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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)

(Stock Code: 8102)

CONNECTED TRANSACTION

The Board is pleased to announce that the Company and Shanghai Commercial Investment entered into the Disposal Agreement on 18th March, 2004 and the Supplemental Agreement on 19th March 2004 (the "Agreements") in relation to the disposal of a 20% interest in Shanghai Fudan Communication at a cash consideration of RMB6 million (or about HK\$5.66 million). After the Agreements, the percentage of equity interests in Shanghai Fudan Communication held by the Company will be decreased from 39% to 19% and the Company intends to hold the remaining 19% interest for a long term basis.

The Directors consider that the Agreements were entered into after arm's length negotiations based on normal commercial terms and so far as the Independent Shareholders are concerned that the terms of the Agreements are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

Shanghai Commercial Investment, the purchaser in the Agreements, is held as to 90% by SCI and as to 10% by an Independent Third Party, while SCI, 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 and is a connected person of the Company as defined under the GEM Listing Rules. As such, the Disposal constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the consideration for the Disposal is less than the higher of HK\$10,000,000 or 3% of the unaudited consolidated net tangible assets of the Company as at 30th June, 2003 (based on the audited consolidated net tangible assets of the Group as at 31st December, 2002 adjusted by the unaudited net loss for the six months ended 30th June, 2003), no Independent Shareholders' approval is required. Details of the Agreements will be disclosed in the next published annual report and accounts of the Company.

DISPOSAL AGREEMENT AND SUPPLEMENTAL AGREEMENT

Date : 18th March, 2004 and 19th March 2004, respectively

Parties : Shanghai Commercial Investment as purchaser and the Company as vendor

Asset to be disposed : 20% interest in Shanghai Fudan Communication

Consideration

The consideration under the Agreements is RMB6 million (or about HK\$5.66 million), which would be fully settled by cash and payable within 7 days from the date of the Disposal Agreement. The consideration was determined with reference to 20% of the registered capital of Shanghai Fudan Communication of RMB30 million (or about HK\$28.30 million) as at 31st December, 2003. The Directors consider that the Agreements were entered into after arm's length negotiations based on normal commercial terms and so far as the Independent Shareholders are concerned that the terms of the Agreements are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

Conditions Precedent

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

1. the Disposal being approved by the board of director of Shanghai Commercial Investment; and
2. the Disposal being approved by the Board of the Company.

Completion

Completion shall take place when all the conditions precedent as described in the Agreements are fulfilled and all necessary procedures for change of equity interest have been completed.

As advised by the Company's PRC legal advisers, Allbright Law Office, in accordance with the existing laws and regulations in the PRC, the Company is one of the promoters and is not allowed to transfer its shares in Shanghai Fudan Communication within 3 years from 8th March, 2002, being the date of incorporation of Shanghai Fudan Communication. As both parties have agreed to transfer the 20% interest in Shanghai Fudan Communication including all related interest, rights and obligations on or before 30th March, 2004 (the "Transfer Date"), in this connection, the Company is in compliance with the laws and allowed to complete the transfer and fulfill all the conditions upon statutory registration on or after 8th March, 2005. On 7th January, 2004, the China Securities Regulatory Commission has issued a notice of rules governing the transfer of beneficial interest of listed companies (the "Notice") which applies to listed companies in the PRC and does not include unlisted joint stock limited companies, therefore, the regulations are not applicable to Shanghai Fudan Communication and the entering into of such agreements by the Company does not violate the spirit of PRC laws, in particular the Notice.

The Directors expect that Completion shall take place on or before 30th April, 2005.

EQUITY INTERESTS OF SHANGHAI FUDAN COMMUNICATION BEFORE AND AFTER THE AGREEMENTS

	Before the Agreements		After the Agreements	
	Contribution to registered capital of Shanghai Fudan Communication RMB	Percentage of equity interest %	Contribution to registered capital of Shanghai Fudan Communication RMB	Percentage of equity interest %
The Company	11,700,000	39.00	5,700,000	19.00
SCI	5,800,000(1)	19.33	11,800,000(2)	39.33
11 Independent Third Parties	12,500,000	41.67	12,500,000	41.67
	<u>30,000,000</u>	<u>100.00</u>	<u>30,000,000</u>	<u>100.00</u>

Note:

(1) 5,800,000 shares are held indirectly by a subsidiary of SCI

(2) 5,800,000 shares are held indirectly by a subsidiary of SCI and 6,000,000 shares to be held by Shanghai Commercial Investment

REASONS FOR THE DISPOSAL

Information on Shanghai Fudan Communication

Shanghai Fudan Communication was incorporated in the PRC on 8th March, 2002 and is held as to 39.00%, 19.33% and 41.67% by the Company, SCI and 11 Independent Third Parties respectively.

The principal activities of Shanghai Fudan Communication are developing, manufacturing and selling of telecommunication and high-technology products included operation of branches in Beijing and Shenzhen.

As at 31st December, 2003, the audited net assets and net tangible assets of Shanghai Fudan Communication prepared under the generally accepted accounting principles in the PRC amounted to approximately RMB17.67 million (or about HK\$16.67 million) and approximately RMB12.67 million (or about HK\$11.95 million) respectively; and the unaudited net assets and net tangible assets prepared under the generally accepted accounting principles in Hong Kong amounted to approximately RMB9.84 million (or about HK\$9.28 million) and approximately RMB7.59 million (or about HK\$7.16 million) respectively. Shanghai Fudan Communication recorded audited net losses after tax prepared under the generally accepted accounting principles in the PRC amounted to approximately RMB4.82 million (or about HK\$4.55 million) for the year ended 31st December, 2003 and approximately RMB7.51 million (or about HK\$7.09 million) for the period ended 31st December, 2002. The unaudited net losses after tax prepared under the generally accepted accounting principles in Hong Kong amounted to approximately RMB13.39 million (or about HK\$12.60 million) for the year ended 31st December, 2003 and approximately RMB6.76 million (or about HK\$6.38 million) for the period ended 31st December, 2002.

Benefits expected to be derived from the disposal

The operations of Shanghai Fudan Communication have been largely depended on the management provided by the Company and its principal activities are different from the core business of the Group. In view of the Company's continuous placing of human resources in the business operations of Shanghai Fudan Communication and the sharing of operating loss of this associated company has brought an adverse impact on the Group's overall results, the Directors expect that after the Agreements, the Company would be able to release its management participated in Shanghai Fudan Communication and concentrate its human resources in developing the Group's core business and to improve the results of the Group in the future. The Directors consider that the keeping of 19% interest in Shanghai Fudan Communication would facilitate the cooperation of the Company and Shanghai Fudan Communication in developing the Company's chips applied in the industry of telecommunication electronics.

The Directors believe that following the introduction of Shanghai Commercial Investment, a subsidiary of SCI which is wholly owned by the Shanghai Municipal Government, SCI would become a controlling shareholder of equity interest in Shanghai Fudan Communication and will facilitate the cooperation between Shanghai Fudan Communication and the relevant government authorities, thus, will greatly enhance the marketing capability, strengthen the business development and increase the business opportunities of Shanghai Fudan Communication.

The Company has considered the factors including (1) The Company has obtained an opinion from its legal counsel that as the Completion date takes place after Shanghai Fudan Communication has incorporated for a period of three years, the Company has therefore complied with the Company's Law. In addition, as this is an irrevocable agreement, both parties have the obligations to execute the Agreements upon fulfillment of the terms and conditions as stipulated in the Agreement. (2) Shanghai Commercial Investment is required to settle the purchase consideration of RMB6 million within 7 days after the date of signing the Disposal Agreement and the amount received by the Company is not refundable under all circumstances. (3) In accordance with the Agreements, the Company has transferred all its interest, rights and obligations except the right to dispose the 20% interest in Shanghai Fudan Communication together with the transfer of its equity interest in Shanghai Fudan Communication to Shanghai Commercial Investment on the Transfer Date. (4) Shanghai Commercial Investment undertakes to assume all losses, liabilities and damages, if any associated to the 20% equity interests it has acquired from the Company incurred after the Transfer Date; and is of the opinion that by applying the "substance over form" accounting concept, the Company should account for the Disposal as if it was completed on the Transfer Date. The Company has sought the opinion of its auditors Ernst and Young, who agreed with the position taken by the Company. The Company would book a gain on disposal of approximately RMB 4.03 (or about HK\$3.80 million) in the financial year ended 31 December 2004, which is calculated by reference to the carrying value of the interest to be disposed of RMB 1.97 million (or about HK\$ 1.86 million) prepared under the generally accepted accounting principles in Hong Kong as to be published in the Company's 2003 annual report and subject to adjustment for the profit or loss of Shanghai Fudan Communication resulted for the period from 1st January, 2004 up to the Transfer Date.

The proceeds to be received by the Company pursuant to the Agreements will be kept as working capital for the future business development of the Group.

CONNECTED TRANSACTION

Shanghai Commercial Investment, the purchaser in the Agreements, is a company incorporated in the PRC and is principally engaged in investment holding. The principal activities of its subsidiaries, associates and investee companies are the provision of value-added commercial services like electronic data exchange, electronics payment and commerce, the development and manufacture of computer application software, the integration of computer system, the installation and testing of computer network system, office automation system and security system, provision of management, strategic planning and consultancy services of all kinds for food and beverage through catering services card.

Shanghai Commercial Investment is held as to 90% by SCI and as to 10% by an Independent Third Party, while SCI, 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 Disposal constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the consideration for the Disposal is less than the higher of HK\$10,000,000 or 3% of the unaudited consolidated net tangible assets of the Company as at 30th June, 2003 (based on the audited consolidated net tangible assets of the Group as at 31st December, 2002 adjusted by the unaudited net loss for the six months ended 30th June, 2003), no Independent Shareholders' approval is required. Details of the Agreements will be disclosed in the next published annual report and accounts of the Company.

BOARD REPRESENTATION IN SHANGHAI FUDAN COMMUNICATION

Prior to the Disposal, the Company was entitled to nominate 3 directors to the board of directors of Shanghai Fudan Communication which comprises a total of 11 directors. The Company will propose to decrease its nomination to the board of directors of Shanghai Fudan Communication to 2 directors soon after entering into the Agreements and in no event later than the Completion date. After the Transfer Date, the Company will have no control in Shanghai Fudan Communication.

ACCOUNTING POLICY ON THE INTEREST IN SHANGHAI FUDAN COMMUNICATION

Prior to the Disposal, results of Shanghai Fudan Communication were accounted in the Group's accounts by using the equity method and after the Disposal, the remaining 19% interest in Shanghai Fudan Communication held by the Company will be accounted for as a long term investment and stated at its cost in the Company's and Group's accounts for the year ended 31st December, 2004.

GENERAL

The Company is an application specific integrated circuit (or 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.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the content requires otherwise.

“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 Disposal Agreement
“Directors”	the directors (including independent non-executive directors) of the Company
“Disposal”	the disposal of a 20% interest in Shanghai Fudan Communication by the Company to Shanghai Commercial Investment at a consideration of RMB6 million (or about HK\$5.66 million)
“Disposal Agreement”	the agreement entered into between the Company and Shanghai Commercial Investment on 18th March, 2004 in relation to the Disposal
“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
“Independent Shareholders”	Shareholders other than SCI
“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
“PRC”	the People’s Republic of China

“SCI”	上海市商業投資(集團)有限公司 Shanghai Commerce Invest (Group) Corporation Limited*, is a state-owned enterprise wholly owned by Shanghai Municipal Government
“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 SCI, and as to 10% by an Independent Third Party
Shanghai Fudan Communication	上海復旦通訊股份有限公司 Shanghai Fudan Communication Co., Ltd.*, a company incorporated in the PRC, which is held as to 39.00%, 19.33% and 41.67% by the Company, SCI and 11 Independent Third Parties respectively
“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
“Supplemental Agreement”	the supplemental agreement entered into between the Company and Shanghai Commercial Investment on 19th March, 2004 in relation to the Disposal Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

By Order of the Board
Shanghai Fudan Microelectronics Company Limited*
Jiang Guo Xing
Chairman

Shanghai, PRC, 26th March, 2004

* *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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