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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your H Shares in **Beijing Beida Jade Bird Universal Sci-Tech Company Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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北京北大青鳥環宇科技股份有限公司

BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

**MAJOR TRANSACTION
RELATING TO THE PROPOSED INVESTMENT IN
SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION
AND
PROPOSED SPECIFIC MANDATE FOR THE ISSUE OF NEW H SHARES**

Financial adviser



Tai Fook Capital Limited

A letter from the board of directors of Beijing Beida Jade Bird Universal Sci-Tech Company Limited dated 31st December, 2001 is set out on pages 6 to 17 of this circular.

Notices convening a special general meeting and separate class meetings of holders of Promoters' Shares and H Shares of Beijing Beida Jade Bird Universal Sci-Tech Company Limited to be held at 10:00 a.m., 10:30 a.m. and 11:00 a.m. on 20th February, 2002, respectively at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong are set out on pages 53 to 59 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed reply slips and forms of proxy in accordance with the instructions printed thereon to the office of the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong as soon as practicable but in any event for the reply slips, on or before 30th January, 2002 and the forms of proxy not less than 24 hours before the respective time appointed for the holding of the special general meeting and separate class meetings of holders of Promoters' Shares and H Shares. Completion of the forms of proxy will not preclude you from attending and voting at the meetings or any adjourned meeting or meetings should you so wish.

31st December, 2001

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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

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

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

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Average Closing Price”	the average closing price of the H Shares, as quoted on the Stock Exchange, for the 20 trading days immediately prior to the Latest Practicable Date
“Bank Loan”	the short-term bank loan of up to RMB390 million (or approximately US\$47 million), of which approximately RMB375 million (or approximately US\$45 million) will be utilised by the Company to partially finance the payment of the consideration to be paid pursuant to the SMIC Share Purchase Agreement. The Bank Loan is unsecured, carries interest at an interest rate of 6.2496% per annum and is repayable on the date falling on 6 months from the date of drawdown
“Board”	board of Directors
“Company”	北京北大青鳥環宇科技股份有限公司 (Beijing Beida Jade Bird Universal Sci-Tech Company Limited), a sino-foreign joint stock limited company incorporated in the PRC with limited liability with its H Shares listed on GEM
“Company Subscription”	the proposed subscription of (i) 54,000,540 SMIC Preference Shares, representing approximately 5.29% of the total issued voting share capital of SMIC International as enlarged by the Subscriptions for a total consideration of US\$60 million (or approximately RMB500 million), representing a subscription price of US\$1.1111 per SMIC Preference Share; and (ii) 54,000,540 SMIC Series A-1 Preference Shares at US\$0.00001 per share, by JBU Cayman pursuant to the SMIC Share Purchase Agreement
“Cut-off Date”	1st March, 2002, if holders of Promoters’ Shares and H Shares shall not have approved the Company Subscription, or 30th June, 2002, if the Company shall not have obtained the approvals from the relevant PRC approving authorities relating to the Company Subscription
“Directors”	directors of the Company
“Final Closing”	completion of the subscription of the remaining 37.5% of the committed purchase of SMIC Preference Shares by each of JBU Cayman and the Investors respectively pursuant to the SMIC Share Purchase Agreement

DEFINITIONS

“First Closing”	completion of the subscription of 62.5% of the committed purchase of SMIC Preference Shares by each of JBU Cayman and the Investors respectively pursuant to the SMIC Share Purchase Agreement
“Founders”	the founders of SMIC International (including Mr. Richard Chang and Mr. Steve Su, both being renowned experts in the semi-conductor industry) who are also the key management of SMIC Shanghai
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of the Securities on GEM
“Group”	the Company and its subsidiaries
“H Shares”	overseas-listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB0.1 each and which are listed on GEM
“H Shares Class Meeting”	the class meeting for holders of H Shares to be held at 11:00 a.m. (or immediately after the conclusion or the adjournment of the Special General Meeting and the Promoters’ Shares Class Meeting on 10:00 a.m. and 10:30 a.m. respectively) on 20th February, 2002, the notice of which is set out on pages 58 to 59 of this circular and any adjournment thereof
“Investors”	various institutional and strategic investors (excluding JBU Cayman) who have conditionally agreed to subscribe for SMIC Preference Shares pursuant to the Investors Subscription, each of which is independent of and not connected with the Directors, promoters, supervisors, chief executive, substantial shareholders or management shareholders of the Company and subsidiaries or any of their respective associates
“Investors Subscription”	the conditional subscription by the Investors of up to an aggregate of 945,999,460 SMIC Preference Shares, representing approximately 92.75% of the total issued voting share capital of SMIC International as enlarged by the Subscriptions for a total consideration of approximately US\$1,051 million, representing a subscription price of US\$1.1111 per SMIC Preference Share
“JBU Cayman”	Beida Jade Bird Universal (Cayman) Investment Company Limited, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company

DEFINITIONS

“Latest Practicable Date”	24th December, 2001, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“PRC”	the People’s Republic of China
“Preliminary Subscription Agreement”	the conditional subscription agreement dated 30th August, 2001 entered into between JBU Cayman and SMIC International pursuant to which JBU Cayman agreed to, subject to certain conditions, subscribe for 54,000,540 SMIC Preference Shares for a total consideration of US\$60 million (equivalent to approximately RMB500 million), representing a subscription price of US\$1.1111 per SMIC Preference Share, which agreement has been superseded by the SMIC Share Purchase Agreement
“Promoters’ Shares”	ordinary shares issued by the Company, with a nominal value of RMB0.1 per share, which were subscribed by the promoters of the Company
“Promoters’ Shares Class Meeting”	the class meeting for holders of Promoters’ Shares to be held at 10:30 a.m. (or immediately after the conclusion or the adjournment of the Special General Meeting) on 20th February, 2002, the notice of which is set on pages 56 to 57 of this circular, and any adjournment thereof
“Shareholders”	holders of H Shares and Promoters’ Shares
“SMIC Articles of Association”	the articles of association of SMIC International to be amended as of the First Closing
“SMIC International”	Semiconductor Manufacturing International Corporation, a company incorporated in the Cayman Islands, which is independent of and not connected with the Directors, promoters, supervisors, chief executive, substantial shareholders or management shareholders of the Company or its subsidiaries or any of their respective associates. The principal business of SMIC International is the investment in SMIC Shanghai
“SMIC Ordinary Shares”	ordinary shares of SMIC International with a par value of US\$0.0004 per share. The holders of the existing issued SMIC Ordinary Shares are mostly the founders of SMIC International

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“SMIC Preference Shares”	Series A preference shares of SMIC International of par value of US\$0.0004 each which are voting shares, dividends bearing and at the option of the holders or upon occurrence of certain events, convertible into ordinary shares of SMIC International at the initial conversion price of US\$1.1111 per SMIC Ordinary Share (equivalent to an effective conversion ratio of one SMIC Preference Share to one SMIC Ordinary Share based on the existing capital structure of SMIC International), subject to adjustment. The SMIC Preference Shares have the same voting rights as those of the SMIC Ordinary Shares and will rank pari passu in all respects with the existing issued SMIC Ordinary Shares upon conversion into SMIC Ordinary Shares. As a holder of SMIC Preference Shares, JBU Cayman will have the right to attend shareholders’ meeting of SMIC International
“SMIC Shareholders’ Agreement”	the shareholders’ agreement dated as of 25th September, 2001, as amended, entered into by and among SMIC International, the Investors and JBU Cayman contemporaneously with the execution of the SMIC Share Purchase Agreement, which agreement shall take effect with respect to JBU Cayman upon completion of the First Closing with respect to JBU Cayman
“SMIC Share Purchase Agreement”	the agreement dated as of 25th September, 2001, as amended, entered into by and among SMIC International, JBU Cayman and the Investors in relation to the Company Subscription and the Investors Subscription, which supersedes the Preliminary Subscription Agreement
“SMIC Series A-1 Preference Shares”	Series A-1 preference shares of SMIC International with a par value of US\$0.00001 per share, which are non-voting, non-convertible, non-transferable, dividend bearing and redeemable
“SMIC Shanghai”	中芯國際集成電路製造（上海）有限公司(Semiconductor Manufacturing International Corporation (Shanghai)), a wholly foreign-owned enterprise established in the PRC, the share capital of which is wholly-owned by SMIC International. The principal business of SMIC Shanghai is the manufacturing and marketing of advanced technology semiconductors
“Special General Meeting”	the special general meeting of the Company to be convened for approving (1) by ordinary resolution, the Company Subscription contemplated under the SMIC Share Purchase Agreement; and (2) by special resolution, the specific mandate to issue up to an additional 140,000,000 new H Shares

DEFINITIONS

“Subscriptions”	the Company Subscription and the Investors Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“RMB”	Renminbi, the lawful currency of the PRC

Note: The English names of these companies are only a translation of their respective official Chinese names.

For the purpose of this announcement, unless otherwise indicated, the exchange rates at US\$1 = RMB8.338 have been used, where applicable, for purpose of illustration only and not constitute a representation that any amounts have been, could have been or may be exchanged.

LETTER FROM THE BOARD



北京北大青鳥環宇科技股份有限公司
BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Executive Directors:

Mr. Xu Zhen Dong (*Chairman*)
Prof. Chen Zhong
Mr. Xu Zhi Xiang
Prof. Zhang Wan Zhong
Prof. Liu Yue

Legal Address:

Rooms 1117/1119
Zhongcheng Building
Haidian Road
Beijing 100080
PRC

Non-Executive Directors:

Prof. Yang Fu Qing
Prof. Wang Yang Yuan
Prof. Han Ru Qi
Mr. Xing Huan Lou
Mr. Lo Lin Shing, Simon

Principal place of business in the PRC:

Room 1715, Corporate Square
35 Financial Street
Xi Cheng District
Beijing 100032
PRC

Independent Non-Executive Directors:

Ms. Liu Yong Ping
Prof. Nan Xiang Hao

Place of business in Hong Kong:

Unit 02, 7th Floor
Asia Pacific Centre
8 Wyndham Street
Central
Hong Kong

31st December, 2001

**MAJOR TRANSACTION
RELATING TO THE PROPOSED INVESTMENT IN SMIC INTERNATIONAL
AND
PROPOSED SPECIFIC MANDATE FOR THE ISSUE OF NEW H SHARES**

INTRODUCTION

On 30th August, 2001, JBU Cayman entered into the Preliminary Subscription Agreement with SMIC International pursuant to which JBU Cayman conditionally agreed to subscribe for 54,000,540 SMIC Preference Shares, for a total cash consideration of US\$60 million (or approximately RMB500 million).

Subsequent to the execution of the Preliminary Subscription Agreement, JBU Cayman has executed the SMIC Share Purchase Agreement and the SMIC Shareholders' Agreement in escrow, pending consent by SMIC International for the use by the Company of the accountants' report of SMIC International in this circular. Upon the delivery of the SMIC Share Purchase Agreement by JBU Cayman on the business day immediately prior to the date of this circular, the SMIC Share

LETTER FROM THE BOARD

Purchase Agreement will be deemed to have taken effect as of 25th September, 2001. The SMIC Share Purchase Agreement supersedes the Preliminary Subscription Agreement. The number of SMIC Preference Shares that JBU Cayman has agreed to subscribe pursuant to the SMIC Share Purchase Agreement remains at 54,000,540 and the effects of the principal terms of the SMIC Share Purchase Agreement and the Preliminary Subscription Agreement are basically the same except for certain changes. A summary and comparison of the effects of the principal terms of these two agreements have been set out in the announcement of the Company dated 28th December, 2001. For the principal terms of the SMIC Share Purchase Agreement, please refer to the paragraph headed “The SMIC Share Purchase Agreement” below.

Upon completion of the Subscriptions (by JBU Cayman and the Investors), the 54,000,540 SMIC Preference Shares of JBU Cayman represent approximately 5.29% of the total issued voting share capital of SMIC International. SMIC International is in the process of discussing the issuance of further voting shares with another investor, which, if issued, may dilute the holding of JBU Cayman in the total issued voting share capital of SMIC International.

Part of the consideration for the Company Subscription will initially be financed by the Bank Loan. To repay the Bank Loan, the Company intends to place up to 192,800,000 new H Shares to institutional and private investors at the prevailing market price at the time of the issue by:

1. exercising the general mandate granted to the Directors by the holders of H Shares and Promoters’ Shares at the Company’s annual general meeting on 29th May, 2001 to issue up to 52,800,000 new H shares, representing 20% of the existing total issued H Shares or approximately 5.5% and approximately 4.6% of the existing and enlarged issued share capital of the Company respectively; and
2. depending on the issue price per H Share, issuing up to an additional 140,000,000 new H Shares, representing approximately 53.0% of the existing total issued H Shares or approximately 14.5% and approximately 12.1% of the existing and enlarged total issued share capital of the Company respectively, pursuant to a specific mandate to be granted by special resolution of a general meeting of all holders of H Shares and Promoters’ Shares and separate class meetings of holders of Promoters’ Shares and H Shares.

The 192,800,000 new H Shares proposed to be issued, if all issued, will represent approximately 73% of the existing total issued H Shares or approximately 20% and 16.7% of the existing and enlarged total issued share capital of the Company respectively.

The principal business of SMIC International is the investment in SMIC Shanghai, a wholly foreign-owned enterprise established in the PRC for the manufacturing and marketing of advanced technology semiconductors in the PRC.

THE SMIC SHARE PURCHASE AGREEMENT

Date

As of 25th September, 2001

LETTER FROM THE BOARD

Parties

- Subscribers : JBU Cayman, a wholly-owned subsidiary of the Company, and the Investors
- Issuer : SMIC International, a private company independent of and not connected with the Directors, promoters, supervisors, chief executive, substantial shareholders or management shareholders of the Company or its subsidiaries or any of their respective associates

The Company Subscription

Pursuant to the SMIC Share Purchase Agreement, JBU Cayman has conditionally agreed to subscribe for (1) 54,000,540 SMIC Preference Shares; and (2) 54,000,540 SMIC Series A-1 Preference Shares. The SMIC Preference Shares are voting shares, dividends bearing and at the option of the holders or upon occurrence of certain events, convertible into ordinary shares of SMIC International at the initial conversion price of US\$1.1111 per SMIC Ordinary Share (equivalent to an effective conversion ratio of one SMIC Preference Share to one SMIC Ordinary Share based on the existing capital structure of SMIC International), subject to adjustment. Upon completion of the Company Subscription and the Investors Subscription, JBU Cayman will hold approximately 5.29% of the total issued voting share capital of SMIC International. SMIC International is in the process of discussing the issuance of further voting shares with another investor, which, if issued, may dilute the holding of JBU Cayman in the total issued voting share capital of SMIC International.

Conditions

Completion of the First Closing for JBU Cayman is conditional upon, among other things, fulfilment of the following principal conditions:

1. the Investors and JBU Cayman shall have executed the SMIC Share Purchase Agreement to agree to purchase not less than US\$800 million (or approximately RMB6,670 million) of SMIC Preference Shares;
2. SMIC International having received in aggregate of not less than US\$468.75 million investments from the Investors and JBU Cayman pursuant to the Investors Subscription and Company Subscription respectively;
3. the Company having obtained the approvals from the relevant PRC approving authorities in relation to the Company Subscription; and
4. the holders of Promoters' Shares and H Shares approving the Company Subscription.

The SMIC Share Purchase Agreement will terminate with respect to JBU Cayman if condition number 4 set forth above shall not have been satisfied by 1st March, 2002, and if condition number 3 set forth above shall not have been satisfied by 30th June, 2002.

Consideration

The total consideration for the Company Subscription is US\$60 million (or approximately RMB500 million), representing a subscription price of US\$1.1111 per SMIC Preference Share. The consideration has been determined after arm's length negotiations. The Investors have to pay

LETTER FROM THE BOARD

the same subscription price per SMIC Preference Share pursuant to the Investors Subscription. Based on the Company's calculation, which calculation and assumption were not independently reviewed by certified public accountants, the pro-forma net tangible asset value per SMIC Preference Share following completion of the Company Subscription and the Investors Subscription will be equal to US\$1.09. The per share subscription price of US\$1.1111 for the SMIC Preference Shares represents an insignificant premium over the pro-forma net tangible asset value per SMIC Preference Share as stated above.

Solely for accounting reasons, JBU Cayman is also subscribing for 54,000,540 SMIC Series A-1 Preference Shares at an aggregate consideration of approximately US\$540, or equivalent to a nominal consideration of US\$0.00001 per share. The SMIC Series A-1 Preference Shares are non-voting, non-transferable, non-convertible, dividend bearing and redeemable.

The Directors consider the terms of the Company Subscription fair and reasonable and are in the interests of the Shareholders as a whole.

The investment in SMIC International totaling US\$60 million (equivalent to approximately RMB500 million) will be treated as long term investment and carried at cost less permanent diminution in value in the books of the Company.

Based on the audited financial statement of the Company for the year ended 31st December, 2000, the net tangible assets of the Company as at 31st December, 2000 was approximately RMB371.3 million. Taking into account the unaudited profit attributable to the Shareholders for the 9-month period ended 30th September, 2001 of approximately RMB20.7 million, the unaudited adjusted net tangible assets of the Company as at 30th September, 2001 was approximately RMB392.0 million. The Directors are not aware of any material financial impact to the net tangible assets of the Company immediately following completion of the Company Subscription.

Payment terms

Pursuant to the SMIC Share Purchase Agreement, the consideration of US\$60 million for the Company Subscription shall be paid by JBU Cayman to SMIC International as follows:

1. US\$37.5 million (or approximately RMB313 million), representing 62.5% of the total consideration, shall be paid upon the satisfaction of all conditions to the First Closing (see the paragraphs headed "Conditions" above). On 3rd September, 2001, JBU Cayman paid US\$37.5 million to SMIC International as deposit, which shall be fully refunded (without interest) to JBU Cayman if the First Closing does not take place on or before the Cut-off Date.
2. US\$7.5 million (or approximately RMB63 million), representing 12.5% of the total consideration, shall be paid upon the satisfaction of all conditions to the First Closing (see the paragraphs headed "Conditions" above). On 15th December, 2001, JBU Cayman paid a further deposit of US\$7.5 million to SMIC International. Such payment shall be fully refunded (without interest) to JBU Cayman if the First Closing does not take place on or before the Cut-off Date.
3. The balance of US\$15 million (or approximately RMB125 million), representing 25% of the total consideration, shall be paid on 30th June, 2002.

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Pursuant to the SMIC Share Purchase Agreement, completion of the First Closing shall take place upon the fulfillment of all the conditions set forth in the SMIC Share Purchase Agreement (see the paragraph headed “Conditions” above), unless waived by the parties. Upon completion of the First Closing, the deposit of US\$45 million will be applied towards partial payment of the total subscription price payable by the Company. Payment for the remaining 25% of the consideration of the Company Subscription shall take place at Final Closing on 30th June, 2002 and upon fulfillment of all the respective conditions set forth in the SMIC Share Purchase Agreement (see the paragraphs headed “Conditions” above) unless waived by the parties.

The SMIC Share Purchase Agreement provides that, among other things, if JBU Cayman shall fail to pay the balance of US\$15 million (or approximately RMB125 million) when due, SMIC International will have the right, among others, to sell the remaining SMIC Preference Shares which have not yet been subscribed by JBU Cayman to other shareholders of SMIC International. SMIC International shall also have the right to require that the SMIC Preference Shares previously subscribed by and issued to JBU Cayman be sold to other shareholders of SMIC International at 50% of the price at which such SMIC Preference Shares were subscribed. This provision also applies to all the Investors.

Source of funding

The deposit of US\$45 million (or approximately RMB375 million) already paid by JBU Cayman was initially financed by the Bank Loan. To repay the Bank Loan, the Directors plan to raise funds through the issue and placing of new H Shares. See “Proposed specific mandate to issue H Shares” below for more information. If the proceeds from the placing are insufficient to repay the Bank Loan in full, the Directors intend to renew the remaining balance of the unpaid Bank Loan and the Directors believe that, in the absence of unforeseeable circumstances, there will not be any difficulty in renewing the Bank Loan for further periods, if required. The Directors further confirm that the Company maintains and will maintain sufficient working capital for its present requirement.

The balance payment of US\$15 million (or approximately RMB125 million) due on 30th June, 2002 will be funded by the Company’s internal resources.

Share capital of SMIC International

As at the date of the SMIC Share Purchase Agreement, the entire issued share capital of SMIC International comprised 19,999,350 SMIC Ordinary Shares.

Upon completion of the Subscriptions by the Investors and JBU Cayman:–

- (1) an aggregate of up to 1,000,000,000 SMIC Preference Shares will be issued, of which 54,000,540 SMIC Preference Shares will be issued to JBU Cayman pursuant to the SMIC Share Purchase Agreement; and
- (2) a number of SMIC Series A-1 Preference Shares will be issued to JBU Cayman and one other Investor at par pursuant to the Company Subscription and the Investors Subscription respectively. The SMIC Series A-1 Preference Shares constitute a separate class of non-transferable, non-voting, non-convertible, dividend bearing at a rate, subject to adjustments, specified in the SMIC Articles of Association, and redeemable preference shares of SMIC.

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SMIC International is in the process of discussing the issuance of further voting shares with another investor, which, if issued, may dilute the holding of JBU Cayman in the total issued voting share capital of SMIC International.

Terms of the SMIC Shareholders' Agreement

JBU Cayman, the Investors and SMIC International entered into the SMIC Shareholders' Agreement contemporaneously with the execution of the SMIC Share Purchase Agreement. The SMIC Shareholders' Agreement will take effect with respect to a signatory to the SMIC Shareholders' Agreement only upon the occurrence of the First Closing with respect to such signatory. The SMIC Shareholders' Agreement will not take effect with respect to JBU Cayman until fulfillment of all the conditions for the First Closing set out above.

Pursuant to the SMIC Shareholders' Agreement:

- (i) SMIC International will be managed by a board of directors consisting of 13 members, including Mr. Richard Chang and designates appointed by each of JBU Cayman and certain of the Investors (subject to removal if such director or any of his affiliates violates certain non-competitive covenant);
- (ii) JBU Cayman, the Investors and certain Founders will have the right to purchase, at the same price and on the same terms and conditions as new securities are to be offered to third parties, their pro rata share of new securities (excluding securities such as shares issued pursuant to stock option plans, merger or reorganization, and *de minimis* issuance) which SMIC International may from time to time propose to issue and sell;
- (iii) JBU Cayman and certain Investors will be restricted from transferring more than 50% of its equity in SMIC International prior to SMIC International's initial public offering (the "IPO"), provided that certain conditions shall have been met and any such transfer will be subject to the right of first refusal by other shareholders of SMIC International; and
- (iv) if holders of more than 70% of SMIC International's outstanding issued shares shall have accepted an offer to purchase all the outstanding shares of SMIC International, the remaining SMIC shareholders will be obligated to sell all their shares at the same price and on the same terms of the offer.

The SMIC Shareholders' Agreement will be terminated upon the completion of the IPO and may be amended with the consent of holders of not less than two-thirds of SMIC International's voting share capital.

INFORMATION OF SMIC INTERNATIONAL

SMIC International was incorporated in the Cayman Islands on 3rd April, 2000. Immediately after completion of the Subscriptions by the Investors and JBU Cayman, the issued voting share capital of SMIC International will comprise 19,999,350 SMIC Ordinary Shares and up to 1,000,000,000 SMIC Preference Shares. SMIC International is in the process of discussing the issuance of further voting shares with another investor, which, if issued, may enlarge its total issued voting share capital.

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The holders of the existing issued SMIC Ordinary Shares are mostly the Founders who are also the key management of SMIC Shanghai. The SMIC Preference Shares will be held by a total of 20 shareholders (including JBU Cayman) and the individual shareholding of each of the shareholders will range from approximately 0.5% to 17%. Of the 20 shareholders, 6 are key players in the semiconductor industry from the United States and the Asia Pacific Region and the remaining are institutional investors and employees of SMIC International.

According to the Directors, the Founders are independent of and not connected with the Directors, promoters, supervisors, chief executive, substantial shareholders or management shareholders of the Company or its subsidiaries or any of their respective associates.

The principal business of SMIC International is its investment in SMIC Shanghai, which is a wholly foreign-owned enterprise established on 21st December, 2000 in the PRC for the manufacturing and marketing of advanced technology semiconductors in the PRC.

A summary of the audited consolidated results of SMIC International for the period from 3rd April, 2000 (date of incorporation) to 31st December, 2000 and 7-month period from 1st January, 2001 to 31st July, 2001 is presented below:

	From 3rd April, 2000 to 31st December, 2000 <i>US\$'000</i>	Seven months ended 31st July, 2001 <i>US\$'000</i>
Interest income	2,153	8,195
Other revenue	2	131
Administrative expenses	(929)	(5,929)
Profit from operations	1,226	2,397
Interest on bank borrowings wholly repayable within five years	—	(538)
Net profit for the period	<u>1,226</u>	<u>1,859</u>

The audited consolidated net tangible assets of SMIC International as at 31st July, 2001 was approximately US\$3.7 million.

The accountants' report of SMIC International as at 31st July, 2001 is set out in Appendix II to this circular.

INFORMATION OF SMIC SHANGHAI

SMIC Shanghai was established on 21st December, 2000 as a wholly foreign-owned enterprise in the PRC. The total investment of SMIC Shanghai is US\$1,480 million and its registered capital is US\$500 million, of which US\$75 million has been verified to have been paid up. The balance of the total investment has to be paid up on or before 20th December, 2002. The capital of SMIC Shanghai is wholly-owned by SMIC International.

Based on the business plan of SMIC Shanghai, the total investment of SMIC Shanghai is US\$1,480 million, of which US\$950 million to US\$1,000 million will be financed by SMIC International and the remaining balance of US\$480 million to US\$530 million will be financed by

LETTER FROM THE BOARD

bank borrowings. Upon completion of the Subscriptions by the Investors and JBU Cayman, SMIC International will have sufficient funds to be injected to SMIC Shanghai. SMIC Shanghai is currently in negotiation with various PRC banks for securing bank loans of an amount of not less than the equivalent of US\$480 million.

The board of directors of SMIC Shanghai comprises three board members, one of which is Prof. Wang Yang Yuan (“Prof. Wang”), a Director. Details of Prof. Wang’s participation in SMIC Shanghai are set out under the paragraph headed “Reasons for and benefits of the Company Subscription” below.

The principal business of SMIC Shanghai is manufacture, probe test and testing of semiconductor (silicon and compound semiconductor), integrated circuit chips, research and development, design, technical services, mask manufacture, testing and packaging and sale of proprietary IC-related products.

SMIC Shanghai is in the process of constructing a production facility in Shanghai. The facility consists of two main fabs (or foundries).

Construction of the first main fab (the “First Fab”) was completed in July 2001. Trial production of the First Fab has already commenced and commercial production of the First Fab is expected to commence in January 2002. According to the information provided by SMIC International, the monthly maximum production capacity of the First Fab is 42,000 8-inch wafers. Construction of the second main fab is expected to commence in early 2003 and commercial production will commence in the third quarter of 2004. By end of 2004, it is expected that the aggregate monthly production capacity of the two fabs will reach 85,000 8-inch wafers.

The products of SMIC Shanghai will be split into export and local sales in the ratio of 70% to 30% respectively.

The Directors are of the view that the semiconductor industry in the PRC has significant potential. Based on the statistics of PRC Ministry of Information and Industry, the growth rate for integrated circuits manufactured in the PRC during the 1990’s averaged over 30% per annum. Furthermore, the Directors believe that SMIC Shanghai has the following competitive advantages over its competitors in the PRC:

1. Located in Pudong, Shanghai, SMIC Shanghai enjoys various investment incentives available to foreign investment enterprises as well as the ample supply of high quality management personnel and skilled labour from the region;
2. Some of the Investors are key players in the semiconductor industry in terms of their scale of production and technology. It is expected that the relationship of SMIC International, the Investors and the Company will enhance the ability of SMIC Shanghai in recruiting quality management team and provides strong technical support to SMIC Shanghai. Currently, there is no proposed or present arrangement for the provision of technical support by the Investors and the Company to SMIC International. However, the Directors consider that the manufacturing technology of SMIC Shanghai will continuously advance as and when some of the Investors and the Company engage SMIC Shanghai to manufacture advanced integrated circuit products for them;
3. The investment by the Investors and JBU Cayman, when fully paid up, together with additional funding to be financed by bank borrowings would be sufficient to finance the total capital investment and operation of SMIC Shanghai, thus ensuring the financial stability of SMIC Shanghai; and

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4. The Company and some of the Investors are consumers of semiconductors, who may purchase from SMIC Shanghai. Pursuant to the SMIC Shareholders' Agreement, SMIC International agrees to commit a certain number of foundry wafers per month to certain of its shareholders (including JBU Cayman) who elect to be customers of SMIC International thereby providing these shareholders a guaranteed supply of high standard wafers. The total number of wafers SMIC International may guarantee shall not exceed the lesser of (a) 50% of the current monthly production of merchantable wafers; and (b) 3,000 wafers per month for every US\$50 million of equity interest in SMIC International. Terms and conditions (including price) shall be negotiated and determined between SMIC International and its shareholders on an arm-length basis and shall be consistent with industry practice and fair and reasonable to SMIC International.

REASONS FOR AND BENEFITS OF THE COMPANY SUBSCRIPTION

The Group is principally engaged in the development, design and manufacture of integrated circuits related products in the PRC with expertise in developing software applications and designing integrated circuits ("ICs") for embedded system products. The Company is also engaged in the design, manufacture, distribution and sale of five different embedded system products, namely application specific ASICs, network security product, smart card application system, global positioning system application system and wireless fire alarm system. Currently, the Company is one of the leading software developers and IC designers in the PRC.

In December 2000, the Company commenced the preliminary negotiation for investment in SMIC International. The reasons for and benefits of the Company's investment in SMIC International are set out as follows:

- (1) The Directors hope to form a strategic partnership with SMIC Shanghai, through which the Company's technology in the design and development of ICs would be strengthened and enhanced. Despite the small percentage of shareholding to be subscribed by the Company, the Company is given a chance to take an active role in the management and operations of SMIC Shanghai. Two of the Directors, namely Prof. Wang and Prof. Liu Yue ("Prof. Liu"), have actively participated in the setting up of SMIC Shanghai and will continue to actively participate in the management and operations of SMIC Shanghai. In addition, Prof. Wang is the legal representative and chairman of SMIC Shanghai while Prof. Liu is the special assistant to the general manager of SMIC Shanghai. Prof. Wang and Prof. Liu commenced participation in the management of SMIC Shanghai since December 2000 and February 2001, respectively.

Prof. Wang's current and expected future participation in SMIC Shanghai include overall strategic planning and technology and product research and development. Prof. Liu's current and expected future participation in SMIC Shanghai include product management, market development and liaison with relevant PRC Government authorities.

- (2) ICs are key components of the Company's embedded system products, the development of which depends, to a significant extent, on the manufacturing technology which in turn offers the design and development of ICs. The Directors are of the view that the proposed investment in SMIC International will enable the Company to improve its ability in the design and development of ICs. In particular, the Directors believe that

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through co-operating with SMIC Shanghai, the Company would obtain more specific information relating to IC manufacturing technology, which in turn may benefit the Company in designing its advanced ICs.

- (3) At present, the Company designs most of the ICs used in its products and subcontracts the manufacturing of such ICs to independent subcontractors. Pursuant to the SMIC Shareholders' Agreement, following the investment in SMIC International, the Company will be able to subcontract the manufacturing of its ICs to SMIC Shanghai, thus ensuring the Company stable supply of ICs at competitive price. Based on a monthly expected production capacity of 42,000 wafers, the annual production of SMIC Shanghai will be approximately 500,000 wafers. Under the SMIC Shareholders' Agreement, the Company (through JBU Cayman) will be entitled to purchase 3,000 wafers per month or its pro-rate share (based on the investment amount of the Investors and JBU Cayman in SMIC International) of 50% of SMIC International's monthly production, whichever is less, from SMIC Shanghai. The Directors expect to purchase 10,000 wafers, being the Company's expected annual requirement of 8-inch wafers, from SMIC Shanghai annually. Further details of such arrangement is set out under the paragraph headed "Information on SMIC Shanghai" above.

The Directors consider that there is no direct competition in terms of business activities between the Company and SMIC International given that the two companies manufacture different end products and are targeting at different customers.

PROPOSED SPECIFIC MANDATE TO ISSUE H SHARES

As mentioned above, part of the consideration for the Company Subscription of US\$45 million will initially be financed by the Bank Loan. To improve the financial position and reduce the gearing ratio of the Company, the Directors intend to raise capital funds by placing new H Shares to institutional and private investors to repay the Bank Loan.

To repay the Bank Loan, the Directors intend to issue up to 192,800,000 new H Shares by:

- (1) exercising the general mandate granted to the Directors by the Shareholders at the Company's annual general meeting on 29th May, 2001 to issue up to 52,800,000 new H Shares or 20% of the existing issued H Shares; and
- (2) depending on the actual issue price per H Share, issuing up to an additional 140,000,000 new H Shares pursuant to a specific mandate proposed to be granted by special resolution of a general meeting of all holders of H Shares and Promoters' Shares and separate class meetings of holders of Promoters' Shares and H Shares.

The 192,800,000 new H Shares proposed to be issued, if all issued, will represent approximately 73% of the existing total issued H Shares and approximately 20% and approximately 16.7% of the existing and enlarged total issued share capital of the Company respectively.

The Directors may issue and allot the new H Shares under the above proposed specific mandate at a premium or a discount but in the absence of any unforeseen exceptional circumstances, the Directors expect that the new H Shares under the specific mandate will be issued at a price equal to not less than 85% of the average closing price of the H Shares as quoted on the Stock Exchange for 10 trading days immediately prior to the signing of the relevant placing agreement(s).

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On the assumption that the entire 192,800,000 new H Shares are to be issued at the Average Closing Price of HK\$1.50 per H Share, the proceeds will be approximately HK\$289 million, which will be fully utilised to repay the Bank Loan and any remaining balance of the Bank Loan will either be repaid by the Group's internal resources or be renewed for further periods.

Further announcement will be made at the time of the placement of the new H Shares proposed to be issued as described above.

SPECIAL GENERAL MEETING

The notice convening the Special General Meeting at which (i) ordinary resolution will be proposed to consider, if thought fit, to approve the Company Subscription contemplated thereby; and (ii) special resolution will be proposed to approve a specific mandate to issue up to an additional 140,000,000 new H Shares, the proceeds of which are to be used fully to repay the Bank Loan, and to approve the proposed amendments to the articles of association of the Company to reflect the new capital structure of the Company upon the issuance of the additional 140,000,000 new H Shares is set out on pages 53 to 55 of this circular.

A reply slip for use at the Special General Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 10:00 a.m. 20th February, 2002 is enclosed. Whether or not you intend to attend the Special General Meeting, you are requested to complete and return the reply slip to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002.

A proxy form for use at the Special General Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 10:00 a.m. 20th February, 2002 is also enclosed. Whether or not you intend to attend the Special General Meeting, you are requested to complete and return the proxy form to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for the holding of the Special General Meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you so wish.

PROMOTERS' SHARES CLASS MEETING

The notice of the Promoters' Shares Class Meeting is set out on pages 56 to 57 of this circular. At the Promoters' Shares Class Meeting, a special resolution will be proposed for the holders of Promoters' Shares to approve a specific mandate to issue up to an additional 140,000,000 new H Shares and the proposed amendments to the articles of association of the Company to reflect the new capital structure of the Company upon the issuance of up to an additional 140,000,000 new H Shares.

A reply slip for use at the Promoters' Shares Class Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 10:30 a.m. (or immediately after the conclusion or adjournment of the Special General Meeting) on 20th February, 2002 is enclosed. Whether or not you intend to attend the Promoters' Shares Class Meeting, you are requested to complete and return the reply slip to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002.

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A proxy form for use at the Promoters' Shares Class Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 10:30 a.m. (or immediately after the conclusion or adjournment of the Special General Meeting) on 20th February, 2002 is also enclosed. Whether or not you intend to attend the Promoters' Shares Class Meeting, you are requested to complete and return the proxy form to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for the holding of the Promoters' Shares Class Meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the Promoters' Shares Class Meeting or at any adjourned meeting should you so wish.

H SHARES CLASS MEETING

The notice of the H Shares Class Meeting is set out on pages 58 to 59 of this circular. At the H Shares Class Meeting, a special resolution will be proposed for the holders of existing H Shares to approve a specific mandate to issue up to an additional 140,000,000 new H Shares and the proposed amendments to the articles of association of the Company to reflect the new capital structure of the Company upon the issuance of the additional 140,000,000 new H Shares.

A reply slip for use at the H Shares Class Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 11:00 a.m. (or immediately after the conclusion or adjournment of the Promoters' Shares Class Meeting) on 20th February, 2002 is enclosed. Whether or not you intend to attend the H Shares Class Meeting, you are requested to complete and return the reply slip to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002.

A proxy form for use at the H Shares Class Meeting to be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong at 11:00 a.m. (or immediately after the conclusion or adjournment of the Promoters' Shares Class Meeting) on 20th February, 2002 is also enclosed. Whether or not you intend to attend the H Shares Class Meeting, you are requested to complete and return the proxy form to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for the holding of the H Shares class meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the H Shares class meeting or at any adjourned meeting should you so wish.

RECOMMENDATIONS

The Directors consider that the terms of the SMIC Share Purchase Agreement and SMIC Shareholders' Agreement are fair and reasonable so far as the Company and the Shareholders are concerned. The Directors also consider that the grant of a specific mandate to the Directors to issue up to an additional 140,000,000 new H Shares, the proceeds of which are to be fully used to repay the Bank Loan utilised or to be utilised to finance the Company Subscription, is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting and the separate class meetings of holders of Promoters' Shares and H Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
By Order of the Board
Xu Zhen Dong
Chairman

1. INTERIM RESULTS ANNOUNCEMENT OF THE GROUP FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2001

Set out below is an extract of the financial information of the Group from its interim results announcement for the nine months ended 30th September, 2001.

2001 THIRD QUARTERLY RESULTS (UNAUDITED)

		1/7/2001 to 30/9/2001	1/7/2000 to 30/9/2000	1/1/2001 to 30/9/2001	1/1/2000 to 30/9/2000
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	28,652	14,110	69,446	29,776
Operating expenses:					
Material and equipment		(10,978)	(3,128)	(29,547)	(4,688)
Employment costs		(3,951)	(2,567)	(12,233)	(4,750)
Depreciation of fixed assets		(1,124)	(728)	(3,154)	(1,700)
Other operating expenses		(3,219)	(3,224)	(8,383)	(4,820)
Profit from operations		9,380	4,463	16,129	13,818
Other (expenses) income, net		(2,188)	2,506	4,522	2,534
Profit before taxation		7,192	6,969	20,651	16,352
Taxation	3	—	—	—	—
Profit after taxation		7,192	6,969	20,651	16,352
Minority interest		72	—	72	—
Profit attributable to shareholders		<u>7,264</u>	<u>6,969</u>	<u>20,723</u>	<u>16,352</u>
Earnings per share					
– basic (RMB cents)	4	<u>0.75</u>	<u>0.79</u>	<u>2.15</u>	<u>2.15</u>

Notes:

1. Group reorganization and basis of presentation

The Company was incorporated as a Sino-foreign joint stock company with limited liability in Beijing, the People's Republic of China (the "PRC") on 29th March, 2000. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27th July, 2000.

On 17th April 2000, the Company completed a reorganisation as set out in the Company's Prospectus dated 20th July, 2000 (the "Reorganisation"). The Reorganisation involved entities under common control and the Company resulting from the Reorganisation is regarded as a continuing business. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the financial statements have been prepared as if the Reorganisation had been completed as at 1st January, 2000 and the business activities had been conducted by the Company since 1st January, 2000, rather than from the date on which the Reorganisation was completed.

The principal accounting policies adopted in preparing the audited consolidated results conform to Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2. Turnover

Turnover included sales of embedded system products and the provision of total solution services after deducting the applicable sales taxes as follows:

	1/7/2001 to 30/9/2001 RMB'000	1/7/2000 to 30/9/2000 RMB'000	1/1/2001 to 30/9/2001 RMB'000	1/1/2000 to 30/9/2000 RMB'000
Sales of embedded systems and related products	22,977	4,450	53,588	4,478
Total solution contracts	5,675	9,660	15,858	25,298
Total turnover	<u>28,652</u>	<u>14,110</u>	<u>69,446</u>	<u>29,776</u>

3. Taxation

(a) Enterprise income tax ("EIT")

The Company, being located in the Beijing New Technology Development Experimental Zone is subject to a reduced EIT rate of 15%. It is exempted from EIT for three years starting from Year 2000, its first operating year, followed by a 50% reduction of EIT from the fourth to the sixth year.

(b) Value-added tax ("VAT")

The Company is subject to VAT in the PRC levied at the rate of 17% on the amount of sales of its products as well as provision of processing, repairs and replacement services in the PRC. VAT paid on the Company's purchases may be used to offset the VAT on the sales amount to arrive at the net VAT payable.

(c) Business tax ("BT")

The Company is subject to the PRC BT on the provision of maintenance, support and training services in the PRC. The BT rate is 5% on the related revenue.

4. Earnings per share

The calculation of earnings per share for three and nine months ended 30 September 2001 was based on the profit attributable to shareholders of approximately RMB7,264,000 and RMB20,723,000 respectively (2000: RMB6,969,000 and RMB16,352,000) and on the weighted average number of 964,000,000 shares (2000: 884,434,780 shares and 761,927,010 shares adjusted for the effect of the subdivision of shares made by the Company in December 2000) in issue during the period, according to the basis of presentation described in Note 1.

No diluted earnings per share was presented as there were no dilutive potential ordinary shares outstanding.

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the period (2000 – Nil).

2. AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated results for each of the two years ended 31st December, 2000 and balance sheet as at 31st December, 2000 of the Group together with the relevant notes as extracted from the Company's annual report for the year ended 31st December, 2000 and the combined results for the year ended 31st December, 1998 together with the relevant notes as extracted from the Accountants' Report attached as Appendix I of the Prospectus.

(A) Consolidated income statement

		2000	1999	1998
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4	60,843	10,419	3,029
Operating expenses:				
Material and equipment		(15,783)	(7,270)	(2,886)
Employment costs		(10,817)	(3,455)	(2,274)
Depreciation of fixed assets		(2,960)	(1,262)	(830)
Other operating expenses		(6,733)	(2,931)	(1,862)
Profit (Loss) from operations		24,550	(4,499)	(4,823)
Interest income		6,726	13	16
Exchange loss		(209)	–	–
Profit (Loss) before taxation	5	31,067	(4,486)	(4,807)
Taxation	7	–	–	–
Profit (Loss) attributable to shareholders	8	<u>31,067</u>	<u>(4,486)</u>	<u>(4,807)</u>
Earnings (Loss) per share				
– Basic	9	<u>RMB0.038</u>	<u>RMB(0.006)</u>	<u>RMB(0.007)</u>

(B) Consolidated balance sheet

The following is a summary of the consolidated balance sheet of the Group as at 31st December, 2000:

	<i>Note</i>	<i>RMB'000</i>
Fixed assets	10	9,882
Investment in subsidiary	11	–
Current assets:		
Inventories	12	2,969
Prepayments and other current assets	13	21,884
Accounts receivable	3	24,596
Cash and bank deposits		327,469
Total current assets		376,918
Current liabilities:		
Accounts payable	3	4,622
Accrued liabilities	14	5,803
Deferred revenue	3	1,796
Provision for warranty		500
Taxes payable		2,772
Total current liabilities		15,493
Net current assets		361,425
Net assets		371,307
Represented by:		
Share capital	15	96,400
Reserves	17	274,907
Total shareholders' equity		371,307

Notes:

1. Reorganisation, basis of presentation and principal activities

Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the “Company”) was incorporated as a Sino-foreign joint stock limited company in Beijing, the People’s Republic of China, on 29th March, 2000. The Company’s shares have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27th July, 2000.

On 17th April, 2000, the Company completed a reorganisation as set out in the Company's Prospectus dated 20th July, 2000 (the "Reorganisation"). The Reorganisation involved entities under common control, and the Company resulting from the Reorganisation is regarded as a continuing business. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the financial statements have been prepared as if the Reorganisation had been completed as at 1st January, 2000 and the business activities had been conducted by the Company since 1st January, 2000, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 31st December, 1999 have been presented on the same basis.

No balance sheet of the Company as at 31st December, 1999 is presented as it was incorporated subsequent to that date.

The Company is principally engaged in the research, development, manufacturing, marketing and sale of embedded systems, including Global Positioning System application systems, network security products, wireless fire alarm systems, application specific integrated circuits and smart card application systems, and related products. The Company is also engaged in the provision of total solution services through application of its embedded system products.

2. Principal accounting policies

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The Company and its subsidiary (together, the "Group") have elected to early adopt SSAP 9 (revised) – "Events After the Balance Sheet Date", SSAP 26 – "Segment Reporting", SSAP 28 – "Provisions, Contingent Liabilities and Contingent Assets", SSAP 29 – "Intangible Assets", SSAP 30 – "Business Combinations", SSAP 31 – "Impairment of Assets", and SSAP 32 – "Consolidated Financial Statements and Accounting for Investments in Subsidiaries". Management has concluded that early adoption of these standards has no material impact on the Group's financial statements.

Principal accounting policies are summarised below:

(a) *Basis of measurement*

The financial statements have been prepared on the historical cost basis as modified by stating certain fixed assets at revalued amount as explained in Note 2(i) below.

(b) *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiary. The results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(c) *Subsidiary*

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of the issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiary is stated at cost less provision for impairment in value, and income from subsidiary is recorded to the extent of dividends received and receivable.

(d) *Turnover and revenue recognition*

Turnover comprises (i) the net invoiced value for the sales of embedded systems and related products, (ii) fees from fixed price contracts in connection with the provision of total solution services through application of its embedded system products, and (iii) fees from technical consulting, maintenance and training services, excluding applicable value-added tax and business tax.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, on the following bases:

- Sales of embedded systems and related products are recognised when the installation work is completed and customer has accepted the systems and products together with the risks and rewards of ownership.
- Revenue from provision of total solution services is recognised by reference to the stage of completion of the contract activity. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed. In instances where the stage of completion is not identifiable, revenue from the provision of total solution service is recognised on a straight-line basis over the period in which the work is performed. When the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of contract costs incurred that are probable of recovery, and contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
- Maintenance revenue is recognised rateably over the term of the respective maintenance contract. Technical consulting revenue and training revenue are recognised when the service is delivered.
- Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

Deferred revenue represents amounts received for which the earning process has not been completed.

(e) Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(f) Research and development

Research expenditures are written off as incurred. Development expenditures are written off as incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) the enterprise intends to produce and market, or use, the product or process; (iv) a market exists for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

During the year ended 31st December, 2000, there were no development costs that meet the capitalisation criteria and consequently all development costs were expensed as incurred.

(g) Warranty

Provision for warranty costs is recorded based on management's estimate of future warranty liabilities in respect of warranty periods ranging from one to three years.

(h) Employee retirement benefits

The costs of employee retirement benefits are recognised as expenses in the period in which they are incurred.

(i) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Machinery and equipment	10% to 33%
Leasehold improvements, furniture and office equipment	20% to 50%
Motor vehicles	20%

Machinery and equipment are subject to independent valuation on a regular basis. Any increase in valuation is credited to capital reserve; any decrease is firstly offset against an increase on earlier valuation of the same item of machinery and equipment and is thereafter charged to the income statement.

The carrying value of fixed assets is assessed periodically or when factors indicating an impairment are present. Fixed assets carried at cost less accumulated depreciation are reduced to the recoverable amount if it is lower than book value, with the difference charged to the income statement. In determining the recoverable amount of items of fixed assets, expected future cash flows are not discounted to the present value.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on the weighted average method of costing and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(l) Foreign currency translation

The Company and its subsidiary maintain their books and records in Renminbi ("RMB"). Transactions in other currencies during the year are translated into Renminbi at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into Renminbi at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

(m) Provisions and contingencies

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Related party transactions

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.

(a) *Listing of related parties and their relationships with the Group are as follows:*

Name of related party	Relationship
Peking University	The ultimate controlling shareholder
The Institute of Microelectronics	A department of Peking University
Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited ("Beijing Tianqiao")	A shareholder of the Company; also a company controlled by Peking University
Beijing Beida Jade Bird Limited ("Beida Jade Bird")	A shareholder of the Company; also a company controlled by Peking University
Beijing Beida Jade Bird Software System Co. ("Jade Bird Software")	A shareholder of the Company; also a company controlled by Peking University
Beijing Beida Jade Bird Tian Tong Information Construction Company Limited ("JBTT")	A subsidiary of Beida Jade Bird
Shenzhen Beida Jade Bird Sci-Tech Company Limited ("Shenzhen Jade Bird")	A subsidiary of Beida Jade Bird
Sichuan Tian Mu Monitored Security Company Limited ("Tian Mu")	An associated company of Beida Jade Bird
Hainan Jade Bird Safeguard Fire Alarm and Monitor Technologies Company Limited ("Hainan Jade Bird")	An associated company of Beida Jade Bird

(b) *Particulars of significant transactions between the Company and related parties are summarised below:*

	2000
	<i>RMB'000</i>
Sales of embedded systems products and provision of total solution services to:	
– Peking University	953
– Beijing Tianqiao	2,581
– JBTT	46
– Tian Mu	15,000
– Hainan Jade Bird	6,000
	24,580
Purchase of inventories from Beijing Tianqiao	745
Royalty fee for the Global Positioning System technology paid/payable to Beijing Tianqiao*	713
Rental expense for premises paid/payable to Beida Jade Bird	–
Rental expense for equipment paid/payable to The Institute of Microelectronics**	892
Rental income for equipment received/receivable from The Institute of Microelectronics**	893

* Pursuant to the technology license agreement between the Company and Beijing Tianqiao dated 17th April, 2000, Beijing Tianqiao granted an exclusive license to the Company for the use of certain Global Positioning System technology applying 230m frequency band for ten years, in return for a royalty fee of 3% on the sales of the products using this technology.

** Pursuant to the equipment lease agreement between the Company and The Institute of Microelectronics dated 17th April, 2000, The Institute of Microelectronics leased certain equipment to the Company for five years at a rate of RMB120 per hour, and the Company leased certain equipment to the Institute of Microelectronics for five years at an annual fee of RMB1,260,000.

Pursuant to the JB-CASE technology license agreement and trademark license agreement between the Company and Jade Bird Software, Jade Bird Software granted to the Company a non-exclusive license to use the JB-CASE technology and certain of its trademarks for ten years at nil consideration.

During the year ended 31st December, 2000, Beida Jade Bird provided certain office space to the Company at nil consideration.

(c) Included in the balance sheet are the following balances with related parties:

	2000
	RMB'000
Accounts receivable from	
– The Institute of Microelectronics	248
– Beijing Tianqiao	3,091
– Beida Jade Bird	459
– Hainan Jade Bird	6,000
	<u>9,798</u>
Accounts payable to	
– Shenzhen Jade Bird	315
– Peking University	42
	<u>357</u>
Deferred revenue from	
– Tian Mu	–
– Peking University	–
	<u>–</u>

The above balances with related parties resulted from transactions in the ordinary course of business and were unsecured, non-interest bearing and subject to settlements according to payment terms set out in the respective agreements.

4. Turnover and Revenue

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2000 RMB'000	1999 RMB'000	1998 RMB'000
Analysed by nature of sales:			
Sales of embedded systems and products	13,388	711	–
Provision of total solution services	47,455	9,708	3,029
	<u>60,843</u>	<u>10,419</u>	<u>3,029</u>
Total turnover	<u>60,843</u>	<u>10,419</u>	<u>3,029</u>
Analysed by product category:			
Global Positioning System application systems	22,563	163	2,084
Network security products	22,043	6,066	–
Wireless fire alarm systems	6,621	1,031	739
Application specific integrated circuits	6,287	683	–
Smart card application systems	3,329	2,476	206
	<u>60,843</u>	<u>10,419</u>	<u>3,029</u>
Total turnover	<u>60,843</u>	<u>10,419</u>	<u>3,029</u>
Interest income	<u>6,726</u>	<u>13</u>	<u>16</u>
	<u>67,569</u>	<u>10,432</u>	<u>3,045</u>
Total revenue	<u>67,569</u>	<u>10,432</u>	<u>3,045</u>

All of the Group's turnover was derived from operations conducted in Mainland China.

For the year ended 31st December, 2000, the largest and five largest customers accounted for approximately 23.4% and 65.8% (1999 – 69.1% and 93.1%), respectively, of the Group's turnover.

5. Profit (Loss) before taxation

Profit (Loss) before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2000 RMB'000	1999 RMB'000	1998 RMB'000
After charging –			
Research and development expenditures	8,919	4,718	3,721
Operating lease rental of premises	1,393	569	456
Operating lease rental of equipment	892	–	–
Royalty fee	713	430	–
Provision for warranty	–	500	–
Exchange loss	209	–	–
Depreciation of fixed assets	2,960	1,262	830
Loss on disposal of fixed assets	104	133	–
Auditors' remuneration	1,000	–	–
	<u>1,000</u>	<u>–</u>	<u>–</u>
After crediting –			
Interest income from bank deposits	6,726	13	16
Operating lease rental income of equipment	893	–	–
	<u>893</u>	<u>–</u>	<u>–</u>

6. Directors' , supervisors' and senior executives' emoluments

(a) Details of emoluments paid/payable to directors and supervisors of the Company were:

	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Executive directors		
Fees	–	–
Other emoluments		
– basic salaries and allowances	1,350	380
– bonus*	900	–
Non-executive directors		
Fees	106	25
Other emoluments		
– basic salaries, bonus and allowances	–	–
Supervisors		
Fees	42	–
Other emoluments		
– basic salaries, bonus and allowances	85	–
	<u>2,483</u>	<u>405</u>

* The directors' bonus was calculated at approximately 3% of profit attributable to shareholders before the provision of such bonus. Pursuant to the service contracts between the Company and its executive directors, the Company's executive directors were entitled to bonus of not more than 5% of profit after taxation before the provision of such bonus.

No directors or supervisors waived any emolument during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors or supervisors for the year.

Analysis of directors' and supervisors' emoluments by number of directors and supervisors, and emolument ranges is as follows:

	2000	1999
Nil to RMB1,070,000 (equivalent of HK\$1,000,000)		
– Executive directors	5	5
– Non-executive directors	5	5
– Supervisors	5	5
	<u>15</u>	<u>15</u>

(b) Details of emoluments of the five highest paid individuals (including directors and other employees) were:

	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Basic salaries and allowances	1,693	435
Bonus	720	–
	<u>2,413</u>	<u>435</u>
Number of directors	4	3
Number of employees	1	2
	<u>5</u>	<u>5</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

The emolument of the five highest paid individuals falls within the range of Nil to RMB1,070,000 (equivalent of HK\$1,000,000).

7. Taxation*(a) Enterprise income tax ("EIT")*

The Company, being located in the Beijing New Technology Development Experimental Area and registered as a New and High Technology Enterprise, is subject to Mainland China EIT at a rate of 15%. It is exempted from EIT for three years starting from Year 2000, its first operating year, followed by a 50% reduction of EIT from the fourth to the sixth year.

No provision for Hong Kong profits tax was made as the Group had no profits subject to Hong Kong profits tax.

(b) Value-added tax ("VAT")

The Company is subject to VAT in Mainland China levied at the rate of 17% on the amount of sales of its products as well as provision of processing, repairs and replacement services in Mainland China. VAT paid on the Company's purchases may be used to offset VAT on the sales amount to arrive at the net VAT payable.

In addition, the Company is entitled to refund of actual VAT paid exceeding 3% of the sales amount of certain approved software products.

(c) Business tax

The Company is subject to Mainland China business tax on the provision of maintenance, support and training services in Mainland China at a rate of 5% on the related revenue.

The Company's principal activities are sales of embedded systems products and provision of total solution services through application of its embedded systems products. The respective turnover taxes, including business tax and value-added tax, applicable to the Company are described above. According to the tax rules and regulations in Mainland China, when there is uncertainty as to whether value-added tax or business tax should be applied to service income generated by a primary VAT payer, the relevant state tax bureau is authorised to determine the appropriate turnover tax. During the year ended 31st December, 2000, contracts with total sales value of approximately RMB36 million were considered by the Company and Haidian Local Tax Bureau to be subject to business tax but not VAT, and accordingly, business tax at 5% of the said value was paid. Management has obtained a verbal consent from the Haidian State Tax Bureau that these transactions are subject to business tax. However, there is a contingent liability that if higher tax authorities eventually determine that VAT is the appropriate tax for these contracts, the Company may be required to pay additional turnover tax of approximately RMB4.3 million in respect of the above revenues. Taking into consideration of the common practice of paying the relevant taxes in Mainland China, the management considers the possibility of paying additional turnover tax is remote.

8. Profit attributable to shareholders

During the year ended 31st December, 2000, the consolidated profit attributable to shareholders included a profit of approximately RMB31,091,000 dealt with in the financial statements of the Company.

9. Earnings (Loss) per share

The calculation of earnings per share for the year ended 31st December, 2000 was based on the profit attributable to shareholders of approximately RMB31,067,000 (1999 – loss of approximately RMB4,486,000) and on the weighted average number of approximately 812,721,000 shares (1999 - 700,000,000 shares) in issue during the year, according to the basis of presentation described in Note 1 and adjusted for the effect of the subdivision of shares made by the Company in December 2000 (see Note 15(c)).

No diluted earnings per share was presented as there were no dilutive potential ordinary shares outstanding.

10. Fixed assets

Movements of fixed assets (Consolidated and Company) were:

	2000			
	Machinery and equipment	Leasehold improvements furniture and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost or Valuation				
Beginning of year	18,522	895	571	19,988
Additions	1,861	2,605	–	4,466
Revaluation	–	–	–	–
Disposals	(172)	–	–	(172)
End of year	<u>20,211</u>	<u>3,500</u>	<u>571</u>	<u>24,282</u>
Representing:				
At cost	2,840	3,500	571	6,911
At professional valuation	<u>17,371</u>	<u>–</u>	<u>–</u>	<u>17,371</u>
	<u>20,211</u>	<u>3,500</u>	<u>571</u>	<u>24,282</u>
Accumulated depreciation				
Beginning of year	(11,134)	(155)	(219)	(11,508)
Provision for the year	(2,301)	(546)	(113)	(2,960)
Revaluation	–	–	–	–
Disposals	<u>68</u>	<u>–</u>	<u>–</u>	<u>68</u>
End of year	<u>(13,367)</u>	<u>(701)</u>	<u>(332)</u>	<u>(14,400)</u>
Net book value				
End of year	<u>6,844</u>	<u>2,799</u>	<u>239</u>	<u>9,882</u>
Beginning of year	<u>7,388</u>	<u>740</u>	<u>352</u>	<u>8,480</u>

As required by the laws and regulations in Mainland China relating to reorganisation involving state-owned assets, machinery and equipment of the predecessor entities were transferred to the Company at the appraised values as at 31st December, 1999. The appraisal was performed by CIECC Assets Appraisal Corporation, an independent qualified appraiser in Mainland China, taking into consideration the then replacement costs, physical condition, remaining useful lives and other relevant factors.

11. Investment in subsidiary

In the Company's balance sheet, investment in subsidiary consisted of:

	2000
	<i>RMB'000</i>
Unlisted shares	<u>1</u>

Particulars of the Company's subsidiary as at 31st December, 2000 were as follows:

Company name	Place of incorporation and operations	Paid-up capital	Percentage of equity interest attributable to the group	Principal activities
Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited	Cayman Islands/Hong Kong	US\$1	100%	Technology research, development and sale of integrated circuits and related products

12. Inventories

Inventories consisted of:

	2000 RMB'000
Raw materials	1,118
Work-in-progress on contracts for total solution services	1,502
Finished goods	349
	<u>2,969</u>

13. Prepayments and other current assets

Prepayments and other current assets consisted of:

	2000 RMB'000
Prepayment for purchase of materials*	16,821
Interest receivable	3,665
VAT recoverable	838
Others	560
	<u>21,884</u>

* *Prepayment for purchase of materials included RMB15,921,000 for the purchase of spare parts of Global Positioning System application systems.*

14. Accrued liabilities

Accrued liabilities consisted of:

	2000 RMB'000
Salary and welfare payable	3,810
Directors' bonus payable	900
Others	1,093
	<u>5,803</u>

15. Share capital

During the year ended 31st December, 2000, movements of the Company's registered and issued capital were as follows:

	Number of shares '000	Nominal value RMB'000	Percentage
Issuance of promoter shares in connection with the Reorganisation (a)	70,000	70,000	72.6%
Issuance of overseas public shares (H Shares) (b)	26,400	26,400	27.4%
Shares subdivision (c)	867,600	—	—
End of year	<u>964,000</u>	<u>96,400</u>	<u>100.0%</u>

Notes –

- (a) Upon incorporation, the Company's registered share capital amounted to RMB70,000,000, divided into 70,000,000 shares of RMB1 each.
- (b) On 15th July, 2000, the Company's registered share capital was authorised to increase from RMB70,000,000 to RMB94,000,000, divided into 70,000,000 promoter shares of RMB1 each and 24,000,000 H Shares (excluding an over-allotment option of 2,400,000 H Shares) of RMB1 each, ranking pari passu in all respects with the then existing shares, and the Company was authorised to allot and issue additional 2,400,000 H Shares of RMB1 each according to the market demand. Subsequently, 24,000,000 H Shares and 2,400,000 H Shares were placed with professional, institutional and other investors on 26th July, 2000 and 15th August, 2000, respectively, at HK\$11 per share.
- (c) With effect from 18th December, 2000, each of the Company's shares with nominal value of RMB1 was subdivided into ten shares of RMB0.1 each.

16. Share options

The Company adopted a share option scheme on 5th July, 2000, pursuant to which the board of directors of the Company may, at its discretion, grant options to any full-time employees of the Group to subscribe for shares in the Company, to a maximum of 30% of the Company's shares in issue at the date of grant. The exercise price will be determined by the board of directors, and will not be less than the higher of: (a) the nominal value of a H Share; (b) the average closing price of the H Shares quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the date of offer of the options; or (c) the closing price of the H Shares quoted on the GEM of the Stock Exchange on the date of offer of the options, which must be a business day as defined in the GEM Listing Rules. However, employees who are Chinese nationals in Mainland China shall not be entitled to exercise the option until the current restrictions on these persons for subscribing or dealing in H Shares imposed by the laws and regulations in Mainland China have been amended or removed.

For the year ended 31st December, 2000, no options were granted to the Group's employees.

17. Reserves

Movements were:

	2000					
	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Dividends RMB'000	Retained earnings RMB'000	Total RMB'000
Consolidated						
Beginning of year	–	11,379	–	–	–	11,379
Surplus on revaluation of fixed assets	–	–	–	–	–	–
Effect of the Reorganisation (Note 1)	–	(18,810)	–	–	–	(18,810)
Premium on issuance of H Shares	281,964	–	–	–	–	281,964
Share issuance expenses	(30,693)	–	–	–	–	(30,693)
Profit (Loss) attributable to shareholders	–	–	–	–	31,067	31,067
Transfer to reserves	–	7,431	4,664	–	(12,095)	–
Proposed dividend	–	–	–	4,820	(4,820)	–
End of year	<u>251,271</u>	<u>–</u>	<u>4,664</u>	<u>4,820</u>	<u>14,152</u>	<u>274,907</u>
Company						
Beginning of year	–	11,379	–	–	–	11,379
Surplus on revaluation of fixed assets	–	–	–	–	–	–
Effect of the Reorganisation (Note 1)	–	(18,810)	–	–	–	(18,810)
Premium on issuance of H Shares	281,964	–	–	–	–	281,964
Share issuance expenses	(30,693)	–	–	–	–	(30,693)
Profit attributable to shareholders	–	–	–	–	31,091	31,091
Transfer to reserves	–	7,431	4,664	–	(12,095)	–
Proposed dividend	–	–	–	4,820	(4,820)	–
End of year	<u>251,271</u>	<u>–</u>	<u>4,664</u>	<u>4,820</u>	<u>14,176</u>	<u>274,931</u>

(a) Capital reserve

The reserve as at 31st December, 1999 represented the net book value of the assets and liabilities that were transferred to the Company by the predecessor entities.

In accordance with a resolution of an extra-ordinary shareholders' meeting held in July 2000, RMB7,431,000 was transferred from retained earnings to capital reserve.

(b) Statutory reserves

In accordance with the laws and regulations in Mainland China and the Company's articles of association, the Company is required to appropriate 10% and 5% of its profit after taxation, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund, respectively. When the balance of the statutory surplus reserve reaches 50% of the Company's share capital; any further appropriation is optional. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees, such as construction of dormitories, canteen and other staff welfare facilities, the title to which remains with the Company. This fund is non-distributable other than in liquidation. For the year ended 31st December, 2000, approximately RMB3,109,000 and RMB1,555,000 have been appropriated to statutory surplus reserve and statutory welfare fund, respectively.

(c) *Basis for profit appropriations*

Appropriations to statutory reserves are determined based on the financial statements prepared in accordance with the accounting standards and regulations applicable in Mainland China.

In addition, in accordance with the Company's articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the accounting standards and regulations applicable in Mainland China and those reported in accordance with generally accepted accounting principles in Hong Kong, after deduction of the current year's appropriations to the reserves. The difference between these two amounts as at 31st December, 2000 was not material.

18. Retirement benefits

The Company has participated in defined contribution retirement schemes organised by local government authorities in Mainland China. All of the Mainland China employees are entitled to an annual pension equal to a fixed portion of their basic salaries at their retirement dates. The Company is required to make contributions to the retirement schemes at a rate of 19% of the basic salary of its Mainland China employees and has no further obligation for post-retirement benefits. The retirement plan contributions paid/payable for the year ended 31st December, 2000 pursuant to these arrangements amounted to approximately RMB1,099,000 (1999 – RMB574,000).

19. Housing fund

In accordance with the housing reform regulations in Mainland China, the Company is required to make contributions to the state-sponsored housing fund at 10% of the specified salary amount of the Mainland China employees. At the same time, the employees are required to make a contribution equal to the Company's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Company has no further obligation for housing benefits beyond the above contributions. For the year ended 31st December, 2000, the Company contributed approximately RMB579,000 (1999 – RMB302,000) to the fund.

20. Segment information

	Consolidated	
	2000	1999
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Global Positioning System application systems	22,563	163
Network security products	22,043	6,066
Wireless fire alarm systems	6,621	1,031
Application specific integrated circuits	6,287	683
Smart card application systems	3,329	2,476
	<u>60,843</u>	<u>10,419</u>
Profit (Loss) attributable to shareholders		
Global Positioning System application systems	19,161	(3,120)
Network security products	6,179	476
Wireless fire alarm systems	4,775	(340)
Application specific integrated circuits	3,258	(1,296)
Smart card application systems	(1,005)	(219)
Unallocated corporate expenses	(7,818)	–
Interest income	6,726	13
Exchange loss	(209)	–
	<u>31,067</u>	<u>(4,486)</u>
Depreciation of fixed assets		
Global Positioning System application systems	394	186
Network security products	279	108
Wireless fire alarm systems	55	117
Application specific integrated circuits	1,766	851
Smart card application systems	39	–
Corporate office	427	–
	<u>2,960</u>	<u>1,262</u>

	Consolidated	
	2000	1999
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditures (purchase of fixed assets)		
Global Positioning System application systems	73	894
Network security products	1,221	191
Wireless fire alarm systems	29	28
Application specific integrated circuits	329	26
Smart card application systems	2	–
Corporate office	2,812	–
	<u>4,466</u>	<u>1,139</u>
	<u><u>4,466</u></u>	<u><u>1,139</u></u>
	Consolidated	Company
	2000	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Assets		
Global Positioning System application systems	19,875	19,875
Network security products	12,904	12,904
Wireless fire alarm systems	6,294	6,294
Application specific integrated circuits	11,974	11,974
Smart card application systems	1,136	1,136
Unallocated corporate assets	334,617	334,641
	<u>386,800</u>	<u>386,824</u>
	<u><u>386,800</u></u>	<u><u>386,824</u></u>
Liabilities		
Global Positioning System application systems	1,807	1,807
Network security products	5,849	5,849
Wireless fire alarm systems	651	651
Application specific integrated circuits	1,097	1,097
Smart card application systems	2,378	2,378
Unallocated corporate liabilities	3,711	3,711
	<u>15,493</u>	<u>15,493</u>
	<u><u>15,493</u></u>	<u><u>15,493</u></u>

21. Commitments

As at 31st December, 2000, the Group had operating lease commitments in respect of premises under various non-cancellable operating lease agreements. The amounts payable under these agreements are analysed as follows:

	Consolidated	Company
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts payable within		
– one year	1,433	1,433
– between one to two years	824	824
– between two to five years	13	13
	<u>2,270</u>	<u>2,270</u>
	<u><u>2,270</u></u>	<u><u>2,270</u></u>

The commitments payable within the next twelve months are analysed as follows:

	Consolidated	Company
	<i>RMB'000</i>	<i>RMB'000</i>
Leases expiring within a period		
– not exceeding one year	364	364
– within one to two years	1,046	1,046
– within two to five years	23	23
	<u>1,433</u>	<u>1,433</u>
	<u><u>1,433</u></u>	<u><u>1,433</u></u>

22. Subsequent events

On 28th March, 2001, the Board of Directors proposed the payment of a dividend of RMB0.005 per share (including promoter shares and H Shares), totalling approximately RMB4,820,000, in respect of the year ended 31st December, 2000. The proposed dividend is subject to approval by the Company's shareholders in general meeting.

3. INDEBTEDNESS OF THE GROUP**Borrowing**

At the close of business on 31st October, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding short-term bank loan of RMB390,000,000. The short-term bank loan was unsecured and guaranteed by a promoter of the Company and a related party.

Pursuant to Rule 20.52(2) of the GEM Listing Rules, the aforesaid guarantee provided to the Company by its promotor is a connected transaction exempt from reporting, announcement and independent shareholders' approval requirement.

Disclaimers

Save as foresaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31st October, 2001.

The Directors have confirmed that, save as disclosed herein, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31st October, 2001.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing financial resources and banking facilities available to the Group, including those available to the Group directly and those sharing with related parties, and the Group's internally generated funds, the Group has sufficient working capital to satisfy its present requirements.

5. MATERIAL ADVERSE CHANGE

Save as disclosed, there has been no material change in the financial and trading positions of the Group since 31st December, 2000, the date of which the latest audited accounts of the Company were made up.

6. Rules 17.15 to 17.21 of the GEM Listing Rules

As at the Latest Practicable Date, the Group had not advanced any money to any entity or provided any financial assistance and guarantees to affiliated companies which exceeded 25% of the Company's audited consolidated net tangible assets nor had the Group entered into any loan agreements imposing specific performance obligations on the controlling shareholder of the Company, nor had the controlling shareholder pledged its interests in the shares of the Company to secure debts, guarantees or support of other obligations of the Group. The Directors confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which gave rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

31st December, 2001

The Directors
Semiconductor Manufacturing International Corporation
18 Zhang Jiang Road
Pu Dong New Area
Shanghai
People's Republic of China

The Directors
Beijing Beida Jade Bird Universal Sci-Tech Company Limited
Rooms 1117/1119
Zhongcheng Building
Haidian Road
Beijing
People's Republic of China

Dear Sirs,

We set out below our report on the consolidated financial information regarding Semiconductor Manufacturing International Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period from 3rd April, 2000 (date of incorporation) to 31st December, 2000 and the seven-month period from 1st January, 2001 to 31st July, 2001 (the "Relevant Periods") for inclusion in the circular of Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("Jade Bird Universal") dated 31st December, 2001 (the "Circular") relating to the proposed investment in the Company.

Pursuant to the proposed investment in the Company, as described more fully in the section headed "Letter from the Board" included in the Circular, Beida Jade Bird Universal (Cayman) Investment Company Limited, a wholly-owned subsidiary of Jade Bird Universal, has conditionally agreed to invest in the Company.

The Company is the holding company of a group of companies which is engaged in the business of manufacture and market of advanced technology semiconductors. During the Relevant Periods, the Group has not yet commenced its business operations. The Company is incorporated in the Cayman Islands as an exempted company with limited liability on 3rd April, 2000.

As at the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Country and date of establishment/ incorporation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Semiconductor Manufacturing International Corporation (Shanghai)*	Mainland China 21st December, 2000	US\$230,000,000	100%	Manufacture and market advanced technological semiconductors
Better Way Enterprises Limited*	Western Samoa 5th April, 2000	US\$1	100%	Investment holding
Garrison Consultants Limited	Western Samoa 3rd April, 2000	US\$1	100%	Investment holding

* Directly held by the Company

The consolidated financial statements of the Group for the period from 3rd April, 2000 (date of incorporation) to 31st December, 2000 were audited by Diwan, Ernst & Young, certified public accountants registered in Taiwan. These financial statements were prepared in accordance with generally accepted accounting principles in Taiwan. For the purpose of this report, we have carried out independent audit procedures in respect of the consolidated management accounts of the Group for the same period prepared in accordance with accounting principles generally accepted in Hong Kong.

No audited financial statements have been prepared for the Company and its subsidiaries for the period from 1st January, 2001 to 31st July, 2001. For the purpose of this report, we have carried out independent audit procedures in respect of the consolidated management accounts of the Group for the seven-month period from 1st January, 2001 to 31st July, 2001.

We have examined the audited consolidated financial statements and the consolidated management accounts (the “Underlying Financial Statements”) of the Group for the Relevant Periods in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The consolidated results of the Group for the Relevant Periods and of the consolidated net tangible assets of the Group as at 31st July, 2001 (the “Consolidated Financial Information”) have been prepared from the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the directors of the Company. The directors of Jade Bird Universal are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Consolidated Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Consolidated Financial Information and to report our opinion to you.

In our opinion, the Consolidated Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the results of the Group for the Relevant Periods and of the net tangible assets of the Group and the Company as at 31st July, 2001.

1. PRINCIPAL ACCOUNTING POLICIES

The Consolidated Financial Information has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The Consolidated Financial Information is presented in United States Dollars, the currency in which the majority of the Group's transactions is denominated. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial information incorporate the financial information of the Company and its subsidiaries made up to 31st December/31st July.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board to directors or equivalent governing body.

Investments in subsidiaries are stated at cost less any identified impairment losses.

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance, from properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation at the balance sheet date.

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 the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of land use right is amortised over the period of the right using the straight line method.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	5%
Furniture and equipment	20%
Motor vehicles	20%

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

Taxation

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than United States Dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

2. RESULTS

The following is a summary of the consolidated results of the Group for the Relevant Periods:

		From 3rd April, 2000 to 31st December, 2000 US\$'000	Seven months ended 31st July, 2001 US\$'000
	Notes		
Interest income		2,153	8,195
Other revenue		2	131
Administrative expenses		(929)	(5,929)
Profit from operations	(a)	1,226	2,397
Interest on bank borrowings wholly repayable within five years		—	(538)
Net profit for the period		<u>1,226</u>	<u>1,859</u>
Dividend	(c)	<u>—</u>	<u>—</u>

Notes:

(a) Profit from operations

	From 3rd April, 2000 to 31st December, 2000 US\$'000	Seven months ended 31st July, 2001 US\$'000
Profit from operations has been arrived at after charging:		
Staff costs*	550	2,750
Retirement benefits scheme contributions	25	99
	<u>575</u>	<u>2,849</u>
Auditors' remuneration	15	–
Depreciation and amortisation	10	713
and after crediting:		
Property rental income net of outgoings of US\$8,000 for the seven months ended 31st July, 2001	–	103
	<u>–</u>	<u>103</u>

* Included in staff costs is an amount of director's other emoluments paid to a director not exceeding US\$175,000 (3rd April, 2000 to 31st December, 2000: not exceeding US\$225,000).

(b) Taxation

No provision for taxation has been made as the Group had no assessable profit for the Relevant Periods.

There was no significant unprovided deferred taxation in respect of any of the Relevant Periods.

(c) Dividend

No dividend has been paid or payable by the Group during the Relevant Periods.

(d) Earnings per share

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(e) Transfers to and (from) reserves

	From 3rd April, 2000 to 31st December, 2000 US\$'000	Seven months ended 31st July, 2001 US\$'000
Share premium		
Balance brought forward	–	–
Premium arising on issue of shares	–	595
	<u>–</u>	<u>595</u>
Balance carried forward	<u>–</u>	<u>595</u>
Translation reserve		
Balance brought forward	–	40
Exchange differences arising from the translation of financial information of overseas operations	40	(37)
	<u>40</u>	<u>(37)</u>
Balance carried forward	<u>40</u>	<u>3</u>

Other than the above, there was no movement in reserves in respect of the Relevant Periods.

The Company's reserves available for distribution to its shareholders comprise share premium and retained profits which in aggregate amounted to US\$7,180,000 as at 31st July, 2001. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that, immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

(f) **Retirement benefits scheme**

The employees employed by the subsidiary in the Mainland China (the "PRC") are members of a state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the PRC subsidiary with respect to the retirement benefits scheme is to make the required contributions under the scheme. The contributions payable to the retirement benefits scheme are charged to the income statement.

3. NET TANGIBLE ASSETS

The following is a summary of the net tangible assets of the Group and the Company as at 31st July, 2001:

		THE GROUP		THE COMPANY	
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	143,418		–	
Investments in subsidiaries	(b)	–	143,418	230,000	230,000
CURRENT ASSETS					
Accounts receivables		3,144		1,625	
Amount due from a subsidiary	(c)	–		3,467	
Pledged bank deposits	(d)	193,208		–	
Bank balances, deposits and cash	(d)	160,137		140,303	
		356,489		145,395	
CURRENT LIABILITIES					
Accounts payables		150,199		62,665	
Secured short-term bank loans	(e)	29,601		–	
		179,800		62,665	
NET CURRENT ASSETS			176,689		82,730
TOTAL ASSETS LESS					
CURRENT LIABILITIES			320,107		312,730
DEDUCT:					
NON-CURRENT LIABILITIES					
Monies received for subscription of shares	(f)		316,416		305,542
NET TANGIBLE ASSETS			3,691		7,188

Notes:

(a) **Property, plant and equipment**

	Land and buildings US\$'000	Furniture and equipment US\$'000	Motor vehicles US\$'000	Construction in progress US\$'000	Total US\$'000
THE GROUP					
COST					
At 1st January, 2001	–	217	2	13,935	14,154
Additions	50,436	475	137	78,939	129,987
At 31st July, 2001	50,436	692	139	92,874	144,141
DEPRECIATION AND AMORTISATION					
At 1st January, 2001	–	10	–	–	10
Provided for the period	674	34	5	–	713
At 31st July, 2001	674	44	5	–	723
NET BOOK VALUES					
At 31st July, 2001	49,762	648	134	92,874	143,418

The Group's property interests which are situated in the PRC are held under medium-term land use rights. At 31st July, 2001, the land use rights certificates in respect of these properties with net book value of US\$50 million have not been issued by the relevant PRC government authority. In the opinion of the directors, such certificates will be issued in due course.

(b) **Investments in subsidiaries**

THE COMPANY
US\$'000

Unlisted capital contributions, at cost	230,000
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(c) **Amount due from a subsidiary**

The amount is unsecured, interest-free and has no fixed repayment terms.

(d) **Pledged bank deposits and bank balances, deposits and cash**

At 31st July, 2001, the pledged bank deposits and bank balances, deposits and cash of the Group denominated in Renminbi ("RMB") amounted to US\$28,032,000. RMB is generally regarded as a currency that cannot be freely converted to other currencies.

At 31st July, 2001, the Company did not have any bank balances, deposits and cash denominated in RMB.

(e) **Secured short-term bank loans**

At 31st July, 2001, the Group's short-term bank loans are secured by bank deposits of US\$193,208,000.

(f) **Monies received for subscription of shares**

The monies were received from investors for the purpose to subscribe for the Company's shares. These monies were unsecured, interest-free and have no fixed repayment terms.

(g) **Deferred taxation**

At 31st July, 2001, neither the Group nor the Company had any significant unprovided deferred tax asset or liability.

(h) Capital commitments

	THE GROUP <i>US\$'000</i>	THE COMPANY <i>US\$'000</i>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	69,601	–
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	73,068	–
– investments in the PRC	1,100,000	270,000
	<u>1,242,669</u>	<u>270,000</u>

(i) Contingent liabilities

The Group and the Company had no significant contingent liabilities at 31st July, 2001.

4. SIGNIFICANT SUBSEQUENT EVENT

At the date of this report, there is no significant subsequent event relating to the Group.

5. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st July, 2001.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

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

2. DISCLOSURE OF INTERESTS**(a) Interests in shares of the Company**

As at the Latest Practicable Date, except for those shares held through Heng Huat Investments Limited (“Heng Huat”) as set out below, none of the Directors and the supervisors of the Company or their respective associates had any personal, family, corporate or other interests in the shares of the Company or associated corporations, if any, pursuant to section 29 of the SDI Ordinance.

Heng Huat

Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu, all executive Directors of the Company, are trustees holding 60, 20 and 20 shares out of 100 shares in the issued share capital of Heng Huat. Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu are also directors of Heng Huat.

By a declaration of trust made as a deed on 19th July, 2000, Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu declared that they held the shares of Heng Huat as trustees for the benefits of 477 employees of Beijing Beida Jade Bird Software System Company (“Jade Bird Software”), Beijing Beida Jade Bird Limited (“Jade Bird”), Beijing Beida Yu Huan Microelectronics System Engineering Company (“Yu Huan”) and Beijing Tianqiao Beida Jade Bird Sei-Tech Company Limited (“Beijing Tianqiao”) and their respective subsidiaries and associated companies and the Company. Heng Huat and Gamera Limited are the two shareholders beneficially entitled to approximately 93.37% and approximately 6.63% respectively in the issued share capital of Dynamic Win Assets Limited (“Dynamic Win”), which is a substantial shareholder of the Company holding approximately 22.82% of the Company issued share capital.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the supervisors of the Company had any interest in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or

Part 1 of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

(b) Interests in share options

As at the Latest Practicable Date, no options have been granted by the Group pursuant to the share option scheme adopted by the Company on 5th July, 2000.

3. DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company for an initial term of three years commencing from 29th March, 2000 (date of incorporation).

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the only persons directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company, or otherwise interested in 10% or more of the issued share capital of the Company were as follows:

Shareholder	Number of Promoters' Shares	Approximate effective interests in the Company
Peking University (<i>Note 1</i>)	221,345,350	22.96%
Jade Bird Software (<i>Note 2</i>)	136,345,350	14.14%
Dynamic Win (<i>Note 3</i>)	220,000,000	22.82%
Heng Huat (<i>Note 3</i>)	205,414,000	21.31%

Notes:

- (1) Peking University, through Jade Bird Software, Jade Bird, Yu Huan and Beijing Tianqiao (collectively the "Jade Bird Group"), has effective interests in the Company comprising:
 - (a) 85,000,000 shares (representing approximately 8.82% of the Company's issued share capital) held by Yu Huan, which is beneficially wholly-owned by Peking University;
 - (b) 110,000,000 shares (representing approximately 11.41% of the Company's issued share capital) held by Jade Bird Software, which is beneficially wholly-owned by Peking University;
 - (c) 18,400,000 shares (representing approximately 1.91% of the Company's issued share capital) held through Jade Bird, which is approximately 46% owned by Peking University;
 - (d) 7,945,350 shares (representing approximately 0.82% of the Company's issued share capital) held through Beijing Tianqiao, which is approximately 10.60% owned by Peking University.
- (2) The interests of Jade Bird Software comprises:
 - (a) 110,000,000 shares (representing approximately 11.41% of the Company's issued share capital) held by Jade Bird Software;
 - (b) 18,400,000 shares (representing approximately 1.91% of the Company's issued share capital) held through Jade Bird, which is approximately 46% owned by Jade Bird Software;

- (c) 7,945,350 shares (representing approximately 0.82% of the Company's issued share capital) held through Beijing Tianqiao, which is approximately 10.60% owned by Jade Bird Software.
- (3) Dynamic Win is a limited liability company incorporated in Hong Kong under the Companies Ordinance, the shareholding of which is held as to approximately 6.63% by Gameraian Limited and approximately 93.37% by Heng Huat. Gameraian Limited is a wholly owned subsidiary of New World CyberBase Limited, a company whose shares are listed on the Main Board of the Stock Exchange. Heng Huat is a company incorporated in the British Virgin Islands, the entire issued share capital of which is held by three of the executive directors of the Company as trustees for the benefits of the qualified employees of the Jade Bird Group and the Company.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at the Latest Practicable Date.

5. SPONSOR'S INTEREST

None of the Company's sponsor, Tai Fook Capital Limited (the "Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at the Latest Practicable Date.

Pursuant to the sponsor's agreement dated 19th July 2000 between the Company and Tai Fook, Tai Fook received a fee for acting as the Company's retained sponsor for the period from 27th July 2000 to 31st December 2002.

Save as disclosed above, Tai Fook (including its directors and employees) and its associates, do not have any interest in the Company as at the Latest Practicable Date.

6. MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

7. COMPETING INTERESTS

None of the Directors, the management shareholders of the Company or any of their respective associate (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Company.

8. MATERIAL CONTRACTS

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

1. Technology Licence Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company for a term of 10 years commencing from 17th April, 2000 relating to the exclusive use of global positioning system ("GPS") technology applying 230M frequency band at a royalty fee of 3% on the total sales of such products payable by the Company to Beijing Tianqiao;

2. Non-competition Agreement dated 17th April, 2000 between the four domestic promoters of the Company (namely Jade Bird, Jade Bird Software, Yu Huan and Beijing Tianqiao) as Party A and the Company as Party B whereby Party A agrees with Party B not to and procure their respective subsidiaries not to engage or participate directly or indirectly in any business which may compete directly or indirectly with the embedded system business of Party B;
3. Non-competition Agreement dated 17th April, 2000 between Peking University as Party A and the Company as Party B whereby Party A on behalf of the Institute of Software Engineering and the Institute of Microelectronics of Peking University (“Institute of Microelectronics”) agrees with Party B not to engage or participate directly or indirectly in any business which may compete directly or indirectly with the embedded system business of Party B;
4. Contract Transfer Agreement dated 17th April, 2000 between Jade Bird and the Company whereby Jade Bird transferred 3 outstanding contracts relating to the development of IC card systems and a rental agreement relating to certain premises at Beijing Zhong Cheng Plaza to the Company at nil consideration;
5. Contract Transfer Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company whereby Beijing Tianqiao transferred 4 contracts relating to the provisions of GPS products and services and an outstanding contract relating to the development of IC card system to the Company at nil consideration;
6. Contract Transfer Agreement dated 17th April, 2000 between Shenzhen Beida Jade Bird Sci-Tech Company Limited (“Shenzhen Beida Sci-Tech”) and the Company whereby Shenzhen Beida Sci-Tech transferred its building lease contract and its supplemental agreement with Shenzhen High and New Technology and Industry Development Company to the Company at nil consideration;
7. Technological Cooperation and Support Agreement dated 17th April, 2000 between the Company as Party A and Beijing Yu Huan, Jade Bird Software, Jade Bird and Beijing Tianqiao as Party B for the provision of continuous technical cooperation and support by Party B relating to the research and development of embedded systems to the Company at market price;
8. Technological Cooperation and Support Agreement dated 17th April, 2000 between the Company and Peking University for the provision of continuous technical cooperation and support by Peking University relating to the research and development of embedded systems to the Company at market price;
9. Trademark Licence Agreement dated 17th April, 2000 between Jade Bird Software and the Company for the licence of trademark Nos.722305 and 722306 of Jade Bird Software for the use by the Company for a term of 10 years from the date of the agreement for nil consideration;
10. Technical Equipment Rental Agreement dated 17th April, 2000 between the Institute of Microelectronics and the Company for the lease of equipment more particularly described therein by the Institute of Microelectronics to the Company for a term of 5 years from the date of the agreement with a right given to the Company for earlier termination upon 3 months’ notice at any time starting from 17th April, 2003 at an hourly rate of RMB120 per a particular equipment payable by the Company to the Institute of Microelectronics;

11. Technical Equipment Rental Agreement dated 17th April, 2000 between the Company and the Institute of Microelectronics for the lease of equipment more particularly described therein by the Company to the Institute of Microelectronics for a term of 5 years from the date of the agreement with a right given to the Institute of Microelectronics for earlier termination upon 3 months' notice at any time starting from 17th April 2003 at an annual fee of RMB1.26 million payable by the Institute of Microelectronics to the Company;
12. Master GPS Sales Agreement dated 17th April, 2000 between the Company and Sichuan Tian Mu Monitored Security System Company Limited relating to the sales of GPS and related products for a term of 10 years commencing from the date of the agreement whereby Sichuan Tian Mu Monitored Security System Company Limited agreed to, among other things, purchase all its requirements of GPS and related products from the Company;
13. Master Network Security Products Sales Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company relating to sales of network security products for a term of 10 years commencing from the date of the agreement whereby Beijing Tianqiao agreed to purchase all its requirements of network security products from the Company;
14. Business Transfer Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company for the transfer of all business, assets, liabilities and technological materials relating to GPS and related products of Beijing Tianqiao to the Company for RMB3,519,250;
15. Business Transfer Agreement dated 17th April, 2000 between Beijing Beida Jade Bird Company Limited Electric Instrument Branch and the Company for the transfer of all business, assets, liabilities and technological materials relating to IC card application system and wireless fire alarm system ("WFAS") and related products of the Factory to the Company for RMB2,387,465;
16. Business Transfer Agreement dated 17th April, 2000 between Yu Huan and the Company for the transfer of all business, assets, liabilities and technological materials relating to application specific integrated circuit and related products of Yu Huan to the Company for RMB10,194,882;
17. Business Transfer Agreement dated 17th April, 2000 between Jade Bird and the Company for the transfer of all business, assets, liabilities and technological materials relating to JB-SG2 and relating products of Jade Bird to the Company for RMB2,724,765;
18. JB-CASE Technology License Agreement dated 17th April, 2000 between Beijing Beida Jade Bird Software Company Limited and the Company for the grant of a non-exclusive license to use the technology relating to JB-CASE to the Company for a term of 10 years from the date of the agreement for nil consideration;
19. Contract Transfer Agreement dated 17th April, 2000 between Peking University and the Company for the transfer by Peking University of an outstanding contract for the installation of WFAS in a government department to the Company at nil consideration;

20. Sub-lease Contract dated 17th April, 2000 between Jade Bird Software and the Company relating to the sub-lease of the office premises at Unit 16, 9th Floor, Beijing New World Centre, North Office Tower, Chongwen District, Beijing, the PRC for a term commencing from 17th April, 2000 to 24th November, 2002 at a monthly rent of US\$11.0 per square metre. The Sub-lease Contract had been early terminated in September, 2001;
21. Placing and Underwriting Agreement dated 19th July, 2000 in relation the underwriting of the placing of H Shares as described in the prospectus of the Company dated 20th July, 2000;
22. Preliminary Subscription Agreement dated 30th August, 2001 entered into by and among between SMIC International and the Company;
23. SMIC Share Purchase Agreement dated as of 25th September, 2001 entered into by and among SMIC International, JBU Cayman and the Investors; and
24. SMIC Shareholders' Agreement dated as of 25th September, 2001 entered into by and among SMIC International, JBU Cayman and the Investors.

9. QUALIFICATIONS OF EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong

10. CONSENTS

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular, with the inclusion herein of its letter and reference to its name, in the form and context in which it appears.

11. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

12. GENERAL

- (a) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.
- (b) The principal place of business of the Company in the PRC is at Room 1715, Corporate Square, No. 35 Financial Street, Xi Cheng District, Beijing, the PRC.
- (c) The place of business of the Company in Hong Kong is at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong.

- (d) The compliance officer of the Company is Prof. Zhang Wan Zhong. Prof. Zhang graduated from Peking University with a master degree in science. Prof. Zhang held various positions in the administrative arm of Peking University and was the authorised representative and general manager of Peking University Science Information Technology Company.
- (e) The qualified accountant and company secretary of the Company is Ms. Yang Chau Ming. Ms. Yang holds a bachelor degree in accounting from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (f) The Company has established an audit committee on 5th July, 2000 with terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control system of the Company. The audit committee has two members, namely the two independent non-executive Directors, Prof. Liu Yong Ping and Prof. Nan Xiang Hao. Prof. Liu graduated from the Faculty of National Politics of the People's University of China. Prof. Liu is currently the deputy chief editor of "Research on the Special Characteristics of Socialism in the PRC". Prof. Nan is currently a part-time professor in the graduate school of University of Science & Technology of China. Prof. Nan was awarded various science award such as 國家科技進步二等獎 (the Second Prize of State Technological Achievement).

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents (and English translations thereof, if appropriate) will be available for inspection at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong during normal business hours up to and including 16th January, 2002:

- (a) the Articles of Association of the Company;
- (b) the prospectus of the Company dated 20th July, 2000;
- (c) the annual report of the Company for the year ended 31st December, 2000;
- (d) the interim results of the Company for the period ended 30th September, 2001;
- (e) the accountants' report on SMIC International prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (f) the material contracts referred to in paragraph 8 of this Appendix; and
- (g) the written consent referred to in this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



北京北大青鳥環宇科技股份有限公司

BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “Special General Meeting”) of the holders of Promoters’ Shares and H Shares of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the “Company”) will be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong on 20th February, 2002 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

1. AS AN ORDINARY RESOLUTION:

“THAT:

- (a) the proposed subscription of (1) 54,000,540 SMIC Series A Preference Shares; and (2) 54,000,540 SMIC Series A-1 Preference Shares of Semiconductor Manufacturing International Corporation (“SMIC International”) (the “Company Subscription”) pursuant to a Share Purchase Agreement dated as of 25th September, 2001 entered into by, among others, Beida Jade Bird Universal (Cayman) Investment Company Limited, a wholly-owned subsidiary of the Company, and SMIC International (the “SMIC Share Purchase Agreement”), a copy of which has been produced to this Special General Meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, be and it is hereby approved in all respects; and
- (b) the directors of the Company (the “Directors”) be and they are hereby authorised on behalf of the Company to do whatever they may consider necessary, appropriate, desirable or expedient for the purpose of or in connection with the implementation and completion of the Company Subscription pursuant to the SMIC Share Purchase Agreement and all other matters incidental thereto, with such changes and the waiver of all matters relating thereto as are, in the opinion of the Directors, necessary, desirable or expedient and are in the best interest of the Company.”

2. AS A SPECIAL RESOLUTION:

“THAT:

- (a) upon the passing of Ordinary Resolution numbered 1 set out in the notice convening the Special General Meeting at which this resolution is proposed, the Directors be and are hereby granted an unconditional specific mandate to allot, issue and deal with

NOTICE OF SPECIAL GENERAL MEETING

additional H Shares in the capital of the Company and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

- (i) such specific mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers or options or enter into agreements which might require the exercise of such powers after the end of the Relevant Period;
- (ii) the aggregate number of H Shares to be issued and allotted (whether pursuant to an option or otherwise) by the Directors shall not exceed 140,000,000 new H Shares;
- (iii) the board of Directors be at liberty to issue and allot the new H Shares under the specific mandate at a premium or a discount to the then market price of the H Shares at the time of such issue and allotment provided that if the new H Shares are to be issued and allotted at a discount, the issue price per new H Share shall not be more than 15% discount to the average closing price of the H Shares as quoted on the Stock Exchange for 10 trading days immediately prior to the signing of the relevant placing agreement(s);
- (iv) the board of Directors will only exercise its power under such mandate in accordance with the PRC Company Law and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities have been obtained;
- (v) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the 12-month period following the passing of this resolution; or
- (iii) the revocation or variation of the authority given under this resolution by a special resolution of the shareholders of the Company in a general meeting,

whichever is the earliest;

- (b) the net proceeds from the issuance of the H Shares under the specific mandate contemplated in Resolution 2(a) shall only be used to repay the bank loan used or to be used by the Company to finance the consideration payable by Beida Jade Bird Universal (Cayman) Investment Company Limited, a wholly-owned subsidiary of the Company, pursuant to the SMIC Share Purchase Agreement referred to in Resolution 1 above;

NOTICE OF SPECIAL GENERAL MEETING

- (c) such necessary amendments be made to the articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issuance of up to an additional 140,000,000 new H Shares; and
- (d) the general mandate granted to the Directors by the holders of H Shares and Promoters' Shares at the annual general meeting held on 29th May, 2001 shall remain in effect in the Relevant Period.

By order of the Board
Xu Zhen Dong
Chairman

Hong Kong, 31st December, 2001

Place of Business in Hong Kong
Unit 02, 7th Floor, Asia Pacific Centre
8 Wyndham Street
Central, Hong Kong

Notes:

1. The H Shares register of shareholders of the Company will be closed from 19th January, 2002 to 20th February, 2002 (both days inclusive), during which no transfer of H Shares will be effected. The holders of Promoter's Shares or H Shares whose name appears on the register of shareholders of the Company at 4:00 p.m. on 18th January, 2002 will be entitled to attend and vote at the Special General Meeting.
2. Any holder of Promoters' Share or H Shares entitled to attend and vote at the Special General Meeting convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the Special General Meeting on his behalf. A proxy needs not be a holder of Promoters' Shares or H Shares of the Company.
3. A voting proxy form of the Special General Meeting is enclosed. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarily certified copy of the power of attorney must be delivered to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for holding the Special General Meeting or any adjournment thereof.
4. Holders of Promoters' Shares or H Shares who intend to attend the Special General Meeting should complete the enclosed "REPLY SLIP FOR SPECIAL GENERAL MEETING" and return it to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002. The reply slip may be delivered by hand, by post or by fax to the number (852) 2579-0095.

NOTICE OF PROMOTERS' SHARES CLASS MEETING



北京北大青鳥環宇科技股份有限公司

BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

NOTICE OF PROMOTERS' SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a meeting of the holders of Promoters' Shares ("Promoters' Shares Class Meeting") of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") will be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong on 20th February, 2002 at 10:30 a.m. (or immediate after the Special General Meeting of the holders of Promoters' Shares and H Shares at the same place and date shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as a special resolution:

SPECIAL RESOLUTION

"THAT:

- (a) upon the passing of the ordinary resolution and the special resolution set out in the notice convening the Special General Meeting, the directors of the Company (the "Directors") be and are hereby granted an unconditional specific mandate to allot, issue and deal with additional H Shares in the capital of the Company and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
 - (i) such specific mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers or options or enter into agreements which might require the exercise of such powers after the end of the Relevant Period;
 - (ii) the aggregate number of H Shares to be issued and allotted (whether pursuant to an option or otherwise) by the Directors shall not exceed 140,000,000 new H Shares;
 - (iii) the board of Directors be at liberty to issue and allot the new H Shares under the specific mandate at a premium or a discount to the then market price of the H Shares at the time of such issue and allotment provided that if the new H Shares are to be issued and allotted at a discount, the issue price per new H Share shall not be more than 15% discount to the average closing price of the H Shares as quoted on the Stock Exchange for 10 trading days immediately prior to the signing of the relevant placing agreement(s);
 - (iv) the board of Directors will only exercise its power under such mandate in accordance with the PRC Company Law and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities have been obtained;

NOTICE OF PROMOTERS' SHARES CLASS MEETING

(v) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the 12-month period following the passing of this resolution; or
- (iii) the revocation or variation of the authority given under this Resolution by a special resolution of the holders of the Promoters' shares of the Company in a Promoters' Shares Class Meeting,

whichever is the earliest;

- (b) the net proceeds from the issuance of the H Shares under the specific mandate contemplated in Resolution (a) shall only be used to repay the bank loan used or to be used by the Company to finance the consideration payable by Beida Jade Bird Universal (Cayman) Investment Company Limited, a wholly-owned subsidiary of the Company, pursuant to the SMIC Share Purchase Agreement dated as of 25th September, 2001 between, among others, Beida Jade Bird Universal (Cayman) Investment Company Limited and Semiconductor Manufacturing International Corporation;
- (c) such necessary amendments be made to articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issuance of up to an additional 140,000,000 new H Shares; and
- (d) the general mandate granted to the Directors by the holders of H Shares and Promoters' Shares at the annual general meeting held on 29th May, 2001 shall remain in effect in the Relevant Period.

By order of the Board
Xu Zhen Dong
Chairman

Hong Kong, 31st December, 2001

Place of Business in Hong Kong
Unit 02, 7th Floor, Asia Pacific Centre
8 Wyndham Street
Central, Hong Kong

Notes:

1. Any holder of Promoters' Share entitled to attend and vote at the Promoters' Shares Class Meeting convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the Promoters' Shares Class Meeting on his behalf. A proxy need not be a holder of Promoters' Shares of the Company.
2. A voting proxy form of the Promoters' Shares Class Meeting is enclosed. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarily certified copy of the power of attorney must be delivered to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for holding the Promoters' Shares Class Meeting or any adjournment thereof.
3. Holders of Promoters' Shares who intend to attend the Promoters' Shares Class Meeting should complete the enclosed “REPLY SLIP FOR PROMOTERS' SHARES CLASS MEETING” and return it to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002. The reply slip may be delivered by hand, by post or by fax to the number (852) 2579-0095.

NOTICE OF H SHARES CLASS MEETING



北京北大青鳥環宇科技股份有限公司

BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

NOTICE OF H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a H Shares class meeting of the holders of H Shares (“H Shares Class Meeting”) of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the “Company”) will be held at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong on 20th February, 2002 at 11:00 a.m. (or immediate after the Special General Meeting of the holders of Promoters’ Shares and H Shares and the Promoters’ Shares Class Meeting of the holders of the Promoters’ Shares at the same place and date shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as a special resolution:

SPECIAL RESOLUTION

“THAT:

- (a) upon the passing of the ordinary resolution and the special resolution set out in the notice convening the Special General Meeting, the directors of the Company (the “Directors”) be and are hereby granted an unconditional specific mandate to allot, issue and deal with additional H Shares in the capital of the Company and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
 - (i) such specific mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers or options or enter into agreements which might require the exercise of such powers after the end of the Relevant Period;
 - (ii) the aggregate number of H Shares to be issued and allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above shall not exceed 140,000,000 new H Shares;
 - (iii) the board of Directors be at liberty to issue and allot the new H Shares under the specific mandate at a premium or a discount to the then market price of the H Shares at the time of such issue and allotment provided that if the new H Shares are to be issued and allotted at a discount, the issue price per new H Share shall not be more than 15% discount to the average closing price of the H Shares as quoted on the Stock Exchange for 10 trading days immediately prior to the signing of the relevant placing agreement(s);
 - (iv) the board of Directors will only exercise its power under such mandate in accordance with the PRC Company Law and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities have been obtained;

NOTICE OF H SHARES CLASS MEETING

(v) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the 12-month period following the passing of this resolution; or
- (iii) the revocation or variation of the authority given under this resolution by a special resolution of the holders of the H Shares of the Company in a H Shares Class Meeting,

whichever is the earliest;

- (b) the net proceeds from the issuance of the H Shares under the specific mandate contemplated in Resolution (a) shall only be used to repay the bank loan used or to be used by the Company to finance the consideration payable by Beida Jade Bird Universal (Cayman) Investment Company Limited, a wholly-owned subsidiary of the Company, pursuant to the SMIC Share Purchase Agreement dated as of 25th September, 2001 between, among others, Beida Jade Bird Universal (Cayman) Investment Company Limited and Semiconductor Manufacturing International Corporation;
- (c) such necessary amendments be made to the articles of association of the Company to increase the registered share capital of the Company and to reflect changes in the share capital of the Company arising out of the issuance of up to an additional 140,000,000 new H Shares; and
- (d) the general mandate granted to the Directors by the holders of H Shares and Promoters' Shares at the annual general meeting held on 29th May, 2001 shall remain in effect in the Relevant Period.

By order of the Board
Xu Zhen Dong
Chairman

Hong Kong, 31st December, 2001

Place of Business in Hong Kong
Unit 02, 7th Floor, Asia Pacific Centre
8 Wyndham Street
Central, Hong Kong

Notes:

1. The H Shares register of shareholders of the Company will be closed from 19th January, 2002 to 20th February, 2002 (both days inclusive), during which no transfer of H Shares will be effected. The holders of H Shares whose name appears on the H Shares register of shareholders of the Company at 4:00 p.m. on 18th January, 2002 will be entitled to attend and vote at the H Shares Class Meeting.
2. Any holder of H Shares entitled to attend and vote at the H Shares Class Meeting convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the H Shares Class Meeting on his behalf. A proxy needs not be a holder of H Shares of the Company.
3. A voting proxy form of the H Shares Class Meeting is enclosed. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarily certified copy of the power of attorney must be delivered to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 24 hours before the time appointed for holding the H Shares Class Meeting or any adjournment thereof.
4. Holders of H Shares who intend to attend the H Shares Class Meeting should complete the enclosed “REPLY SLIP FOR H SHARES CLASS MEETING” and return it to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on or before 30th January, 2002. The reply slip may be delivered by hand, by post or by fax to the number (852) 2579-0095.