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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)

TERMINATION OF A PROPOSED CONNECTED TRANSACTION

Termination of agreements relating to a proposed acquisition of a 53.8% interest in Shanghai Commercial High Technology Development Limited*

The board of Directors wish to inform that the Acquisition Agreement dated 21st October, 2002 and the Supplementary Agreement dated 3rd January, 2003 relating to the acquisition of a 53.8% interest in Shanghai Commercial High Technology have been terminated with effect from 27th June, 2003.

Reference is made to the announcements of Shanghai Fudan Microelectronics Company Limited (the “Company”) dated 22nd October, 2002 (the “First Announcement”) and 3rd January, 2003 (the “Second Announcement”) and the circular of the Company dated 13th November, 2002 (the “Circular”) in respect of the Acquisition. Unless the context otherwise requires, terms used herein shall have the same meanings as defined in the First Announcement, the Second Announcement and the Circular.

BACKGROUND

As stated in the First Announcement, on 21st October, 2002, the Company and Shanghai Commercial Investment entered into the Acquisition Agreement, under which the Company has agreed to acquire a 53.8% interest in Shanghai Commercial High Technology from Shanghai Commercial Investment at a cash consideration of RMB15.72 million (or about HK\$14.83 million).

On 13th November, 2002, the Company despatched to its Shareholders the Circular containing, among other things, further information on the Acquisition, the advice of the independent board committee and the independent financial adviser and a notice of SGM for the purpose of approving, among other things (if any), the transactions contemplated under the Acquisition Agreement.

On 3rd January, 2003, the Company made the Second Announcement, which stated that certain strategic investors in Shanghai who are third parties independent of and not connected with the Company had indicated their intention to invest in Shanghai Commercial High Technology together with the Company and that the terms of investment were under negotiation since late December 2002. In such regard, on 3rd January, 2003, the Company and Shanghai Commercial Investment entered into the Supplemental Agreement, pursuant to which (i) the conditions fulfillment date for the Acquisition Agreement will be extended to 30th September, 2003 and (ii) the consideration under the Acquisition Agreement and the shareholding in Shanghai Commercial High Technology to be held by the Company will be adjusted accordingly. It was also stated that, subject to finalisation of the investment terms, a formal agreement setting out the details and terms of such investment would be executed which was expected to happen on or before 30th June, 2003. An announcement setting out such details would be made by then.

TERMINATION OF THE ACQUISITION

It was stated in the First Announcement that, among other things, Shanghai Commercial High Technology is undertaking several key projects in the PRC. The Directors believe that upon completion of the Acquisition, the projects conducted by it would be beneficial to the Group's financial performance in the long run in view that such projects would make use of IC cards developed by the Group. In addition, Shanghai Commercial High Technology has invested into four companies, the businesses of which are downstream businesses and are expected to deploy IC cards developed by the Group.

Subsequent to the entering of the Acquisition Agreement, after substantial negotiation between the Company and Shanghai Commercial High Technology, they derived a more economic mode of cooperation. As such, the Company has been providing advanced IC design and system integration technology in IC chips to Shanghai Commercial High Technology to develop the Company's IC chips for the applications in its System on Chip ("SOC") projects without any processing charge, and the Company has gained technical support on SOC from Shanghai Commercial High Technology by pooling its expertise into the Group. The Directors, including the independent non-executive directors are of the view that such arrangement is under normal commercial terms. As a result of the mutual support and cooperation, the Group has developed its IC chips for SOC applications as well as other applications and has achieved an increase in sales as Shanghai Commercial High Technology and its investee companies have already consumed IC cards from independent third party card manufacturers which used the Group's IC chips for further processing into IC cards which were not products of the Group, and provided complimentary downstream business to the Group, which was originally expected by the Company only after completion of the Acquisition. Hence, both parties have already been able to derive new business opportunities and technical supports expected from the Acquisition without making an investment in Shanghai Commercial High Technology by the Company under the Acquisition Agreement. In view of the foregoing, the Board wishes to announce that the Company and Shanghai Commercial Investment have entered into a termination agreement on 27th June, 2003 and mutually agreed to terminate the Acquisition Agreement with effect from 27th June, 2003. Upon termination of the Acquisition Agreement, none of the parties involved shall have further obligations or any claims against the other. No compensation were suffered by both parties. After termination of the Acquisition Agreement, the Company and Shanghai Commercial High Technology will continue to cooperate in a similar manner.

According to our latest information, the independent strategic investors are still negotiating with Shanghai Commercial Investment with an intention to invest in Shanghai Commercial High Technology, the Directors are not aware of any other material impact on the business of the Group as a result of the termination of the Acquisition or final outcome of the foregoing negotiation. The Directors including the independent non-executive directors, believe that the termination of the Acquisition Agreement is in the best interests of the Company and its shareholders as the Company has gained technical support as well as an increase in sales and pooling of expertise of Shanghai Commercial High Technology into the Group and is enabled to retain

the related financial resource which is now placed with its bankers. 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 Company will continue to seek other cooperation opportunities in the coming future.

By order of the Board
Shanghai Fudan Microelectronics Company Limited*
Jiang Guoxing
Chairman

Shanghai, the PRC, 3rd July, 2003

** For identification purposes only*

(In this announcement, 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.)

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