



**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)*



# **ANNUAL REPORT 2003**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 of 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.

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# Chairman's Statement

Dear Shareholders:

On behalf of the board of directors, I hereby present the annual results of Shanghai Fudan Microelectronics Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2003.

## OBJECTIVE

With supports and collaboration with ASIC System State-Key Laboratory of the Shanghai Fudan University, and by leveraging on its own sophisticated management team and design professionals, the Company has been focusing on its core business and special "fabless" mode of operation, and successfully established a leading position in the industry. The Company's principal business objective is to lead the IC design and system integration business in the People's Republic of China (the "PRC") and to become one of the major Application Specific Integrated Circuits ("ASIC") design companies in the world.

## RESULTS

For the year ended 31 December 2003, the Group recorded a turnover of approximately RMB97,456,000 (2002: RMB62,003,000), an increase of approximately 57% as compared to last year. The audited loss attributable to shareholders was approximately RMB6,550,000 (2002: RMB7,135,000), decreased by approximately 8%. The basic loss per share was RMB1.05 cents (2002: RMB1.17 cents), representing a decrease of approximately 10% from the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In the year 2003, the market demand for electronic products in the PRC continued to grow, thanks to the total recovery of global chip market and the booming economy. The Group put all efforts on and did successfully pushing up its turnover, with a surge of over 50%. A majority of turnover and profit contribution of the Group was derived from the principal activities carried out in the PRC mainland. Since the upward trend of the PRC economy persisted, coupled with the Group's continuous hard efforts on research and development of new products, those imported products have been replaced by certain products of the Group. As such, the Group's products would be able to enjoy higher profit margins, and gross profit margin of the overall products increased from 28.8% of last year to 35.4% for the year. In this year, the Group still suffered from loss which was attributable to the following main reasons: provision for inventories increases by 233% from RMB421,000 of last year to approximately RMB1,400,000 this year; other operating expenditure for the year was RMB15,092,000, representing an increase of one time as compared to RMB7,504,000 of previous year. To facilitate the rapid development of technologies, the Group replaced with and acquired many new computer software and research equipment. Furthermore, while some of research and development projects are still on the stage of research and development or on the process of examination and approval of the application for accreditation, for the sake of prudence, impairment loss on deferred development costs in accordance with relevant accounting standards was approximately RMB1,463,000 (2002: RMB1,155,000).



## Chairman's Statement

More staff were recruited for research and development to cope with increase in projects and resulted in an increase of 135% in expenditure of research and development costs from RMB5,260,000 of last year to RMB12,383,000 this year. The provision against doubtful debts was approximated RMB1,126,000 which is similar to that of last year. Since Shanghai Fudan Communication Co., Ltd. ("Fudan Communication"), an associate company of the Group, recorded a material loss as a result of business and research and development costs incurred in its operations, in view of the fierce competition within the industry, the Group has to raise its provisions against both impairment on assets and bad and doubtful debts, therefore, loss attributable to the Group of approximately RMB5,224,000 was recorded for this year, representing an increase of 98% as compared to RMB2,637,000 for the previous year. In the meantime, the overall results of the Group for the year were adversely affected.

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

### IC Card

IC card products are still our core business and with the highest sales volume. The turnover of IC card products accounted for approximately 60% of the Group's total turnover and the turnover for the year surged more than 64% over the last year. During the year, the circuits for contactless IC card products developed by the Group were awarded the honour of "2003 National Major New Products Programs". In particular, the contactless 8K Bits IC card chips successfully ventured into "One Card Pass" in Shanghai's public transportation and public transportation system in other provinces and municipalities, its satisfactory market sales together with the remarkable sales volume of the original 2K Bits memory card circuits, became the main stream of the Group's turnover and profit.

### Power Electronics

For the products of power electronics, earth leakage current detector circuit was the major product. With various home electrical appliances became more and more popular, sales of this product rose accordingly. The multi-fee power control meters developed by the Group have extensive functions and are complied with requirements of different provinces and municipalities, which would in turn maintain its growth in sales volume. This kind of products recorded a sales increase of over 50% and the profit margin of the overall products also maintained in a reasonable level.

### Motor and Mobile Electronics

During the year, as the related market has been subdivided, the business performance of motor and mobile electronic products was rather stable, only a slight increase of sales volume was recorded.



# Chairman's Statement

## Telecommunication Electronics

While the business of telecommunication electronics has not been included in the major research and development projects of the Company, its product range was limited. Suffered from market saturation, this business segment could only maintain to a level roughly the same as last year.

## Consumer Electronics

Consumer electronic products were of the weakest sales among various series of products because product range in the market was numerous, competition was keen and profit was so minimal. As such, the Group had allocated less research and development resources to consumer electronics than to other types of products.

## SUBSIDIARIES

During the year under review, there was no material change in the subsidiaries of the Group. While the businesses of all subsidiaries been well established and become more mature, save for the support and market expansion provided by the Group in all aspects, contributions to overall results were recorded.

## ASSOCIATES

During the year, the Group has invested RMB245,000 for establishing a 49%-owned associated company, 上海復恩電子有限公司 (Shanghai Fu En Electronic Company Limited). This associate is principally engaged in the provision of technical service in electronics field and selling of IC products, which is expected to complement with various business development of the Group.

The Company holds 39% of equity interests in Fudan Communication, details of its performance were stated in the section headed "Business Review" above. The Company has entered into a disposal agreement and a supplemental agreement on 18 March 2004 and 19 March 2004 respectively with Shanghai Commercial Investment Enterprise Holdings Limited relating to the transfer of the Company's 20% equity interest in Fudan Communication at a cash consideration of RMB6,000,000. After the transfer of equity interests, the Company's interest in Fudan Communication would decrease to 19% and the cooperation between the Company and Fudan Communication in telecommunication electronics business is expected to be maintained.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

As disclosed in the half year results report of the Company, the Company and Shanghai Commercial Investment Enterprise Holdings Limited mutually agreed on 27 June 2003 to terminate the acquisition of a 53.8% interest in Shanghai Commercial High Technology Development Limited ("Shanghai Commercial High Technology") and derived a more economic mode of cooperation for replacing the acquisition agreement.

The Company is still actively identifying strategic cooperative partners and has no material investment plan currently.

# Chairman's Statement

## TECHNOLOGICAL COOPERATION

During the year under review, the Group continued to enjoy strong technical supports from the IC Engineering Technology Centre jointly operated with the Shanghai Fudan University and the ASIC System Laboratory which was co-operated with the University of Science & Technology of China.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2003, net assets of the Group amounted to approximately RMB219,542,000 (2002: RMB226,056,000). Current assets amounted to approximately RMB185,346,000 (2002: RMB202,792,000), of which approximately RMB123,511,000 (2002: RMB144,877,000) were cash and bank deposits.

The Group's financial resources and liquidity are in a healthy status and is able to meet its ordinary course of business and future development.

As at 31 December 2003, the Company has a deposit of RMB775,000 secured for letters of credit issued by the Company (2002: RMB4,346,000). As at 31 December 2003, the Group has not pledged its assets to any third parties (2002: nil).

## CAPITAL STRUCTURE

During the year, there is no change in the capital structure of the Company.

## GEARING RATIO

As at 31 December 2003, the Group's current liabilities amounted to approximately RMB22,675,000 (2002: RMB15,836,000) and had no non-current liabilities (2002: nil). The net assets value per share of the Group was approximately RMB0.352 (2002: RMB0.362). The Group's ratio of current liabilities over current assets was approximately 12.2% (2002: 7.8%) and the gearing ratio was approximately 10% (2002: 7%) on the basis of total liabilities over net assets. As at 31 December 2003, the Group had no bank or other borrowings (2002: nil).

## INTEREST AND FOREIGN EXCHANGE RISK

As the Group has no bank or other borrowings, there was 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 most of 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 business of the Group.

# Chairman's Statement

## CAPITAL COMMITMENTS

As at 31 December 2003, the Group had capital commitments amounted to approximately RMB11,413,000 as compared to approximately RMB22,382,000 for last year. The capital commitments relate to purchases of equipment.

## CONTINGENT LIABILITIES

As at 31 December 2003, the Group has no contingent liabilities (2002: nil).

## USE OF CAPITAL AND FUNDING

The Group currently has a stable financial position and sufficient working capital which will be allocated to carrying out researches on new products and identifying cooperative partners as appropriate.

## STAFF

As at 31 December 2003, the Group employed approximately 258 (2002: 228) 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 income statement for the year ended 31 December 2003 amounted to approximately RMB17,663,000 (2002: RMB11,068,000).

## PROSPECTS

To facilitate the extensive application of contactless IC card chips to all aspects and to satisfy its demand, the Company will keep on upgrading its products and extending its functions, with an aim to expand its presence in related markets. For other products, the Company endeavours to carry out research and development on various self-developed products, including multi-media chips for mobile phone communications, electronic labels for local logistics industry which is under rapid pace of development, 32K Bits memory card circuits for road toll system and electronic data, multi-fee power control meter chips for satisfying the requirements and the maximum power burden of different provinces and municipalities, etc.

The Company has moved to its self-owned office tower in Yangpu District, Shanghai in early 2004. In turn, this will centralise the operations of divisions comprising the Group and strengthen their management and communications, and will enable the Group to minimize its rental expenses and lower its operating costs.



## Chairman's Statement

The Directors expect the China's economy to remain robust, while market demand for electronic products continues to surge. As such, the Group will remain focus in the PRC market, aiming at to gain further businesses from the governmental sector and at the same time to leverage on the favourable condition of lower production costs in China, thereby to replace the market position of the importing products and to add momentum to the development of overseas business. As new types of electronic products keep coming to the market and technological advancements are achieved in much shorter time span, the Group will devote more effort to research and development of chip products and systems, acquire the latest technological know-how, research and development of proprietary products, and will continue its search for opportunities of collaboration with other business venture partners, thereby expanding its business and to gain a dominant position in the PRC market.

### APPRECIATION

Lastly, on behalf of the Board, I would like to take this opportunity to express my deepest gratitude to our shareholders, customers, suppliers and business partners for their full support for the past year, and the management and all staff for their commitment and loyalty.

**Jiang Guoxing**

*Chairman*

Shanghai, PRC, 25 March 2004



# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Jiang Guoxing (*Chairman*)  
Shi Lei (*Managing Director*)  
Yu Jun (*Dputy Managing Director*)  
Cheng Junxia  
Wang Su  
Tsai Kao Chung

### Non-executive Directors

Cheng Xiaohong  
Zhang Qianling  
He Lixing  
Shen Xiaozu

### Independent Non-executive Directors

David Yung  
Leung Tin Pui  
Xu Juyan

## COMPANY SECRETARY

Li Wing Sum, Steven *FCCA, FHKSA, FTIHK*

## QUALIFIED ACCOUNTANT

Li Wing Sum, Steven *FCCA, FHKSA, FTIHK*

## COMPLIANCE OFFICER

Wang Su

## AUTHORISED REPRESENTATIVES

Shi Lei  
Wang Su

## AUDIT COMMITTEE

David Yung  
Leung Tin Pui  
Xu Juyan

## SUPERVISORS' COMMITTEE

Li Wei  
Ding Shengbiao  
Xu Lenian

## AUDITORS

Ernst & Young  
*Certified Public Accountants*

## REGISTERED OFFICE

No. 220, Handan Road  
Shanghai  
People's Republic of China

## PLACE OF BUSINESS

Flat 12, 7/F., East Ocean Centre  
98 Granville Road, Tsimshatsui East  
Kowloon  
Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

Everbright Bank of China  
Shanghai branch  
  
Shanghai Pudong Development Bank  
Shanghai branch

## STOCK CODE

8102



## Directors and Senior Management Biographies

Biographical details of the directors and the senior management of the Company are set out below:

### DIRECTORS

#### Executive directors

**Mr. Jiang Guoxing**, aged 50, is the Chairman of the Company. He is primarily responsible for strategic planning and business development. Mr. Jiang is a senior economist and graduate with a degree in computer science from Shanghai Fudan University (Fudan University). Mr. Jiang joined the Company at the time of its establishment in July 1998. He is the general manager of Fudan Enterprise Development company Limited, a wholly-owned legal entity of Fudan University, and the deputy general manager of Shanghai Fuhwa Industrial Joint Stock Company Limited in the PRC. Mr. Jiang is also the managing director of Huayue Science and Technology Company Limited in Hong Kong.

**Mr. Shi Lei**, aged 37, is the general manager of the Company. He is an economist and graduated with a bachelor degree in management from China University of Technology and a master degree in management from Fudan University. Mr. Shi joined the Company at the time of its establishment in July 1998. Prior to that, Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company and the general manager of Pacific Business Trust Company.

**Mr. Yu Jun**, aged 36, is the deputy general manager of the Company. He has a master degree and is a senior engineer. Mr. Yu is the deputy director of the Research Institute for Integrated Circuit Designs of Fudan University, and has extensive knowledge and experience in the design of integrated circuits and systems. He was previously the chief engineer of Fudan High Tech. He joined the Company in July 1998.

**Ms. Cheng Junxia**, aged 57, is the chief engineer of the Company. She is a professor at Fudan University and has extensive knowledge and experience in the design and manufacture of integrated circuits. She was previously the general manager of Fudan High Tech and the director of the Research Institute for Integrated Circuit Designs of Fudan University. She joined the Company in July 1998.

**Mr. Wang Su**, aged 50, is the financial controller of the Company. He is an accountant. He was previously a fund manager of Shanghai Commerce and Investment, the financial controller of Shanghai Pacific and the deputy manager of the Finance Department of Shanghai Commerce and Investment. He joined the company in July 1998.

**Mr. Tsai Kao Chung**, aged 43, was appointed as executive director in May 2003. He is also the managing director of Best Yield Development Consulting, Inc. which is a Taiwan direct investment company. 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 business.



# Directors and Senior Management Biographies

## Non-executive directors

**Mr. Chen Xiaohong**, aged 46, is the chief economist of the Shanghai Commerce Committee. He is a senior economist and has a master degree in economics. He was previously the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

**Ms. Zhang Qianling**, aged 67, is a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academic on the study of integrated circuits and a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of Fudan University. She joined the Company in July 1998.

**Mr. He Lixing**, aged 69, is a senior economist. He was previously the chief economist of Shanghai Commerce and Investment and director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

**Mr. Shen Xiaozu**, aged 54, is the assistant to the general manager of Shanghai Commerce and Investment and the deputy general manager Shanghai Jianlian Real Estate Company. He is a senior economist. He was previously the deputy general manager of Shanghai General Electric Machinery Corporation and the headmaster of Shanghai Mechanical Engineering Industrial College. He joined the Company in July 1998.

## Independent non-executive directors

**Mr. David Yung**, aged 72, he was appointed on 19 July 2000. Mr. Yung has a bachelor of science degree in mechanical engineering from the Massachusetts Institute of Technology in the United States. He has over 40 years experience in the semiconductor industry. He is currently a director of Torex Semiconductor (Hong Kong) Limited, a company principally engaged in the trading of semiconductors. Recently, he founded the 3D-For-U Company Limited which has developed the technique of digital 3D printing on normal ink-jet printers.

**Mr. Leung Tin Pui**, aged 58, he was appointed on 19 July 2000. Mr. Leung has been appointed Vice-president of The Hong Kong Polytechnic University since January 1995. He was previously the Head and Professor of Department of Mechanical Engineering and Dean of Engineering of The Hong Kong Polytechnic University. Professor Leung is keen on public services, he was the President of the Hong Kong Institution of Engineers for the year from 1993 to 1994 and was the President of the Hong Kong Association for the Advancement of Science and Technology in 1990 to 1991. Mr. Leung is also a member of several advisory boards of the Government of the Hong Kong Special Administrative Region. Professor Leung was awarded by the Hong Kong Government Justice of Peace in 1995 and awarded the Bronze Bauhinia Star in 2003.



## Directors and Senior Management Biographies

**Mr. Xu Juyan**, aged 69, he was appointed on 12 June 2002 and holds two bachelor degrees. He is the researcher of the Wuxi Microelectronics Research Institute under the Ministry of Information Industry and a doctorate supervisor for Southeast University. He was elected as a fellow member of the PRC Engineering Institute in 1995. He was previously the advisor to the Electronics Development Leadership Group of the State Council; members of the executive committee of Electronics Engineering Department and Association of Electronics of the PRC; the researcher at 13th Research Institute of the 3rd Engineering Division, and director and chief engineer of the 24th Research Institute of the 4th Engineering Division. He is also the advisor of several semi-conductor and electronics associations.

### SUPERVISORS

**Mr. Li Wei**, aged 32, is the assistant to the general manager of the Company. He has a master degree. Mr. Li specializes in integrated circuit design, and has conducted in-depth research on the coding and integrated protocol bases. He joined the Company in July 1998.

**Mr. Ding Shengbiao**, aged 41, is the chief economist of the Company. He has a bachelor degree and is an economist. He was previously the manager of the Loans Department of the Shanghai Interbank Loan Centre of the People's Bank of China, and the division head of the Planning Department of the People's Bank of China, Shanghai Branch. He joined the Company in July 1998.

**Mr. Xu Lenian**, aged 52, is the chairman of Shanghai Pacific Business Trust Company, and the assistant to the general management of Shanghai Commerce and Investment. He has post-secondary qualification and is a senior economist. He was the head of the International Affairs Department and General Affairs Department of China Agricultural Bank Pudong branch. He joined the Company in July 1998.

### SENIOR MANAGEMENT

**Mr. Li Wei**, (see personal details set out in the paragraph headed "Supervisors" above).

**Mr. Ding Shengbiao**, (see personal details set out in the paragraph headed "Supervisors" above).

**Ms. Ji Lanhua**, aged 53, is the assistant to the general manager of the Company, and has a bachelor degree. She was engaged in the design and development of the Company's motorcycle ignition controller circuits and telephone transmission circuits. Ms. Ji is very experienced in the design and sales of integrated circuits. She was previously the sales manager of Fudan High Tech. She joined the Company in July 1998.

**Ms. Zhao Meijin**, aged 60, is the deputy chief engineer of the Company. She has a bachelor degree and was previously the chief engineer of Wuxi No. 8390 Factory. She joined the Company in January 1999.



## Directors and Senior Management Biographies

**Mr. Li Wing Sum Steven**, aged 47, Qualified Accountant and Company Secretary of the Company. He has over 25 years' experience in auditing, accounting and financial management. He has worked in an international accounting firm, listed companies in Hong Kong and multi-national organization as group financial controller. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Taxation Institute of Hong Kong. He joined the Company in July 2000.



## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting (the “AGM”) of Shanghai Fudan Microelectronics Company Limited (“the Company”) will be held at Building 4, Lane 127, Guotai Road, Shanghai, the People’s Republic of China on Friday, 28 May 2004 at 10:00 a.m. for the following purposes: –

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and the Auditors for the year ended 31 December 2003;
2. To re-elect directors and to authorize the Board of Directors to fix their remuneration;
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration; and
4. As special business, to consider, if thought fit, pass the following resolutions as Special Resolutions:

**“THAT:**

- (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company during the Relevant Period (as defined in paragraph (f) below) of all the powers of the company separately or concurrently to allot, issue and deal with Domestic Shares and/or H Shares be and is hereby approved;
- (b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;
- (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;
- (d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the



## Notice of Annual General Meeting

articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;

- (e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;
- (f) for the purpose of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- (ii) the expiration of a period of twelve months following the passing of this resolution; or
- (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

“**rights issue**” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

- (g) the Board be and is hereby authorised to make such amendments to articles 15, 16 and 19 of the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issuance of shares of the Company pursuant to the approval granted under paragraph (a) above.”

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

Shanghai, PRC, 25 March 2004





# Notice of Annual General Meeting

*Registered Office:*

No. 220 Handan Road  
Shanghai  
The 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 28 April 2004 Wednesday shall be entitled to attend the AGM. Further details are set out in the confirmation slip and explanation thereto.
2. Any member entitled to attend and vote at the AGM 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 attorney, must be deposited not less than 24 hours before the time appointed for the holding of the AGM 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 Wednesday, 28 April 2004 to Thursday, 27 May 2004 (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 in such event, the instrument appointing a proxy shall be deemed to be revoked.



# Report of the Directors

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The Company's principal activity has not changed during the year and consists of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the subsidiaries and associates are set out in notes 15 and 16 to the financial statements, respectively.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 63.

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

## USE OF PROCEEDS

The Company obtained net proceeds, after deducting share issue expenses, of approximately RMB110,900,000 by way of placing of new H shares in 2002. During the year, the Group has applied the proceeds from such capital raising carried forward from the previous financial year in accordance with the circular issued on 12 November 2001 as follows:

- a) RMB6,060,000 for acquisition of equipment and franchised technique;
- b) RMB8,900,000 has been invested in developing telecommunication electronic business and recruitment of IC design professionals; and
- c) RMB15,300,000 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.

As disclosed in the Company's announcement dated 3 July 2003, the Company and Shanghai Commercial Investment Enterprise Holdings Limited has entered into an agreement to terminate the agreement relating to the acquisition of a 53.8% interest in Shanghai Commercial High Technology Development Limited. The Company will retain the related financial resource and continue to seek for business cooperation.

The balance of unused proceeds of approximately RMB 57,340,000 has been placed with licensed banks in the People's Republic of China (the "PRC") as general working capital.



## Report of the Directors

### SUMMARY FINANCIAL INFORMATION

A summary of the consolidated results for each of the three years ended 31 December 2003 and of the consolidated assets, liabilities and minority interests of the Group as at each of the three years then ended and of the results for each of the two years ended 31 December 2000 and of the assets and liabilities as at each of the two years then ended, of the Company prepared on the basis set out in the note below, are set out as follows. This summary does not form part of the audited financial statements.

	Group			Company	
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Turnover	97,456	62,003	44,133	35,845	14,083
Cost of sales	(62,938)	(44,173)	(33,330)	(26,319)	(8,404)
Gross profit	34,518	17,830	10,803	9,526	5,679
Other revenue and gains	2,907	2,946	7,086	2,982	57
Selling and distribution costs	(5,875)	(4,170)	(3,608)	(1,942)	(1,143)
Administrative expenses	(17,512)	(13,876)	(10,361)	(6,505)	(2,602)
Other operating expenses	(15,092)	(7,504)	(4,976)	(1,692)	(1,916)
Profit/(loss) from operating activities	(1,054)	(4,774)	(1,056)	2,369	75
Finance costs	–	–	–	(402)	(140)
Share of losses of associates	(5,228)	(2,637)	–	–	–
Profit/(loss) before tax	(6,282)	(7,411)	(1,056)	1,967	(65)
Tax	(72)	96	(402)	–	–
Profit/(loss) before minority interests	(6,354)	(7,315)	(1,458)	1,967	(65)
Minority interests	(196)	180	96	–	–
Net profit/(loss) attributable to shareholders	<u>(6,550)</u>	<u>(7,135)</u>	<u>(1,362)</u>	<u>1,967</u>	<u>(65)</u>
<b>ASSETS, LIABILITIES AND MINORITY INTERESTS</b>					
Total assets	242,636	242,116	133,381	132,821	20,537
Total liabilities	22,675	15,836	10,688	9,170	8,043
Minority interests	419	224	404	–	–
	<u>219,542</u>	<u>226,056</u>	<u>122,289</u>	<u>123,651</u>	<u>12,494</u>

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION *(continued)*

*Note:*

The summary of the results of the Company for the year ended 31 December 1999, the Company's assets and liabilities as at 31 December 1999 and the basis of presentation have been extracted from the accountants' report included in the Company's prospectus dated 31 July 2000.

The Company's 2000 results and the Group's 2001 consolidated results have been extracted from the 2000 and 2001 annual reports. The consolidated results of the Group for each of the two years ended 31 December 2003 are extracted from the audited financial statements as set out on page 26.

The Company's assets and liabilities as at 31 December 2000 and the Group's assets, liabilities and minority interests as at 31 December 2001 have been extracted from the 2000 and 2001 annual reports. The Group's consolidated assets, liabilities and minority interests as at each of the two years ended 31 December 2003 are extracted from the audited financial statements as set out on page 27.

### FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

### SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

### 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.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.



# Report of the Directors

## DISTRIBUTABLE RESERVES

The Company has no reserves available for distribution as dividends. At 31 December 2003, in accordance with the Company Law of the PRC, an amount of approximately RMB170,717,000 standing to the credit of the Company's share premium account, as determined in accordance with the PRC accounting standards and regulations, was available for distribution by way of capitalization issue.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for 68% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Mr. Jiang Guoxing

Mr. Shi Lei

Mr. Yu Jun

Ms. Cheng Junxia

Mr. Wang Su

Mr. Tsai Kao Chung (appointed on 23 May 2003)

### Non-executive directors:

Mr. Chen Xiaohong

Ms. Zhang Qianling

Mr. He Lixing

Mr. Shen Xiaozu

### Independent non-executive directors:

Mr. David Yung

Mr. Leung Tin Pui

Mr. Xu Juyan



# Report of the Directors

## **DIRECTORS** *(continued)*

In accordance with article 87 of the Company's articles of association, executive directors and non-executive directors shall be elected at the shareholders' general meeting for a term of three years. Independent non-executive directors shall be elected at the shareholders' general meeting for a term of one year. A director may serve consecutive terms if re-elected upon the expiration of the term.

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and of the senior management of the Group are set out in the section "Directors and Senior Management Biographies" of the annual report.

## **DIRECTORS' SERVICE CONTRACTS**

Mr. Tsai Kao Chung, the executive director, has signed a letter of appointment with the Company for a period of one year commencing on 23 May 2003.

Apart from the foregoing, each of the executive directors has entered into a service contract with the Company for a term of three years commencing on 19 July 2003 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. Mr. David Yung and Mr. Leung Tin Pui, who are the independent non-executive directors, have signed a letter of appointment with the Company for a period of one year commencing from 19 July 2003 to 18 July 2004. Mr. Xu Juyan, the other independent non-executive director, has signed a letter of appointment with the Company for a period of one year commencing on 12 June 2003.

## **DIRECTORS' INTERESTS IN CONTRACTS**

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



## Report of the Directors

### DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests of the directors and supervisors of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the GEM of the Stock Exchange of Hong Kong (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Rule 5.40 of the Rules governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:—

Long positions in domestic shares of the Company:

	Number of issued shares held, capacity and nature of interest				Percentage of	
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust (Note)	Total	the Company's issued share capital
<i>Directors</i>						
Mr. Jiang Guoxing	7,210,000	—	—	1,442,300	8,652,300	1.38
Mr. Shi Lei	7,210,000	—	—	12,980,000	20,190,000	3.23
Mr. Yu Jun	—	—	—	10,961,530	10,961,530	1.76
Ms. Cheng Junxia	—	—	—	8,076,920	8,076,920	1.29
Mr. Wang Su	—	—	—	7,211,530	7,211,530	1.16
Mr. Chen Xiaohong	—	—	—	7,211,530	7,211,530	1.16
Ms. Zhang Qianling	—	—	—	1,733,650	1,733,650	0.28
Mr. He Lixing	—	—	—	1,442,300	1,442,300	0.23
Mr. Shen Xiaozu	—	—	—	1,442,300	1,442,300	0.23
	<u>14,420,000</u>	<u>—</u>	<u>—</u>	<u>52,502,060</u>	<u>66,922,060</u>	<u>10.72</u>
<i>Supervisors</i>						
Mr. Li Wei	—	—	—	6,057,690	6,057,690	0.97
Mr. Ding Shengbiao	—	—	—	7,211,530	7,211,530	1.16
Mr. Xu Lenian	—	—	—	865,380	865,380	0.14
	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,134,600</u>	<u>14,134,600</u>	<u>2.27</u>



## Report of the Directors

### DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

*Note:* These shares are held by the Staff Shareholding Association of the Company (the "SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce 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, as at 31 December 2003, none of the directors and supervisors had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

### DIRECTORS' RIGHTS TO ACQUIRE 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 minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:—

Long positions in domestic shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
SSAC		Directly beneficially owned	144,230,000	23.10
Shanghai Fudan High Tech Company	(1)	Directly beneficially owned	106,730,000	17.09
SCI	(2)	Directly beneficially owned and through a controlled corporation	95,200,000	15.25





## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(continued)*

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 represent approximately 7.39% of the registered share capital of the Company.

Save as disclosed above, as at 31 December 2003, no person, other than the directors and supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests and short positions in shares and underlying shares" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions of the Group are set out in notes 26, 27 and 28 to the financial statements.

## **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.

## **POST BALANCE SHEET EVENT**

Details of the significant post balance sheet event of the Group are set out in note 27 to the financial statements.

## **BOARD PRACTICES AND PROCEDURES**

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



# Report of the Directors

## 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 Group's financial statements for the year ended 31 December 2003 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 2003.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Jiang Guoxing**

*Chairman*

Shanghai, PRC

25 March 2004



# Report of the Auditors



To the members

## **Shanghai Fudan Microelectronics Company Limited**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 26 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

25 March 2004



# Consolidated Income Statement

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
<b>TURNOVER</b>	5	<b>97,456</b>	62,003
Cost of sales		<u>(62,938)</u>	<u>(44,173)</u>
Gross profit		<b>34,518</b>	17,830
Other revenue and gains	5	<b>2,907</b>	2,946
Selling and distribution costs		<b>(5,875)</b>	(4,170)
Administrative expenses		<b>(17,512)</b>	(13,876)
Other operating expenses		<u><b>(15,092)</b></u>	<u>(7,504)</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	6	<b>(1,054)</b>	(4,774)
Share of losses of associates		<u><b>(5,228)</b></u>	<u>(2,637)</u>
<b>LOSS BEFORE TAX</b>		<b>(6,282)</b>	(7,411)
Tax	9	<u><b>(72)</b></u>	<u>96</u>
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(6,354)</b>	(7,315)
Minority interests		<u><b>(196)</b></u>	<u>180</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	10	<u><b>(6,550)</b></u>	<u>(7,135)</u>
<b>LOSS PER SHARE</b>	11		
Basic		<u><b>(1.05) cents</b></u>	<u>(1.17) cents</u>



# Consolidated Balance Sheet

31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	38,540	15,114
Construction in progress	13	—	10
Intangible assets:	14		
Deferred development costs		10,670	11,137
Interests in associates	16	4,080	9,063
Long term investment	17	4,000	4,000
		<u>57,290</u>	<u>39,324</u>
<b>CURRENT ASSETS</b>			
Inventories	18	24,784	15,898
Trade and bills receivables	19	30,757	23,497
Prepayments, deposits and other receivables	20	6,294	18,520
Pledged cash and bank balances	21	775	4,346
Cash and cash equivalents	21	122,736	140,531
		<u>185,346</u>	<u>202,792</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	22	12,569	8,100
Tax payable		—	74
Other payables and accruals	23	10,106	7,662
		<u>22,675</u>	<u>15,836</u>
<b>NET CURRENT ASSETS</b>		<u>162,671</u>	<u>186,956</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>219,961</u>	<u>226,280</u>
Minority interests		419	224
		<u>219,542</u>	<u>226,056</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	62,435	62,435
Reserves		157,107	163,621
		<u>219,542</u>	<u>226,056</u>

Jiang Guoxing  
Director

Shi Lei  
Director



## Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Issued share capital <i>RMB'000</i> <i>(Note 24)</i>	Share premium account <i>RMB'000</i> <i>(Note 25)</i>	Statutory common reserve <i>RMB'000</i> <i>(Note 25)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(Note 25)</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits/ losses) (accumulated <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002:							
As previously reported	51,875	70,375	456	456	–	(873)	122,289
PRC statutory adjustments <i>(Note 25)</i>	–	–	(456)	(456)	–	912	–
As restated	51,875	70,375	–	–	–	39	122,289
Net loss for the year	–	–	–	–	–	(7,135)	(7,135)
Issue of shares <i>(Note 24)</i>	10,560	109,272	–	–	–	–	119,832
Share issue expenses <i>(Note 24)</i>	–	(8,930)	–	–	–	–	(8,930)
At 31 December 2002	<u>62,435</u>	<u>170,717</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,096)</u>	<u>226,056</u>
At 1 January 2003	62,435	170,717	–	–	–	(7,096)	226,056
Exchange realignment and net gains and losses not recognised in the income statement	–	–	–	–	36	–	36
Net loss for the year	–	–	–	–	–	(6,550)	(6,550)
At 31 December 2003	<u>62,435</u>	<u>170,717</u>	<u>–</u>	<u>–</u>	<u>36</u>	<u>(13,646)</u>	<u>219,542</u>



## Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Issued share capital <i>RMB'000</i> <i>(Note 24)</i>	Share premium account <i>RMB'000</i> <i>(Note 25)</i>	Statutory common reserve <i>RMB'000</i> <i>(Note 25)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(Note 25)</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
Retained by:							
Company and subsidiaries	62,435	170,717	–	–	36	(5,781)	227,407
Associates	–	–	–	–	–	(7,865)	(7,865)
<b>At 31 December 2003</b>	<b>62,435</b>	<b>170,717*</b>	<b>–*</b>	<b>–*</b>	<b>36*</b>	<b>(13,646)*</b>	<b>219,542</b>
Company and subsidiaries	62,435	170,717	–	–	–	(4,459)	228,693
Associates	–	–	–	–	–	(2,637)	(2,637)
At 31 December 2002	62,435	170,717*	–*	–*	–*	(7,096)*	226,056

\* These reserve accounts comprise the consolidated reserves of RMB157,107,000 (2002: RMB163,621,000) in the consolidated balance sheet.



# Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(6,282)	(7,411)
Adjustments for:			
Share of losses of associates		5,228	2,637
Interest income	6	(1,496)	(1,883)
Depreciation	6	4,772	3,825
Amortisation of intangible assets	6	2,526	1,498
Loss on disposal of fixed assets		11	–
Impairment loss on deferred development costs	6	1,463	1,155
Operating profit/(loss) before working capital changes		6,222	(179)
Increase in trade and bills receivables		(7,260)	(1,050)
Decrease/(increase) in prepayments, deposits and other receivables		1,473	(1,560)
(Increase)/decrease in inventories		(8,886)	3,712
Increase in trade payables		4,469	3,636
Increase in other payables and accruals		2,444	1,438
Cash (outflow)/generated from operation		(1,538)	5,997
Profits tax (paid)/refunded		(146)	170
Net cash (outflow)/inflow from operating activities		(1,684)	6,167
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in deposits with original maturity of over three months when acquired		(3,534)	(29,466)
Interest received		1,496	1,883
Purchases of fixed assets		(26,582)	(1,654)
Increase in construction in progress		(3,505)	(2,682)
Decrease/(increase) in prepayment for a property		12,641	(12,641)
Addition to deferred development costs		(5,072)	(5,246)
Proceeds from government grants		1,550	315
Investment in an associate		(245)	(11,700)
Net cash outflow from investing activities		(23,251)	(61,191)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital		–	119,832
Share issue expenses		–	(8,930)
Net cash inflow from financing activities		–	110,902
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(24,935)</b>	<b>55,878</b>
Cash and cash equivalents at beginning of year		115,411	59,533
Effect of foreign exchange rate changes, net		35	–
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>90,511</b>	<b>115,411</b>





# Consolidated Cash Flow Statement

Year ended 31 December 2003

	<i>Notes</i>	<b>2003</b> <i>RMB'000</i>	2002 <i>RMB'000</i>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>	<i>21</i>		
Cash and bank balances		<b>61,736</b>	18,783
Cash and bank balances pledged for bank facilities		<b>775</b>	4,346
Time deposits with original maturity of less than three months when acquired		<u><b>28,000</b></u>	<u>92,282</u>
		<u><b>90,511</b></u>	<u>115,411</u>



# Balance Sheet

31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	33,064	9,647
Construction in progress	13	–	10
Intangible assets:	14		
Deferred development costs		8,487	11,137
Investments in subsidiaries	15	16,428	16,428
Investments in associates	16	11,945	11,700
Long term investment	17	4,000	4,000
		<u>73,924</u>	<u>52,922</u>
<b>CURRENT ASSETS</b>			
Inventories	18	21,412	14,903
Due from a subsidiary	15	2,497	1,006
Trade and bills receivables	19	29,158	22,376
Prepayments, deposits and other receivables	20	6,031	18,434
Pledged cash and bank balances	21	775	4,346
Cash and cash equivalents	21	115,713	131,773
		<u>175,586</u>	<u>192,838</u>
<b>CURRENT LIABILITIES</b>			
Due to a subsidiary	15	126	136
Trade payables	22	12,569	8,093
Other payables and accruals	23	7,677	6,194
		<u>20,372</u>	<u>14,423</u>
<b>NET CURRENT ASSETS</b>		<u>155,214</u>	<u>178,415</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>229,138</u>	<u>231,337</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	24	62,435	62,435
Reserves	25	166,703	168,902
		<u>229,138</u>	<u>231,337</u>

Jiang Guoxing  
Director

Shi Lei  
Director



# Notes to Financial Statements

31 December 2003

## 1. CORPORATE INFORMATION

The registered address of Shanghai Fudan Microelectronics Company Limited is located at No. 220 Handan Road, Shanghai, the People's Republic of China (the "PRC"). The Company has established a place of business in Hong Kong, which is located at Flat 12, 7/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon.

The principal activities of the subsidiaries are the provision of testing services for integrated circuits ("IC") products; designing, developing and selling IC testing software and products; production of probe card; as well as the provision of research and consultancy services of IC technology.

The principal activities of the Company have not been changed during the year and consist of designing, developing and selling products of application-specific IC.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are presented in note 9 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense/income for the year.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 14 to the financial statements.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These 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, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as long term assets and are stated at cost less any impairment losses.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings	50 years
Machinery and office equipment	5 years
Motor vehicles	5 years



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Fixed assets and depreciation** *(continued)*

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents machinery and other fixed assets under construction or installation and is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### **Foreign currencies**

All foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi ("RMB") at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of a foreign subsidiary are translated to RMB using the net investment method. The income statement of the foreign subsidiary is translated to RMB at the weighted average exchange rates for the year. The balance sheet of the foreign subsidiary is translated to RMB at the exchange rates ruling at the balance sheet date. The resulting translation difference is included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, frequently recurring cash flows of the foreign subsidiary which arise throughout the year are translated to RMB at the weighted average rates for the year.

### **Intangible assets**

#### *Deferred development costs*

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.



## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Intangible assets *(continued)*

#### *Deferred development costs (continued)*

Deferred development costs are carried at cost less any impairment losses and are amortised using the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant, on a systematic basis, to the costs which it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the assets and released to the income statement by way of a reduced depreciation charge.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, subcontracting fees and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair value, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to comparison of price/earnings ratios and investment yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Long term investments *(continued)*

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the rendering of services, in the period in which services are rendered; and
- (d) tax refunds and subsidy income, when approvals and the amounts involved are received from the relevant PRC authorities.

### Retirement benefits costs

The employees of the Company and its subsidiary which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.





## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Retirement benefits costs *(continued)*

The Group's subsidiary in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's subsidiary contributions vest fully with the employees when contributed into the MPF Scheme.

### Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of balance sheet classification, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- the design, development and selling of IC products segment ("Design, development and selling of IC products") ; and
- the provision of testing services for IC products, production of probe card and selling IC testing products segment ("Testing services for IC products")

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



# Notes to Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, loss and certain assets, liability and expenditure information for the Group's business segments.

	Design, development and selling of IC products		Testing services for IC products		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:								
Sales to external customers	92,989	60,923	4,467	1,080	-	-	97,456	62,003
Intersegment sales	-	-	1,306	706	(1,306)	(706)	-	-
Total	<u>92,989</u>	<u>60,923</u>	<u>5,773</u>	<u>1,786</u>	<u>(1,306)</u>	<u>(706)</u>	<u>97,456</u>	<u>62,003</u>
Segment results	<u>(5,497)</u>	<u>(5,825)</u>	<u>1,702</u>	<u>(1,895)</u>	<u>(166)</u>	<u>-</u>	<u>(3,961)</u>	<u>(7,720)</u>
Other revenue and gains							2,907	2,946
Loss from operating activities							(1,054)	(4,774)
Share of losses of associates							(5,228)	(2,637)
Loss before tax							(6,282)	(7,411)
Tax							(72)	96
Loss before minority interests							(6,354)	(7,315)
Minority interests							(196)	180
Net loss from ordinary activities attributable to shareholders							<u>(6,550)</u>	<u>(7,135)</u>
Segment assets	163,923	99,220	9,633	8,085	-	-	173,556	107,305
Interest bearing time deposits							61,000	121,748
Interests in associates							4,080	9,063
Long term investment							4,000	4,000
Total assets							<u>242,636</u>	<u>242,116</u>
Segment liabilities	21,603	14,483	1,072	1,353	-	-	22,675	15,836
Total liabilities	<u>21,603</u>	<u>14,483</u>	<u>1,072</u>	<u>1,353</u>	<u>-</u>	<u>-</u>	<u>22,675</u>	<u>15,836</u>
Other segment information:								
Capital expenditure	30,259	8,842	1,462	425	-	-	31,721	9,267
Impairment losses recognised in the income statement	1,463	1,155	-	-	-	-	1,463	1,155
Depreciation	3,331	2,415	1,441	1,410	-	-	4,772	3,825
Amortisation of deferred expenditure	2,526	1,498	-	-	-	-	2,526	1,498
Other non-cash expenses	2,526	1,632	-	-	-	-	<u>2,526</u>	<u>1,632</u>



# Notes to Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	For the year ended 31 December 2003				
	Mainland China	Asia Pacific	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	<u>80,478</u>	<u>27,762</u>	<u>4,542</u>	<u>(15,326)</u>	<u>97,456</u>
Other segment information:					
Segment assets	<u>241,986</u>	<u>14,746</u>	<u>–</u>	<u>(14,096)</u>	<u>242,636</u>
Capital expenditure	<u>29,538</u>	<u>2,183</u>	<u>–</u>	<u>–</u>	<u>31,721</u>

	For the year ended 31 December 2002				
	Mainland China	Asia Pacific	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	<u>52,150</u>	<u>10,580</u>	<u>4,443</u>	<u>(5,170)</u>	<u>62,003</u>
Other segment information:					
Segment assets	<u>242,071</u>	<u>8,889</u>	<u>–</u>	<u>(8,844)</u>	<u>242,116</u>
Capital expenditure	<u>9,209</u>	<u>58</u>	<u>–</u>	<u>–</u>	<u>9,267</u>



# Notes to Financial Statements

31 December 2003

## 5. TURNOVER AND OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

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

	Group	
	2003 RMB'000	2002 RMB'000
<b>Turnover</b>		
Sale of goods	92,989	60,923
Services rendered	4,467	1,080
	<u>97,456</u>	<u>62,003</u>
<b>Other revenue and gains</b>		
Interest income	1,496	1,883
Investment income	—	69
Value-added tax refunds	961	866
Subsidy income	167	118
Exchange gains, net	190	10
Others	93	—
	<u>2,907</u>	<u>2,946</u>
	<u>100,363</u>	<u>64,949</u>



# Notes to Financial Statements

31 December 2003

## 6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost of inventories sold	60,466	42,215
Cost of services provided	2,472	1,958
Depreciation	4,772	3,825
Provision for doubtful debts	1,126	1,022
Other receivables written off	–	189
Provision for inventories	1,400	421
Impairment loss on deferred development costs**	1,463	1,155
Minimum lease payments under operating leases:		
land and buildings	2,734	1,579
Research and development costs:		
Deferred expenditure amortised*	2,526	1,498
Current year expenditure	12,383	5,260
Auditors' remuneration	650	600
Staff costs (excluding directors' remuneration – (note 7):		
Wages and salaries	15,749	11,069
Retirement benefits costs	1,818	1,315
	<u>17,567</u>	<u>12,384</u>
Less: Amounts capitalised as development costs	<u>(1,406)</u>	<u>(2,818)</u>
	<u>16,161</u>	<u>9,566</u>
Investment income	–	(69)
Interest income	(1,496)	(1,883)
Exchange gains, net	(190)	(10)
Value-added tax refunds	(961)	(866)
Subsidy income	(167)	(118)
	<u><u>          </u></u>	<u><u>          </u></u>

\* The amortisation of deferred development expenditure for the year are included in "Cost of sales" on the face of the consolidated income statement.

\*\* The impairment loss on deferred development costs is included in the "Other operating expenses" on the face of the consolidated income statement.



# Notes to Financial Statements

31 December 2003

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Fees for an independent non-executive director	<b>128</b>	128
Salaries and benefits	<b>1,374</b>	1,374
	<b><u>1,502</u></b>	<u>1,502</u>

For the year ended 31 December 2003, the salaries and benefits in kind paid to six executive directors were approximately RMB300,000 (2002: RMB300,000), RMB 300,000 (2002: RMB300,000), RMB250,000 (2002: RMB250,000), RMB250,000 (2002: RMB250,000), RMB250,000 (2002: RMB250,000) and nil (2002: Nil). None of the four non-executive directors received any fees or emoluments during the year (2002: Nil). Of the three independent non-executive directors, one received fees of RMB128,000 (2002: RMB128,000), one waived the entire remuneration payable of HK\$360,000 covering the period from 19 July 2000 to 18 July 2003 and HK\$120,000 covering the period from 19 July 2003 to 18 July 2004; and the remaining director received no fees during the year (2002: Nil). The salaries and benefits in kind paid to an independent non-executive director amounted to RMB24,000 (2002: RMB24,000).

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: five) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2002: Nil) non-director, highest paid employee of the Group for the year are as follows:

	<b>2003</b>
	<b>RMB'000</b>
Salaries, allowances and benefits in kind	<b><u>351</u></b>





# Notes to Financial Statements

31 December 2003

## 8. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2003 Number of employees
Nil to HK\$1,000,000	<u><u>1</u></u>

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as inducement to join the Group, or as compensation for loss of office.

## 9. TAX

Under the Income Tax Law of the PRC, the Company is subject to income tax at 33.0%. Pursuant to an approval document dated 15 January 2004 issued by the local municipal tax bureau, the Company is subject to a preferential income tax rate of 15.0% from 1 January 2003 to 31 December 2004. For the financial year ended 31 December 2003, the Company has no assessable income and no provision for income tax has been made accordingly.

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Group:		
Current – Mainland China		
Charge for the year	–	–
Overprovision in prior years	–	(170)
Current – Hong Kong	<u>72</u>	<u>74</u>
Total tax charge/(credit) for the year	<u><u>72</u></u>	<u><u>(96)</u></u>



# Notes to Financial Statements

31 December 2003

## 9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

### Group – 2003

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Accounting loss before tax	<u>(5,625)</u>	<u>(657)</u>	<u>(6,282)</u>
Tax at the applicable rates	(844)	(115)	(959)
Unprovided deferred tax assets	673	188	861
Income not subject to tax	–	(1)	(1)
Tax concession	(526)	–	(526)
Expenses not deductible for tax	936	–	936
Tax losses utilised from previous periods	<u>(239)</u>	<u>–</u>	<u>(239)</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>72</u>	<u>72</u>

### Group – 2002

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Accounting (loss)/profit before tax	<u>(7,440)</u>	<u>29</u>	<u>(7,411)</u>
Tax at the applicable rates	(1,116)	4	(1,112)
Unprovided deferred tax assets	716	45	761
Adjustments in respect of			
current tax of previous periods	(170)	–	(170)
Income not subject to tax	–	(3)	(3)
Expenses not deductible for tax	<u>400</u>	<u>28</u>	<u>428</u>
Tax (credit)/charge at the Group's effective rate	<u>(170)</u>	<u>74</u>	<u>(96)</u>

The Group has tax losses arising in the PRC of RMB7,965,000 (2002: RMB9,135,000) that are available, within a maximum period of five years, for offsetting against future taxable profits of the companies in which the losses arose.



# Notes to Financial Statements

31 December 2003

## 9. TAX (continued)

Deferred tax assets have not been recognised in respect of these losses as they have arisen in the companies that have been loss-making for some time.

SSAP 12 was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 December 2002.

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was RMB2,199,000 (2002: RMB2,826,000).

## 11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2003, is based on the following data:

	2003	2002
<b>Loss</b>		
Net loss attributable to shareholders	<u>RMB (6,550,000)</u>	<u>RMB (7,135,000)</u>
<b>Shares</b>		
Weighted average number of shares in issue	<u>624,354,000</u>	<u>609,309,000</u>

Diluted loss per share for the year ended 31 December 2003 and the comparative diluted loss per share amounts have not been calculated because no diluting events existed during these years.



# Notes to Financial Statements

31 December 2003

## 12. FIXED ASSETS

### Group

	Buildings <i>RMB'000</i>	Machinery and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At beginning of year	–	19,830	1,040	20,870
Additions	18,795	7,515	272	26,582
Transfers from construction in progress	–	1,627	–	1,627
Disposals	–	(46)	–	(46)
<b>At 31 December 2003</b>	<b><u>18,795</u></b>	<b><u>28,926</u></b>	<b><u>1,312</u></b>	<b><u>49,033</u></b>
Accumulated depreciation:				
At beginning of year	–	5,530	226	5,756
Provided during the year	120	4,451	201	4,772
Disposals	–	(35)	–	(35)
<b>At 31 December 2003</b>	<b><u>120</u></b>	<b><u>9,946</u></b>	<b><u>427</u></b>	<b><u>10,493</u></b>
Net book value:				
<b>At 31 December 2003</b>	<b><u>18,675</u></b>	<b><u>18,980</u></b>	<b><u>885</u></b>	<b><u>38,540</u></b>
At 31 December 2002	–	14,300	814	15,114



# Notes to Financial Statements

31 December 2003

## 12. FIXED ASSETS (continued)

### Company

	Buildings <i>RMB'000</i>	Machinery and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At beginning of year	–	12,714	844	13,558
Additions	18,795	6,884	272	25,951
Transfers from construction in progress	–	795	–	795
Disposals	–	(46)	–	(46)
<b>At 31 December 2003</b>	<b><u>18,795</u></b>	<b><u>20,347</u></b>	<b><u>1,116</u></b>	<b><u>40,258</u></b>
Accumulated depreciation:				
At beginning of year	–	3,735	176	3,911
Provided during the year	120	3,034	164	3,318
Disposals	–	(35)	–	(35)
<b>At 31 December 2003</b>	<b><u>120</u></b>	<b><u>6,734</u></b>	<b><u>340</u></b>	<b><u>7,194</u></b>
Net book value:				
<b>At 31 December 2003</b>	<b><u>18,675</u></b>	<b><u>13,613</u></b>	<b><u>776</u></b>	<b><u>33,064</u></b>
At 31 December 2002	–	8,979	668	9,647



# Notes to Financial Statements

31 December 2003

## 13. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
At beginning of year	10	10
Additions	3,505	2,673
Transferred to fixed assets	(1,627)	(795)
Transferred to prepayments, deposits and other receivables	(1,888)	(1,888)
	<u>          </u>	<u>          </u>
<b>At 31 December 2003</b>	<b><u>          </u></b>	<b><u>          </u></b>

## 14. INTANGIBLE ASSETS

	Group Deferred development costs RMB'000	Company Deferred development costs RMB'000
Cost:		
At beginning of year	15,629	15,629
Additions	3,522	1,339
	<u>          </u>	<u>          </u>
<b>At 31 December 2003</b>	<b><u>19,151</u></b>	<b><u>16,968</u></b>
Accumulated amortisation and impairment:		
At beginning of year	4,492	4,492
Amortisation provided during the year	2,526	2,526
Impairment during the year recognised in the income statement	1,463	1,463
	<u>          </u>	<u>          </u>
<b>At 31 December 2003</b>	<b><u>8,481</u></b>	<b><u>8,481</u></b>
Net book value:		
<b>At 31 December 2003</b>	<b><u>10,670</u></b>	<b><u>8,487</u></b>
At 31 December 2002	<u>11,137</u>	<u>11,137</u>



# Notes to Financial Statements

31 December 2003

## 14. INTANGIBLE ASSETS *(continued)*

During the year, the Group received government grants aggregately amounting to RMB1,550,000 (2002: RMB315,000). These cash grants were non-recurring in nature and were designated for the purpose of developing certain of the Group's products. The cash grants received have been deducted from the deferred development costs in arriving at its carrying amount. There are no unfulfilled conditions or contingencies relating to these grants. Sino IC is registered as a contractual joint venture company.

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	16,428	16,428
Due from a subsidiary	2,497	1,006
Due to a subsidiary	(126)	(136)
	<u>18,799</u>	<u>17,298</u>

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.



# Notes to Financial Statements

31 December 2003

## 15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of registered/ issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
Sino IC Technology Co., Ltd. ("Sino IC")	PRC 28 April 2001	RMB10,000,000*	90	Provision of testing services for IC products; designing, developing and selling of IC testing software; production of probe card; and the provision of research and consultancy services of IC technology
Shanghai Fudan Microelectronics (HK) Limited	Hong Kong 23 January 2002	HK\$7,000,000	100	Developing and selling of IC products

\* The registered capital of Sino IC has not been fully contributed by the minority shareholders as at 31 December 2003. Of the paid-up capital of RMB9.5 million, RMB9 million was contributed by the Company in cash. Sino IC is registered as a contractual joint venture company.





# Notes to Financial Statements

31 December 2003

## 16. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	–	–	11,945	11,700
Share of net assets	4,080	9,063	–	–
	<u>4,080</u>	<u>9,063</u>	<u>11,945</u>	<u>11,700</u>

Particulars of the associates are as follows:

Name	Business structure	Place and date of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai Fudan Communication Co., Ltd. ("FC")	Corporate	PRC 8 March 2002	39	Developing, manufacturing and selling of high-technology products
Shanghai Fu En Electronic Limited Company ("Fu En")	Corporate	PRC 23 May 2003	49	Technical service in electronics field and selling of IC products

## 17. LONG TERM INVESTMENT

	Group and Company	
	2003 RMB'000	2002 RMB'000
Unlisted equity investment, at fair value	<u>4,000</u>	<u>4,000</u>



# Notes to Financial Statements

31 December 2003

## 18. INVENTORIES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	6,663	5,573	6,627	5,548
Work in process	5,820	2,892	5,820	2,892
Finished goods	12,301	7,433	8,965	6,463
	<u>24,784</u>	<u>15,898</u>	<u>21,412</u>	<u>14,903</u>

At 31 December 2003, no inventories were stated at net realisable value (2002: RMB 1,270,000).

## 19. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of trade and bills receivables at the balance sheet date are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 3 months	19,375	16,174	17,799	15,053
Between 3 to 6 months	6,661	5,105	6,661	5,105
Between 6 to 12 months	3,353	1,325	3,353	1,325
More than 12 months	1,368	893	1,345	893
	<u>30,757</u>	<u>23,497</u>	<u>29,158</u>	<u>22,376</u>



# Notes to Financial Statements

31 December 2003

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	5,195	16,787	5,018	16,787
Deposits and other receivables	1,099	1,733	1,013	1,647
	<u>6,294</u>	<u>18,520</u>	<u>6,031</u>	<u>18,434</u>

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED CASH AND CASH BALANCES

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	62,511	23,129	55,488	20,681
Time deposits with original maturity of less than three months when acquired	28,000	92,282	28,000	85,972
Time deposits with original maturity of over three months when acquired	33,000	29,466	33,000	29,466
	<u>123,511</u>	<u>144,877</u>	<u>116,488</u>	<u>136,119</u>
Less: cash and bank balances pledged for bank facilities	(775)	(4,346)	(775)	(4,346)
	<u>122,736</u>	<u>140,531</u>	<u>115,713</u>	<u>131,773</u>



# Notes to Financial Statements

31 December 2003

## 22. TRADE PAYABLES

An aged analysis of trade payables at the balance sheet date is as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	<u>12,569</u>	<u>8,100</u>	<u>12,569</u>	<u>8,093</u>

## 23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals	1,584	2,536	1,583	2,198
Other payables	<u>8,522</u>	<u>5,126</u>	<u>6,094</u>	<u>3,996</u>
	<u>10,106</u>	<u>7,662</u>	<u>7,677</u>	<u>6,194</u>

## 24. ISSUED CAPITAL

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Registered, issued and fully paid:		
624,354,000 (2002: 624,354,000) shares of RMB0.10 each	<u>62,435</u>	<u>62,435</u>

There was no movement in the Company's issued capital in 2003.



# Notes to Financial Statements

31 December 2003

## 24. ISSUED CAPITAL *(continued)*

A summary of the movements in 2002 for the Company's share capital is as follows:

	Number of shares of RMB0.1 each '000	Issued share capital RMB'000
At 1 January 2002	518,750	51,875
Placement of new H shares on 21 February 2002	105,604	10,560
	<hr/>	<hr/>
At 31 December 2002	<u>624,354</u>	<u>62,435</u>

On 21 February 2002, the Company issued additional 105,604,000 new H shares of RMB0.10 each to investors at HK\$1.07 each through a private placement for a total cash consideration, after deduction of related issuance expenses, of RMB110,902,000.

## 25. RESERVES

### Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 28 to 29 of the financial statements.



# Notes to Financial Statements

31 December 2003

## 25. RESERVES (continued)

### Company

	Share premium account RMB'000	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2002:					
As previously reported	70,375	456	456	99	71,386
PRC statutory adjustments	—	(456)	(456)	912	—
As restated	70,375	—	—	1,011	71,386
Net loss for the year	—	—	—	(2,826)	(2,826)
Issue of shares	109,272	—	—	—	109,272
Share issue expenses	(8,930)	—	—	—	(8,930)
At 31 December 2002	170,717	—	—	(1,815)	168,902
Net loss for the year	—	—	—	(2,199)	(2,199)
<b>At 31 December 2003</b>	<b>170,717</b>	<b>—</b>	<b>—</b>	<b>(4,014)</b>	<b>166,703</b>

In accordance with the Company Law of the PRC and the articles of association of the Company and its PRC subsidiary company, the Company and its subsidiary company are required to allocate 10% of their profits after tax, as determined in accordance with the applicable PRC accounting standards and regulations (the "PRC Standards"), to the statutory common reserve (the "SCR") until such reserve reaches 50% of the registered capital. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association, the SCR may be capitalised as share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company and its subsidiary company are also required to transfer 5% to 10% of their profits after tax, as determined in accordance with the PRC Standards, to the statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of liquidation of the Company or its subsidiary. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the property of the Company and its subsidiary.



# Notes to Financial Statements

31 December 2003

## 25. RESERVES (continued)

In 2002, there were prior year adjustments made to the opening retained profits/(accumulated losses) as reported in the PRC statutory financial statements of the Company. The Company had correspondingly adjusted the SCR and PWF in relation to the adjustments made to the retained profits/(accumulated losses). The Group's SCR and PWF have also been adjusted accordingly.

At 31 December 2003, in accordance with the Company Law of the PRC, an amount of approximately RMB170,717,000 standing to the credit of the Company's share premium account, as determined in accordance with the PRC accounting standards and regulations, was available for distribution by way of capitalization issue.

As the Company reported losses in both the PRC statutory accounts and these financial statements, the Company has no reserve available for distribution as at 31 December 2003 and 2002.

## 26 COMMITMENTS

### (a) Capital commitments

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for in respect of:				
Purchase of fixed assets	5,413	6,662	1,897	6,662
Proposed acquisition of a subsidiary	—	15,720	—	15,720
Authorized, but not contracted for	6,000	—	—	—
	<u>11,413</u>	<u>22,382</u>	<u>1,897</u>	<u>22,382</u>



# Notes to Financial Statements

31 December 2003

## 26 COMMITMENTS (continued)

### (b) Commitments under operating leases

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,341	1,373	1,189	945
In the second to fifth years, inclusive	3,087	1,001	3,087	866
	<u>4,428</u>	<u>2,374</u>	<u>4,276</u>	<u>1,811</u>

Note:

As disclosed in the financial statements for the year ended 31 December 2002, on 21 October 2002, the Company entered into an agreement with Shanghai Commercial Investment Enterprise Holdings Limited ("SCIE") to acquire 53.8% interest in Shanghai Commercial High Technology Development Limited (the "Target Company") at a cash consideration of RMB15.72 million which was determined with reference to 53.8% of the PRC audited net asset value of the Target Company, amounting to approximately RMB16.45 million as at 31 December 2001. SCIE is 90% held by 上海市商業投資(集團)有限公司 (Shanghai Commerce Invest (Group) Corporation Limited) which is an initial management shareholder of the Company.

On 3 January 2003, the Company entered into a supplementary agreement with SCIE to postpone the conditional fulfillment date for the acquisition of the Target Company to 30 September 2003. The investment terms including consideration for and the percentage of shareholding to be held by the Company in the Target Company were revisited and were under negotiation by the parties involved.

On 27 June 2003, the Company and SCIE entered into an agreement to terminate the acquisition transaction.





# Notes to Financial Statements

31 December 2003

## 27. POST BALANCE SHEET EVENT

The Company has entered into a disposal agreement and a supplemental agreement on 18 March 2004 and 19 March 2004 respectively with SCIE relating to the transfer of the Company's 20% equity interest in FC at a cash consideration of RMB 6,000,000. After the transfer of equity interests, the Company's interest in FC will decrease to 19%.

## 28. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, during the year, the Group had the following material transactions with the following related parties:

<b>Name of related party</b>	<b>Relationship with the Group</b>	<b>Nature of transaction</b>	<b>2003 RMB'000</b>	<b>2002 RMB'000</b>
Shanghai Fudan University	Owner of Fudan High Tech	Technical and equipment support fee	<u>800</u>	<u>800</u>

The technical and equipment support fee was based on the agreement entered between the Company and the related party with reference to the market price.

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



# Notes to Financial Statements

31 December 2003

## 29. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issuance by the board of directors on 25 March 2004.

