



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)

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002**

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

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

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

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

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

AUDITED RESULTS

The Board of Directors (the “Board”) of Shanghai Fudan Microelectronics Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002 along with the comparative audited figures of the Company for the year 31 December 2001 as follows:

	<i>Notes</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
TURNOVER	2	62,003	44,133
Cost of sales		<u>(44,173)</u>	<u>(33,330)</u>
Gross profit		17,830	10,803
Other revenue and gains	2	2,946	7,086
Selling and distribution costs		(4,170)	(3,608)
Administrative expenses		(13,876)	(10,361)
Other operating expenses		<u>(7,504)</u>	<u>(4,976)</u>
LOSS FROM OPERATING ACTIVITIES		(4,774)	(1,056)
Share of loss of an associate		<u>(2,637)</u>	<u>—</u>
LOSS BEFORE TAX		(7,411)	(1,056)
Tax	3	<u>96</u>	<u>(402)</u>
Loss before minority interests		(7,315)	(1,458)
Minority interests		<u>180</u>	<u>96</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(7,135)</u>	<u>(1,362)</u>
LOSS PER SHARE	4		
Basic		<u>(1.17) cents</u>	<u>(0.26) cents</u>

Notes:

1. BASIS OF PREPARATION

The Company was incorporated in the People's Republic of China (the "PRC") on 10 July 1998 and its H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on 4 August 2000.

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for long term equity investments.

2. TURNOVER AND OTHER REVENUE AND GAINS

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
TURNOVER		
Sale of goods	60,923	44,132
Services rendered	<u>1,080</u>	<u>1</u>
	<u>62,003</u>	<u>44,133</u>
OTHER REVENUE		
Interest income	1,883	2,895
Investment income	69	96
Value added tax refunds	866	—
Subsidy income	118	—
Exchange gains, net	10	—
Service income	<u>—</u>	<u>4,094</u>
	2,946	7,085
GAINS		
Gain on disposal of fixed assets	<u>—</u>	<u>1</u>
	<u>2,946</u>	<u>7,086</u>
	<u>64,949</u>	<u>51,219</u>

3. TAX

	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
PRC		
Provision for the year	—	402
Over-provision in prior year	(170)	—
Hong Kong		
Provision for the year	<u>74</u>	<u>—</u>
	<u>(96)</u>	<u>402</u>

Under the Income Tax Law of the PRC, the Company is subject to income tax at a basic rate of 33%. As of 14 June 2001, the Company obtained a notice from the Shanghai High Technology Enterprise (Products) Identification Office. According to the notice, the Company is qualified as a high technology entity and is subject to an income tax rate of 15% for 2001. With the expiration of the tax concession in 2001, the Company will seek clarification from the tax authorities in respect of its applicable tax rate. For the financial year ended 31 December 2002, the Company has no assessable income and no provision for income tax has been made accordingly.

Hong Kong profit tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year.

The unprovided deferred tax asset for the year amounted to RMB1,148,000 and related primarily to unused tax losses of the Company and a subsidiary aggregated to RMB9,135,000. The unprovided deferred tax asset in 2001 amounted to RMB410,000 related primarily to the accelerated amortisation of acquired know how.

4. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2002, is based on the following data:

	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
LOSS		
Net loss attributable to shareholders	<u>(7,135)</u>	<u>(1,362)</u>
SHARES		
Weighted average number of shares in issue	<u>609,309,000</u>	<u>518,750,000</u>

Diluted loss per share for the year ended 31 December 2002 and the comparative diluted loss per share have not been calculated because no diluting events existed during the two years ended 31 December 2002.

5. RESERVES

Details of movements in the reserves of the Group during the year are set out as follows:

	Share premium account RMB'000	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits/ losses) (accumulated RMB'000	Total RMB'000
At 1 January 2001:					
As previously reported	70,375	324	324	753	71,776
PRC statutory adjustment (Note (a))	<u>—</u>	<u>(324)</u>	<u>(324)</u>	<u>648</u>	<u>—</u>
As restated	70,375	—	—	1,401	71,776
Net loss for the year	—	—	—	(1,362)	(1,362)
Transferred from accumulated losses	—	132	132	(264)	—
PRC statutory adjustment (Note (a))	<u>—</u>	<u>(132)</u>	<u>(132)</u>	<u>264</u>	<u>—</u>
At 31 December 2001, as restated	<u>70,375</u>	<u>—</u>	<u>—</u>	<u>39</u>	<u>70,414</u>
At 1 January 2002:					
As previously reported	70,375	456	456	(873)	70,414
PRC statutory adjustment (Note (a))	<u>—</u>	<u>(456)</u>	<u>(456)</u>	<u>912</u>	<u>—</u>
As restated	70,375	—	—	39	70,414
Net loss for the year	—	—	—	(7,135)	(7,135)
Issue of shares (Note (b))	109,272	—	—	—	109,272
Share issue expenses (Note (b))	<u>(8,930)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,930)</u>
At 31 December 2002	<u>170,717</u>	<u>—</u>	<u>—</u>	<u>(7,096)</u>	<u>163,621</u>

Notes:

- (a) The statutory common reserve and statutory public welfare fund were adjusted to reflect the adjustments made on the opening retained profits/(losses) of the Company prepared in accordance with PRC accounting standards and regulations applicable to the Company.
- (b) On 21 February 2002, the Company issued an additional 105,604,000 new H shares of RMB0.10 each to investors at HK\$1.07 each through a private placement.

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year.

CLOSURE OF H SHARE REGISTER FOR ANNUAL GENERAL MEETING

Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 23 April 2003 shall be entitled to attend the Annual General Meeting. The Register of Members of the Company will be closed from 23 April 2003 to 22 May 2003 (both days inclusive) for the purposes of Annual General Meeting during which no transfer of H shares will be effected.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2002, the Group recorded a turnover of approximately RMB62,003,000 (2001: RMB44,133,000), an increase of approximately 40% as compared to last year. The audited loss attributable to shareholders was approximately RMB7,135,000, increased by approximately 424% as compared with RMB1,362,000 recorded in previous year. The basic loss per share was RMB1.17 cents (2001: RMB0.26 cents) representing an increase by approximately 350% from the last year

In the year 2002, the market remained affected by the fragility of the global economy, however, the depletion of excessive stocks of previous years in the electronics industry enabled the production of semi-conductors to show a slow growth. Under the slowdown of global economy, prices of electronic products have been decreased to maintain sales and competitiveness. Thousands of foreign IC products dumped into the PRC market with an average consequential desperate pricing amongst competitors. Despite these challenges, tough market conditions and decrease in profitability as a result of cuts in selling prices of some products, the Group still managed to achieve a stable growth in turnover with its quality IC design professionals, strong market promotion, flexibility in market strategy and continuous development and research of new products.

A majority of turnover and loss from operating activities of the Group was derived from the principal activities carried out in the PRC mainland. As a result of the continuous economy growth in the PRC, the Group's hard efforts

in research and development and launching of new products to combat against decline in product prices, decrease of custom duties on imported goods and together with higher profit margin on new products, the Group's was enabled to achieve an increase in overall gross profit from 24.5% of last year to 28.8% this year. The enlarged loss in this year resulted from drop in interest income of approximately RMB1,012,000 which was caused by decrease in interest rate and there was no technical transfer income during the year as compared to RMB4,000,000 derived in the previous year. The increase in administrative expenses was mainly due to a jump in amortization of fixed assets as the Group had acquired many new equipment to cope with the rapid development in technologies and increase of products under research and development; the provision against doubtful debts for the year was approximately RMB1,022,000 and is slightly higher than last year. Moreover, because of the Group's long operating cycle in research and development and extra time taken for products to be accredited by related authorities, for sake of prudence, the Group has made provision of impairment on deferred assets and expensed certain research and development costs in accordance with relevant accounting standards, the Group's situation was further worsened by an increase of impairment loss of deferred development costs amounted to approximately RMB919,000 and research and development costs of approximately RMB1,622,000, respectively over the last year. Furthermore, the Group's results were deteriorated by the downturn in the business sector of an associate and share of its loss for the year amounted to approximately RMB2,637,000.

An analysis of the performances of the Group's various business streams during the year under review are as follows:

IC Card

IC card products are our core business and key development direction, the turnover of IC card products accounted for more than 50% of the Group's total turnover and this contribution was roughly the same as last year. Despite the decrease in selling price as a result of sales competition, however, sales were satisfactory due to increase in market demand, the Group is fully confident in the IC card business. The contactless IC card products launched during the year were well received by the market and will continue their contributions to the Group's turnover and profit in the coming year. To cope with technology development and market demands, the Group has commenced its research and development on system on chips ("SOC"), the Group expects that upon the completion of the acquisition mentioned below under the paragraph "Future plans for material investments", the transformation of present products from a single chip to SOC would be expedited with a view to strengthen the Group's business in SOC applications.

Power Electronics and Consumer Electronics

Within the products of power electronics and consumer electronics, the sales in the markets of earth leakage current detector circuit and automatic power meter readers were quite satisfactory. Despite the undue pressure in selling prices, the turnover and sales volume of the overall products have achieved considerable increase, however, profit margin was dropped and there was only a slight increase in profit.

Motor and Mobile Electronics

The sales growth of motor and mobile electronic products has been slowed down, gross profits were dropped in relation to keen market competition and prices decrease. Despite the increase in volume of sales, the business was adversely affected.

Telecommunication Electronics

The business of telecommunication electronics was operated by the Group's associate company, Shanghai Fudan Communication Co., Ltd. ("Fudan Communication"). Facing the stringent competition and rapid changes in technologies of the communication market, the business result was suffered with unexpected drops in sales, selling prices and profits, and has an adverse impact on the Group's results for the year. The business is expected to be operated under unfavourable conditions in the coming year.

SUBSIDIARY

During the year under review, the Group has incorporated a wholly-owned subsidiary in Hong Kong, namely Shanghai Fudan Microelectronics (HK) Limited. Its principal activities are developing and selling of IC products. Its business was commenced at the beginning of the year with business network covering Southeast Asia and North America and had a considerable contribution to the Group.

ASSOCIATE

During the year, the Group has invested in a 39%-owned associate, Fudan Communication. Through this, the Group has extended its business scope in SOC for telecommunication products.

FUTURE PLANS FOR MATERIAL INVESTMENTS

In the year under review, the Company has entered into an acquisition agreement with Shanghai Commercial Investment Enterprise Holdings Limited (“Shanghai Commercial Investment”) in relation to the acquisition of a 53.8% controlling interest in Shanghai Commercial High Technology Development Limited (“Shanghai Commercial High Technology”) for a cash consideration of RMB15,720,000. Further details are set out in the circular of connected transaction issued by the Company on 13 November 2002. As certain strategic investors in Shanghai have indicated their intention to invest in Shanghai Commercial High Technology together with the Company, the Company has recently entered into a supplementary agreement to extend the conditions fulfillment date for the acquisition agreement to 30 September 2003. The terms of investment are under negotiation between the Company and the said investors and the acquisition is expected to be completed by the end of 2003. The consideration for the acquisition will be financed by the proceeds received from the placing of new H shares during the year.

TECHNOLOGICAL COOPERATION

During the year, the Group enjoyed strong technical supports from the IC Engineering Technology Centre jointly operated with the Shanghai Fudan University and the Application Specific Integrated Circuits (“ASIC”) System Laboratory which was co-operated with the University of Science & Technology of China.

FINANCIAL REVIEW

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2002, net assets of the Group amounted to approximately RMB226,056,000 (2001: RMB122,289,000). Current assets amounted to approximately RMB202,792,000 (2001: RMB104,712,000), of which approximately RMB144,877,000 (2001: RMB59,533,000) were cash and bank deposits. The Group has sufficient financial resources and good liquidity to meet its future development and expansion.

As at 31 December 2002, the Company has a fixed deposit of RMB4,346,000 secured for letters of credit issued by the Company (2001: nil). As at 31 December 2002, the Group has not pledged its assets to any third parties (2001: nil).

CAPITAL STRUCTURE

During the year, the Company issued 105,604,000 new H shares of RMB0.10 at a consideration of HK\$1.07 per share. Particulars of use of proceeds are set out in the section headed “Use of proceeds” below.

GEARING RATIO

As at 31 December 2002, the Group’s current liabilities amounted to approximately RMB15,836,000 (2001: RMB10,688,000) and had no non-current liabilities (2001: nil). The net assets value per share of the Group was approximately RMB0.362 (2001: RMB0.236). The Group’s ratio of current liabilities over current assets was approximately 7.8% (2001: 10.2%) and the gearing ratio was approximately 7% (2001: 8.7%) on the basis of total liabilities over net assets. As at 31 December 2002, the Group had no bank or other borrowings (2001: nil).

INTEREST AND FOREIGN EXCHANGE RISK

As the Group has no bank or other borrowings, there were no risk in interest fluctuation. The Group has a slight foreign currency risk as part of the Group’s purchases of equipment and raw materials are denominated in U.S. dollars. As the Group’s sales are principally in Renminbi, fluctuation of the exchange rates of Renminbi against foreign currencies would not have a material effect to the operating results of the Group.

CAPITAL COMMITMENTS

As at 31 December 2002, the Group had capital commitments amounted to approximately RMB22,382,000 compared with approximately RMB4,055,000 of last year. The capital commitments relate to acquisitions of a property, a company and others.

CONTINGENT LIABILITIES

As at 31 December 2002, the Group has no contingent liabilities (2001: nil).

USE OF CAPITAL AND FUNDING

In addition to its initial public offering, the Company has issued new H shares in the year, therefore, the Group has sufficient working capital and will duly utilise in enhancing business development in accordance with its business objectives.

STAFF

As at 31 December 2002, the Group employed approximately 228 (2001: 198) staff. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend. In accordance with the Company Law of the PRC and the Group's Articles of Association, the Group will allocate its reserves to the statutory public welfare fund as staff welfare.

The total staff costs of the Group charged to the profit and loss account for the year ended 31 December 2002 amounted to approximately RMB5,391,000 (2001: RMB4,748,000).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year as stated in the prospectus dated 31 July 2000

Actual business progress for the year ended 31 December 2002

Product development

In the light of market demand and technological developments, to upgrade the Company's IC products.

To satisfy the market needs, the Group's IC products have been developed into series. Among the IC products, development in the SIM card, the CPU card and the untouchable card have already been completed, while the development of the other IC products are still under progress.

Business objectives for the year as stated in the prospectus dated 31 July 2000

To seek opportunities for co-operation with other leading IC design and system integration companies or IC manufacturers in the United States, Japan and Taiwan in the development of IC products (and through such co-operation, to enhance the Company's technical capabilities.)

To develop IC products for use in wireless communication, digital audio-visual and networking products by utilizing the Company's know-how and experience in IC designs for telecommunication products.

To cooperate in research and development in IC design and technology (such co-operation may include joint product development, research or the provision of technical consultancy service) with leading universities and academic institutions in the PRC (in addition to Fudan University) which would allow the Company both to tap the technical know-how of these institutions and to broaden its recruitment base from among the students of these institutions.

Actual business progress for the year ended 31 December 2002

The Group has been in close contact with overseas IC design and system integration companies and is seeking for cooperation opportunities for the rapidly developing domestic market in PRC in relation to minimize production costs. For the time being, some of the projects are being discussed and are under progress. It is expected that these cooperations can improve the Group's technical capabilities and expand the market for its products.

With the extended connections built up by utilizing its know-how and experience in IC designs for telecommunication products, the Group has been cooperating with companies leading in systems to develop advanced IC for use in digital audio-visual products.

Beside having full support from Fudan University, the Group has cooperated with the renowned University of Science & Technology of China in the PRC and set up an Application Specific Integrated Circuits ("ASIC") System Laboratory. At the same time, the Group has closely connected with other IC research organisations in the PRC to enhance the research and development of IC chips and thus maintaining a channel of human resource.

Business objectives for the year as stated in the prospectus dated 31 July 2000

Actual business progress for the year ended 31 December 2002

Marketing

To focus on developing the overseas markets including promotion through advertisements and the internet.

Exploring the domestic market on one hand, the Group is concerned about the overseas market. Through the operation of the Hong Kong subsidiary and contacts made in recent years, we have now maintained a good relations and channel with overseas corporate; some products have already entered the overseas market through direct sales and retailers.

The Group will carry out further promotion through advertisements, internet and some other channels to maximize its influence.

To set up overseas sales offices in suitable locations in the PRC, the South East Asia and North America.

To strengthen the market relationship, the Group's representative offices in Beijing and Shenzhen were under full operation. Also the Group has incorporated a subsidiary in Hong Kong for the exploration of overseas markets. The business connection of the Hong Kong subsidiary now covers the South East Asia and North America. In consideration of management and costs involved, new overseas sales offices will not be set up in the near future.

Business objectives for the year as stated in the prospectus dated 31 July 2000

Actual business progress for the year ended 31 December 2002

Revenue

To increase revenue through the sales of newly upgraded IC products such as telecommunication IC and ignition controller IC.

Targeting at the need of the market, the Group capitalize on its competitive strength and improve the developed products from time to time by utilizing its built-up expertise and market advantage. Digital ignition controller was developed in response to the market demand and telecommunication ICs have been regulated according to the changing standard.

Currently, improved digital ignition controller has been launched into overseas market while the telecommunication ICs have been accredited by customers and were on trial.

To establish the Company's sales in the South East Asian markets as a main source of revenue.

With solid foundation and extended connection, the Group has built up relationship with sales agents in the region and is now at the early stage of product training and promotion. The directors believe that revenue will be achieved gradually.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year as stated in the prospectus dated 31 July 2000

Cost

As the Company's scale of operation grows, to place increasing focus on cost control, ensuring that the Company remains cost competitive in both the PRC and overseas markets.

Product development costs are estimated to amount to approximately HK\$18million (primarily for upgrading existing products.)

Research and development costs are estimated to amount to approximately HK\$12million (primarily for strengthening the researching and development capabilities of the representative office in Silicon Valley and researching advanced IC technology.)

Marketing costs are estimated to amount to approximately HK\$26 million.

Actual business progress for the year ended 31 December 2002

Through the co-operation with suppliers, the Group was succeeded on reducing production costs. In the meantime, by strengthen internal control system, the Group was able to manipulate costs of all aspects effectively.

During the year, approximately RMB14,200,000 was invested on the research and development of new products and acquisition of related software, which is less than budgeted. As the researches are still in its infancy, no operating costs are expected to occur at this moment, and before the completion of existing researches, development of all further new products will be closely monitored. Moreover, the delay of operation of research institution in the United States resulted in lesser expenditure than anticipated.

During the year, promotion expenses amounted to approximately RMB 4,200,000, which is lesser than estimation. This is mainly due to delay in operating of overseas office and efficient internal cost control.

USE OF PROCEEDS

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange in August 2000, after deduction of related issuance expenses, amounted to approximately RMB109,000,000. Details of use of proceeds as at 31 December 2002 are as follows:

- approximately RMB27.5 million was used for the design, research and development of new products and upgrading of existing products;
- approximately RMB13.3 million was used for the expansion and upgrading of the Group's product design capabilities; and
- approximately RMB31 million was applied as additional working capital of the Group.

Use of proceeds is basically the same as disclosed in the Company's prospectus issued on 31 July 2000. The reasons for differences between the actual and planned expenditure are that several researches are still in their infancy, no operating costs have been occurred; and as a result of delay in operating of overseas offices and efficient internal cost control. The remaining proceeds will be applied to the uncompleted business objectives and kept for future development.

In addition, the Company has placed new H shares during the year and the net proceeds received amounted to approximately RMB110,900,000 after deducting share issue expenses. As at 31 December 2002, out of the proceeds, approximately RMB700,000 has been spent for acquisition of equipment and franchised technique; approximately RMB20,000,000 has been invested in developing telecommunication electronic business and recruitment of IC design professionals; approximately RMB2,600,000 applied to a medium and longer term strategy for the initial development in system application of IC cards, power electronic products and telecommunication products and promotion of SOC. The remaining proceeds will be retained for seeking of strategic business partners and for continuing the development in system application of IC cards, power electronic products and telecommunication products and promotion of SOC in accordance with the circular issued on 12 November 2001.

The balance of net proceeds of the above two fund raisings amounted to approximately RMB124,800,000 has been placed with licensed banks in the PRC as working capital and for future development. The directors are not aware of any material adverse changes in the financial position or prospect of the Group that may alter the proposed use of proceeds.

PROSPECTS

If the aforesaid transaction related to the acquisition of Shanghai Commercial High Technology were approved by the independent shareholders and finalised, the Group would gain technological support from Shanghai Commercial High Technology by pooling its expertise into that of the Group in the research and development, manufacture and sales and marketing of the Group's IC products, in particular, the SOC. Furthermore, all of the investee companies of Shanghai Commercial High Technology are the downstream businesses of the Group's core IC card business, which are expected to deploy the IC products developed by the Group and to enlarge the Group's sales channels. Moreover, the directors expect that through the acquisition, the Group will greatly enhance its capability in integrating its chips and SOC and resulted with a positive impact.

With reference to the Company's announcement dated 31 December 2002 in respect of an acquisition agreement of a property located at the Yang Pu District of Shanghai, the PRC, the relevant title and registration of ownership will be completed shortly. Upon moving into the new office building, the Group will be enabled to centralize its operations and strengthen the cooperation and management of the group companies, and to save rental expenditure and other operating costs gradually.

In view of the continuing high growth in the China's economy and its huge market, the Group will remain focus on its core business and on the PRC domestic market. The Group expects to enhance its close contact with government authorities in order to expedite the penetration of its chip products and system into the related market, and to further improve its market presence as well as to strengthen its market position in the PRC.

With the increasing demand of IC products in the PRC market and the expansion of rooms in supply by domestic producers, the Group will continue to seek for cooperation opportunities with potential business partners with a view to achieve advanced technologies and business expansion opportunities. The directors expect that the overall business scope of the Group will be more diversified and its market presence will continue to grow.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and supervisors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) or otherwise notified to the GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:

	Number of domestic shares held and nature of interests				
	Personal	Family	Corporate	Other (note)	Total
Directors					
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					
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
	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,134,600</u>	<u>14,134,600</u>

Note: These shares are held by The Staff Shareholding Association of the Company (“SSAC”) which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University (“University Laboratory”) and Shanghai Commerce and Invest (Group) Corporation (“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, at 31 December 2002, none of the directors and supervisors or their associates had any personal, family, corporations or other interest in the equity of the Company or any of its associated corporates, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the above paragraph headed "Directors' And Supervisors' Interests in Shares", at no time during the year were rights to acquire benefits by means of the acquisition of shares of the Company granted to any director or their respective spouse or children under 18 years of age, 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.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or its subsidiaries were a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interest of 10% or more of the share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
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 Shanghai Fudan University.
- (2) SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 shares are held in its own name, 34,620,000 shares are held by a wholly owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company, and 14,420,000 shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Ltd. The 46,160,000 domestic shares held in its own name represents approximately 7.39% of the registered share capital of the Company.

Save as disclosed above, no persons, other than the directors and supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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.

SPONSOR'S INTERESTS

BOCI Asia Limited ("BOCI"), the sponsor has agreed to provide advisory services to the Company for the purposes of the GEM Listing Rules at an agreed amount of fee for the period ended 31 December 2002.

To the knowledge of BOCI, its directors, employees and associates, at 31 December 2002, 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.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company complied with the board practices and procedures requirements in GEM Listing Rules 5.28 to 5.39 throughout the accounting period covered by the annual report, except for the Rule GEM 5.29 which requires full board meetings to be held no less frequently than every three months. The Company's directors are resided and worked in Shanghai and Hong Kong respectively, in this connection, they were unable to convene together to hold a full board meeting during the year.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive directors, Mr. David Yung, Mr. Leung Tin Pui and Mr. Xu Juyan. The Company's and the Group's financial statements for the year ended 31 December 2002 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. The audit committee held four meetings during 2002.

ON BEHALF OF THE BOARD
Jiang Guoxing
Chairman

Shanghai, PRC
25 March 2003

** For identification purpose only*

This announcement will remain on the GEM website on the "Latest Company announcements" page and on the Company's website for at least 7 days from the day of its posting.