provision of management, strategic planning and consultancy services of all kinds for food and beverage through catering services cards	3.75%

As all of these four companies may deploy the IC cards in their operations, they are considered downstream businesses to the core business of the Group. They are expected to enlarge the sales channels of the Group's core IC card products and improve its performance after the completion of Acquisition.

Among the four companies in the foregoing, 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*) has out-performed the other three

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## LETTER OF ADVICE FROM CSC ASIA

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and earned its reputation among the peers within the industry of computer system integration and development, which is a downstream business to the Group and provides a good sales channel for the Groups' IC card products. It is awarded as the 工業系統優秀企業 (Outstanding Enterprises in Industrial System\*) in 1999 and 2001 by the Government of Shanghai City. A good number of huge enterprises and Government bodies in PRC are its customers, such as, the 中國人民銀行 (People's Bank of China\*) and 上海石油集團 (SINOPEC Shanghai Petrochemical Company Limited\*) etc..

According to audited accounts of 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*), it reported net profits of approximately RMB1.37 million (or about HK\$1.29million) and RMB1.69 million (or HK\$1.59 million) for the year ended 31st December, 2001 and 2000 respectively. According to the Directors, some sizable contracts have been entered into with large PRC enterprises which are expected to generate a demand for the Group's products, notwithstanding that as at the Lastest Practicable Date no contract has been entered into between the Group and 上海亞太計算機信息系統有限公司 (Shanghai Yatai Computer Information System Company Limited\*). For example, as advised by the Directors, the Company has contracted with one of the PRC petrol giants which involve the use of value-added cards (a type of product of the Group) for fuel refilling.

(c) *Key products and project of Shanghai Commercial High Technology*

As mentioned in the letter from the Board, Shanghai Commercial High Technology is currently promoting several key software products in the area of development and application of computer system software, which pave a way for creating a demand for IC cards developed by the Group in the future as such software product has to be installed on IC cards to become applicable.

On top of the above projects, some other potential projects are on the pipelines and round the corner. For instance, the Directors informed that Shanghai Commercial High Technology intends to launch the All-in-one Cards (一卡通) projects, which is the development of a commercial application project of IC cards and their operating systems, in the next one to two years subject to the timing of approval granting from relevant PRC authorities because the promotion of electronic card product is one of the directions in formulating national strategies of the PRC and thus approval from the relevant PRC Government bodies is required according to the Directors.

The All-in-one Cards project consists of commercial application systems and IC cards dedicated for the collection and sharing of consumer information and their consumption patterns to achieve marketing and promotion purposes. Consumers can pay through their IC cards for small amount transactions. The All-in-one Cards are mainly applicable in supermarkets or department stores which are installed with relatively advanced computer management systems. The Directors anticipate that the All-in-one Cards will have great market potential given the increasing need of railway IC cards, transportation IC cards and identity IC cards which are largely promoted by the state government.

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## LETTER OF ADVICE FROM CSC ASIA

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Once the All-in-one Cards project is launched, Shanghai Commercial High Technology will require IC cards for the production of All-in-one Cards. As the Company can exercise control over Shanghai Commercial High Technology upon completion of the Acquisition, demand for IC cards by the latter from the former is therefore expected.

(d) *Conclusion*

Taking into consideration that the businesses of these four investee companies are downstream businesses of the Group and the key product and project undertaken by Shanghai Commercial High Technology (as detailed in the letter from the Board and mentioned in the foregoing) are complimentary to the Group's business, the Directors are in the opinion that Acquisition will contribute to the Group by taking advantage of the expertise of Shanghai Commercial High Technology and diversifying the Group into business areas which are complementary to its core IC card business and securing enlarged sales channels.

We concur with the Directors that the Acquisition is in tie with the business objective to capture a significant share of the IC design and system integration business in the PRC as stated in the prospectus of the Company and bear a favourable impact on the performance and development of the Group in the long run.

### **Valuation and consideration**

The consideration in respect of the Acquisition of RMB15.72 million (or about HK\$14.83 million) was determined based on normal commercial terms and arrived at after arm's length negotiations. Such consideration would be fully settled by cash and payable on the date of Completion. The consideration, which was determined with reference to 53.8% of the audited net asset value of Shanghai Commercial High Technology of approximately RMB16.45 million (or about HK\$15.52 million) as at 31st December, 2001, represented a discount of approximately 4.44% to such net asset value. The Directors are of the view that the terms of the Acquisition Agreement, including the consideration, are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

In valuing a company, two methodologies are commonly used in the market, namely, the use of price to earning ratio and net assets value. Based on the audited accounts for the year ended 31st December, 2001, Shanghai Commercial High Technology recorded a loss after taxation of approximately RMB984,819. Accordingly, a price to earnings ratio is not available for assessing the valuation of Shanghai Commercial High Technology. As such, the net asset value of Shanghai Commercial High Technology as at 31st December, 2001 is an appropriate basis to evaluate the level of consideration. On such basis, we consider the discount represented by the consideration over the net asset value to be reasonable and acceptable as far as the Independent Shareholders are concerned.

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## LETTER OF ADVICE FROM CSC ASIA

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### Financial effects

#### *Earnings*

Upon the Completion, 53.8% of the results of Shanghai Commercial High Technology would be consolidated into the Company's financial statements. As discussed above, the Directors believe that the Acquisition will pool the expertise of Shanghai Commercial High Technology into the Group's know-how, which is expected to generate synergy effect on the development of the Group's IC card business and save costs in the area of research and development which was one of the principal factors that dragged the Group's performance into red.

Moreover, the downstream business coming from the four investee companies of Shanghai Commercial High Technology will enlarge the sales channels and broaden the client base of the Group.

Accordingly, the Directors are confident that the Acquisition would have a positive effect on the financial performance of the Group in the long run.

Upon the completion of the Acquisition, a negative goodwill of RMB0.73 million will be created, which is calculated with reference to the difference between the consideration of the Acquisition of RMB15.72 million and the 53.8% share of net assets of Shanghai Commercial High Technology of RMB16.45 million to be acquired.

The Directors have advised that currently they do not have any decision on the accounting treatment of the negative goodwill. However, they have advised that, according to Statements of Standard Accounting Practice 30 "Business Combinations" issued by the Hong Kong Society of Accountants, the amount of negative goodwill can normally be amortised not exceeding 20 years from initial recognition. Should the amount of negative goodwill be amortised over a period of 20 years, approximately RMB36,500 (or about HK\$34,434) per annum will be credited to the profit and loss account of the Group for the coming years.

As a whole, the Directors anticipate that the Group will enjoy a favourable impact on its earnings capitalizing the good prospect for the market of IC products upon completion of the Acquisition.

After taking into consideration of the synergy effect to be brought in by pooling the expertise of Shanghai Commercial High Technology into the Group's know-how, the anticipated benefits to be enjoyed by the Group through the cost saving effect in the area of research and development and the favourable financial impact coming from the amortization of negative goodwill in the future, we concur with the Directors that the Group will enjoy a favourable impact on its earnings upon completion of the Acquisition.



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## LETTER OF ADVICE FROM CSC ASIA

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### *Net asset value*

As at 31st December, 2001, the audited net asset value of Shanghai Commercial High Technology amounted to approximately RMB30.57 million (or about HK\$28.84 million). Without taking into account the results of the Group in 2002, the consolidated net asset value of the Group would slightly improve by approximately HK\$690,000, which is the premium of the 53.8% of the net asset value of Shanghai Commercial High Technology as at 31st December, 2001 over the consideration of the Acquisition.

### *Working capital*

The Company will make a cash payment of approximately RMB15.72 million (equivalent to approximately HK\$14.83 million) in aggregate in respect of the Acquisition. According to the unaudited financial information provided by the Company, the Group had cash and bank balances of approximately RMB140.02 million (or about HK\$132.09 million) as at 30th September, 2002. The Directors have confirmed that the Group has sufficient internal resources to finance the Acquisition. On this basis, we concur with the Directors' view that the Acquisition will have an insignificant effect to the working capital level of the Group.

## RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Acquisition is in normal commercial terms which are fair and reasonable and are in the interests of the Company so far as the Shareholders as a whole are concerned. Accordingly, we recommend the Independent Board Committee to advise the Shareholders that the connected transaction is fair and reasonable.

Yours faithfully,  
For and on behalf of  
**CSC Asia Limited**  
**Andrew Chiu**  
*Managing Director and*  
*Head of Investment Banking*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

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

## 2. DISCLOSURE OF INTERESTS

- (a) Save as disclosed below, as at the Latest Practicable Date, no Director or chief executive of the Company was interested in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance); (ii) pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.59 of the GEM Listing Rules:

Directors	Number of Shares held and nature of interests				
	Personal	Corporate	Family	Other (Note)	Total
Mr. Jiang Guoxing	7,210,000	—	—	1,442,300	8,652,300
Mr. Shi Lei	7,210,000	—	—	12,980,000	20,190,000
Mr. Yu Jun	—	—	—	10,961,530	10,961,530
Ms. Cheng Junxia	—	—	—	8,076,920	8,076,920
Mr. Wang Su	—	—	—	7,211,530	7,211,530
Mr. Chen Xiaohong	—	—	—	7,211,530	7,211,530
Ms. Zhang Qianling	—	—	—	1,733,650	1,733,650
Mr. He Lixing	—	—	—	1,442,300	1,442,300
Mr. Shen Xiaozu	—	—	—	1,442,300	1,442,300
	<u>14,420,000</u>	<u>—</u>	<u>—</u>	<u>52,502,060</u>	<u>66,922,060</u>

Supervisors	Number of Shares held and nature of interests				Total
	Personal	Corporate	Family	Other (Note)	
Mr. Li Wei	—	—	—	6,057,690	6,057,690
Mr. Ding Shengbiao	—	—	—	7,211,530	7,211,530
Mr. Xu Lenian	—	—	—	865,380	865,380
	—	—	—	14,134,600	14,134,600

*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, 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 (the “SCI”), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

- (b) Save as disclosed below, the Directors are not aware of any other person who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of interests
SSAC	144,230,000	23.10
Shanghai Fudan High Tech Company ( <i>Note 1</i> )	106,730,000	17.09
SCI ( <i>Note 2</i> )	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 74.30% owned subsidiary, Ningbo Lirong Co., Limited. The 46,160,000 Domestic Shares held in its own name represent about 7.39% of the registered share capital of the Company.
- (c) None of the Directors and CSC Asia has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2001 to which the latest published audited accounts of the Company were made up.

### 3. SPONSOR'S INTERESTS

Pursuant to Rule 6.59 of the GEM Listing Rules, BOCI Asia Limited has been appointed as the sponsor of the Company (the "Sponsor") for a period up to 31st December, 2002.

As at the Latest Practicable Date, the Sponsor, its directors, employees and associates did not have any interests in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company.

### 4. COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

### 5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this circular and are or may be material:

- (a) the Company entered into a Placing Agreement on 30th October, 2001 with Barits Securities (Hong Kong) Limited ("Barits"), in respect of the issuance of 105,604,000 New Placing H Shares;
- (b) the Company entered into an Underwriting Agreement on 6th February, 2002 with Barits, as a condition of the Placing Agreement dated 30th October, 2001 in relation to 105,604,000 New Placing H Shares; and
- (c) the Acquisition Agreement.

### 6. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31st December, 2001 (the date to which the latest audited financial statements of the Company were made up).

### 7. EXPERT

- (a) CSC Asia, which has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, is an investment adviser registered under the Securities Ordinance.
- (b) CSC Asia has given and has not withdrawn his written consent to the issue of the circular with the inclusion of its letter and references to its name in the form and context in which it is included; and

- (c) The letter and recommendation given by CSC Asia is given as of the date of this circular for incorporation herein.

## 8. SERVICE CONTRACTS

Save as disclosed below, none of the Directors or supervisors has entered or proposed to enter into a service contract with the Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than the statutory compensation):

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 19th July, 2000 which will continue thereafter unless terminated by three months' prior written notice to be given by either party to the other without payment of compensation. Independent non-executive Directors, Mr. David Yung and Mr. Leung Tin Pui, have signed a letter of appointment with the Company for a period of one year commencing from 19th July, 2002 to 18th July, 2003; whilst another independent non-executive Director, Mr. Xu Juyan, has also signed a one-year letter of appointment with the Company commencing from 12th June, 2002 to 11th June, 2003. In addition, a proposed Executive Director, Mr. Tsai Kao Chung, will enter into a service contract for a period of one year if and only if the respective resolution is to be approved in the SGM.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at Flat 12, 7/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong on any business day from the date of this circular up to the date of the SGM:

- (a) the articles of association of the Company;
- (b) the Acquisition Agreement;
- (c) the letter of advice from CSC Asia;
- (d) the material contracts referred to in this Appendix; and
- (e) the service contracts referred to in this Appendix.

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## NOTICE OF SPECIAL GENERAL MEETING

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**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)*

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the special general meeting (the “SGM”) of Shanghai Fudan Microelectronics Company Limited\* (the “Company”) will be held at 2/F., Shaw Lecture Hall of Shanghai Fudan University, No. 220 Handan Road, Shanghai, the PRC on 10th January, 2003 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

#### ORDINARY RESOLUTIONS

**“THAT:**

- (a) the Acquisition Agreement (as defined in the Circular), a copy of which has been produced to the SGM marked “A” and signed by the chairman of the meeting for the purpose of identification, and the transaction(s) contemplated thereunder, be and are hereby approved, ratified and confirmed;
- (b) the Directors be and are hereby authorised for and on behalf of the Company to do or authorised doing all such acts, matters and things as they may in their discretion consider necessary, desirable or expedient to implement and/or give effect to the Acquisition pursuant to the Acquisition Agreement and the transactions contemplated thereunder, and to waive compliance from or agree to any variation or amendment to any of the terms of the Acquisition Agreement as they may in their discretion consider to be desirable and in the interest of the Company; and
- (c) the appointment of Mr. Tsai Kao Chung as an executive Director be and is hereby approved.”

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

Shanghai, PRC, 13th November, 2002

\* *For identification purposes only*

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## NOTICE OF SPECIAL GENERAL MEETING

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*Registered office:*

No. 220 Handan Road  
Shanghai  
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 10th December, 2002 shall be entitled to attend the SGM. Further details are set out in the confirmation slip and explanation thereto.
2. Any member entitled to attend and vote at the SGM 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 authority, must be deposited not less than 24 hours before the time appointed for the holding of the SGM or any adjourned meeting 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 11th December, 2002 to 9th January, 2003 (both dates inclusive) during which period no transfer of shares will be registered.
5. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and has delivered a valid confirmation slip of SGM attendance, and in such event, the instrument appointing a proxy shall be deemed to be revoked.