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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in China Resources Logic Limited or CSMC Technologies Corporation, you should at once hand this composite circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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This composite circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Resources Logic Limited or CSMC Technologies Corporation.

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**華潤勵致有限公司**  
**China Resources Logic Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**



**華潤上華科技有限公司\***  
**CSMC TECHNOLOGIES CORPORATION**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 597)**

**AMALGAMATION OF THE SEMICONDUCTOR INTERESTS OF  
CHINA RESOURCES LOGIC LIMITED AND CSMC TECHNOLOGIES CORPORATION  
UNDER A SINGLE LISTED HOLDING COMPANY, BEING  
CSMC TECHNOLOGIES CORPORATION**

**ACQUISITION OF REDLAND CONCRETE LIMITED BY  
CHINA RESOURCES LOGIC LIMITED**

**CAPITAL REORGANISATION OF CHINA RESOURCES LOGIC LIMITED  
RESULTING IN A DISTRIBUTION IN SPECIE OF ITS SHAREHOLDING IN  
CSMC TECHNOLOGIES CORPORATION ON THE BASIS OF  
180 SHARES IN CSMC TECHNOLOGIES CORPORATION  
FOR EVERY 100 SHARES IN CHINA RESOURCES LOGIC LIMITED,  
INCREASE OF AUTHORISED SHARE CAPITAL AND SHARE CONSOLIDATION IN  
CHINA RESOURCES LOGIC LIMITED**

**CHANGE OF NAME OF CSMC TECHNOLOGIES CORPORATION  
TO CHINA RESOURCES MICROELECTRONICS LIMITED**

**OFFER TO CANCEL OUTSTANDING OPTIONS AND TERMINATION OF  
THE SHARE OPTION SCHEME OF CHINA RESOURCES LOGIC LIMITED**

**VERY SUBSTANTIAL DISPOSAL, DISCLOSEABLE AND CONNECTED TRANSACTION  
AND CONTINUING CONNECTED TRANSACTIONS  
FOR CHINA RESOURCES LOGIC LIMITED**

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION  
AND CONTINUING CONNECTED TRANSACTIONS  
FOR CSMC TECHNOLOGIES CORPORATION**

**Financial adviser to the CR Logic Group**

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

**Independent financial adviser to CR Logic**



**CIMB**

**CIMB-GK Securities (HK) Limited**

**Independent financial adviser to CSMC**



**KGI Capital Asia Limited**

**KGI Capital Asia Limited**

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A notice convening a special general meeting of China Resources Logic Limited to be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February, 2008 at 2:00 p.m. is set out on pages N-1 to N-5 of this composite circular. A notice convening an extraordinary general meeting of CSMC Technologies Corporation to be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February, 2008 at 3:30 p.m. is set out on pages N-6 to N-8 of this composite circular. Whether or not you are able to attend the relevant meeting, you are requested to complete and return the relevant form of proxy accompanying this composite circular in accordance with the instructions printed thereon as soon as possible and in any event by not later than 48 hours before the time appointed for holding such relevant meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so desire.

\* for identification purpose only

16th January, 2008

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## EXPECTED TIMETABLE

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**2008**

Latest time for lodging white form of proxy for the special general meeting of CR Logic .....	2:00 p.m. on 11 February
Latest time for lodging yellow form of proxy for the extraordinary general meeting of CSMC .....	3:30 p.m. on 11th February
Special general meeting for CR Logic .....	2:00 p.m. on 13th February
Extraordinary general meeting for CSMC .....	3:30 p.m. on 13th February
Announcement of results of the special general meeting for CR Logic and extraordinary general meeting for CSMC .....	14th February
Effective date for capital reduction in the shares of CR Logic .....	14th February
Last day of dealings in the shares of CR Logic cum-entitlement to the distribution in specie .....	14th February
First day of dealings in the shares of CR Logic ex-entitlement to the distribution in specie .....	15th February
Last day for lodging transfer of CR Logic shares in order to be entitled to the distribution in specie .....	4:30 p.m. on 18th February
Book closure for CR Logic .....	19th to 22nd February
Record date for determining the entitlements to the distribution in specie for shareholders of CR Logic and announcement of timetable for trading arrangement for the consolidated shares of CR Logic . . . .	22nd February
Despatch of the distribution in specie to the shareholders of CR Logic and allotment of CSMC shares to those CR Logic optionholders who accept the share option cancellation offer .....	29th February
Effective date for share consolidation of the shares of CR Logic .....	3rd March

Dates or deadlines stated in this composite circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable will be announced as appropriate. All times and dates refer to Hong Kong local time.

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## DEFINITIONS

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*In this composite circular, unless the context otherwise requires, the following expressions have the following meanings:*

“China Resources group”	China Resources Holdings, together with its subsidiaries
“China Resources Holdings”	China Resources (Holdings) Company Limited, the substantial and controlling shareholder of CR Logic, holding approximately 69.1% of its issued share capital
“connected persons”	has the meaning ascribed to it by the Listing Rules
“CR Logic”	China Resources Logic Limited, an exempted company incorporated with limited liability in Bermuda, the shares of which are listed on the main board of the Stock Exchange
“CR Logic group”	CR Logic, together with its subsidiaries
“CR Logic Semiconductor group”	the companies held by CR Logic that are engaged in the semiconductor business, other than CSMC and a 4 inch wafer fab in Tai Po, to be acquired by CSMC from the CR Logic group
“CSMC”	CSMC Technologies Corporation, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“CSMC group”	CSMC, together with its subsidiaries
“HK GAAP”	Hong Kong Generally Accepted Accounting Principles
“Holding Announcement”	the joint announcement issued by CR Logic and CSMC dated 28th November, 2007 regarding the principal terms of the amalgamation proposal and capital reorganisation
“IC”	integrated circuit
“Latest Practicable Date”	11th January, 2008, being the latest practicable date prior to the printing of this composite circular for the purpose of ascertaining certain information for inclusion in this composite circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Redland Concrete group”	Redland Concrete Limited, together with its subsidiaries
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

*Unless otherwise specified in this composite circular, translations of US\$ into HK\$ are made in this composite circular, for illustration only, at the rate of US\$1.00 to HK\$7.80.*

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LETTER FROM THE BOARD OF CR LOGIC

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**華潤勵致有限公司**  
**China Resources Logic Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

*Executive Directors:*

ZHU Jinkun (*Chairman*)  
WANG Guoping (*Chief Executive Officer*)  
ONG Thiam Kin  
CHEN Cheng-yu, Peter

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Non-executive Directors:*

JIANG Wei  
LIU Yanjie  
LI Fuzuo

*Principal Place of Business:*

Rooms 4003-06  
40th Floor, China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

*Independent Non-executive Directors:*

WONG Tak Shing  
LUK Chi Cheong  
KO Ping Keung  
YANG Chonghe, Howard

16th January, 2008

*To the shareholders of CR Logic*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL,  
DISCLOSEABLE AND CONNECTED TRANSACTION AND  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Further to the publication of the Holding Announcement on 28th November, 2007 regarding the principal terms of the amalgamation proposal and capital reorganisation, the respective boards of directors of CR Logic and CSMC announced on 4th December, 2007 a proposal which, if implemented, will result in the amalgamation of both companies' semiconductor businesses under CSMC, the acquisition by CR Logic from China Resources Holdings, the substantial and controlling shareholder of CR Logic of Redland Concrete Limited, and a capital reorganisation of CR Logic which will enable its shareholding in CSMC to be distributed in specie to the shareholders of CR Logic and its shares to be consolidated.

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## LETTER FROM THE BOARD OF CR LOGIC

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Once the proposal is implemented, with the exception of the Tai Po plant which is in the process of being sold and, or closed down, CR Logic will no longer be engaged in the semiconductor business. In view of this, its existing employee share option scheme will be terminated. All existing optionholders, including some of the directors of CR Logic and, or, CSMC, will be offered shares in CSMC in consideration for the cancellation of their share options. The proposed offer to certain directors of CR Logic for the cancellation of their share options constitutes a connected transaction for CR Logic.

The proposal, including disposal of the semiconductor businesses to CSMC and distribution in specie of the shareholding interest in CSMC in full to the shareholders of CR Logic, if implemented, together with the disposal of compressor business to China Resources group completed during 2007, is viewed by the Stock Exchange as a very substantial disposal for CR Logic. The disposal of the semiconductor businesses to CSMC will be subject to the approval by the shareholders of CR Logic but no shareholders are required to abstain from voting. The acquisition of Redland Concrete Limited is a discloseable and connected transaction for CR Logic. As at the Latest Practicable Date, China Resources Holdings is interested in approximately 69.1% of the existing issued share capital of CR Logic and will abstain from voting on the resolution in respect of the acquisition of Redland Concrete Limited and the related continuing connected transactions. Any directors of CR Logic and, or, CSMC holding share options of CR Logic and their respective associates are required to abstain from voting on the resolution in respect of the cancellation of share options.

The purpose of this composite circular is to provide the shareholders of CR Logic with further information about the proposal and give notice to shareholders of the special general meeting at which resolutions will be proposed for the purpose of, amongst other things, approving the disposal of semiconductor businesses to CSMC, capital reorganisation and cancellation of the share options under the existing and past employee share option schemes held by some of the directors of CR Logic and, or, CSMC, acquisition of Redland Concrete Limited from China Resources group and certain continuing connected transactions after the acquisition.

This composite circular also contains advice from CIMB-GK Securities (HK) Limited, appointed as the independent financial adviser, to advise the independent board committees and the independent shareholders of CR Logic and the recommendations of the independent board committees of CR Logic which have been formed to advise the independent shareholders of CR Logic.

### PROPOSAL

Under the proposal:

- CSMC will acquire the semiconductor businesses of CR Logic, being all its semiconductor operations other than China Resources Semiconductor Company Limited which operates a 4 inch wafer fab in Tai Po, Hong Kong, for an issue of not less than 3,050,581,517 and not more than 3,210,167,717 of its shares at an aggregate issue price equal to approximately HK\$1,488.9 million, representing the net asset value of the companies being acquired based on the management accounts of such companies as at 30th June, 2007 adjusted to reflect the payment of a dividend of approximately HK\$474.4 million that is expected to be fully paid on or before 31st January, 2008;

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## LETTER FROM THE BOARD OF CR LOGIC

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- conditionally upon the completion of the above sale and purchase of the semiconductor businesses of CR Logic, CR Logic will acquire from a subsidiary of China Resources Holdings the entire issued voting share capital of Redland Concrete Limited for a cash consideration of approximately HK\$217.7 million and will reorganise its share capital and effect a distribution in specie being its shareholding interest in CSMC to its shareholders. The capital reorganisation will be effected by reducing the nominal paid up capital on each issued share in CR Logic by cancelling HK\$0.09 out of HK\$0.10 paid up on each share and reducing the entire amount standing to the credit of its share premium account and crediting the amounts so reduced to the Company's contributed surplus account out of which a distribution in specie will be effected, being a distribution of shares in CSMC held by the CR Logic group on the basis of 180 shares in CSMC for every 100 shares held in CR Logic and so in proportion for any greater or lesser number of shares held, except that no fraction of a share will be issued. The acquisition of the semiconductor businesses of CR Logic by CSMC, as described above, is not conditional upon the implementation of either the acquisition of Redland Concrete Limited or the share capital reorganisation. Following the distribution in specie, the issued share capital of CR Logic will be consolidated on the basis of one consolidated share in CR Logic of HK\$0.10 for every 10 shares in CR Logic of HK\$0.01. An opportunity will also be taken to increase the authorised share capital of CR Logic; and
  
- CSMC will cease to be a subsidiary of CR Logic and the accounts of CSMC will no longer be consolidated into the financial statements of CR Logic once the distribution in specie described above has been effected in full, and with the exception of the Tai Po 4 inch wafer fab which will be sold and, or closed down, CR Logic will cease to be engaged in the semiconductor business and will instead be engaged primarily in the supply of ready mixed concrete and related products to the Hong Kong and Macau markets and will maintain its listing on the Stock Exchange.

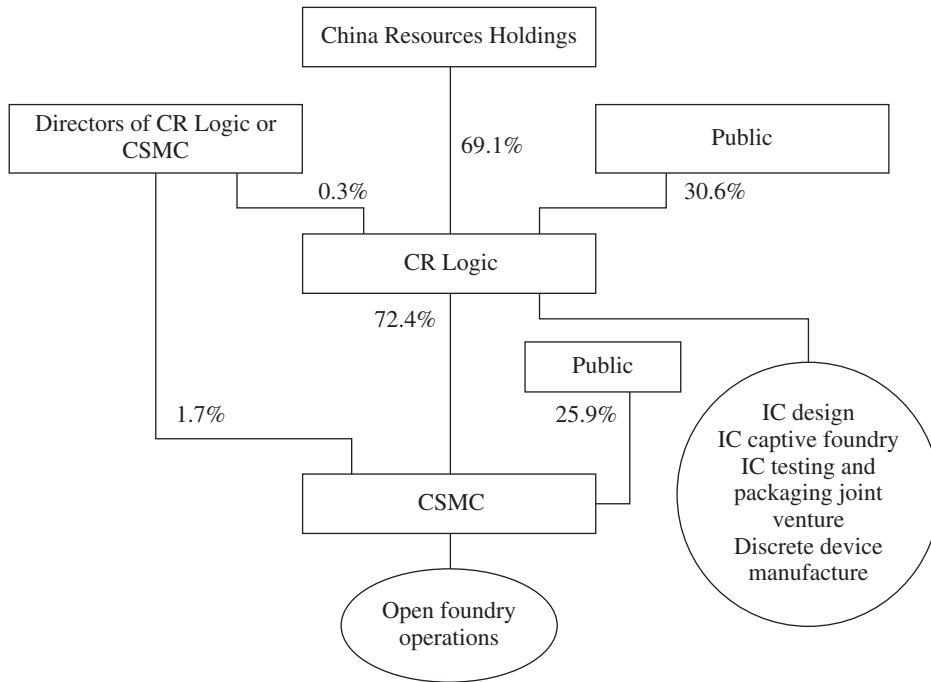
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## LETTER FROM THE BOARD OF CR LOGIC

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### Present shareholding structure of the CR Logic group

The chart below sets out in summary form the shareholding structure and principal activities of the CR Logic group as at the Latest Practicable Date:





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## LETTER FROM THE BOARD OF CR LOGIC

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### **The agreement to dispose the CR Logic Semiconductor group**

- Date of agreement: 4th December, 2007, entered by the contracting parties after trading hours
- Purchaser: CSMC or any wholly-owned subsidiary nominated by it
- Vendors: CR Logic, China Resources Microelectronics (Holdings) Limited and China Resources Semiconductor (International) Limited, the latter two companies being wholly-owned indirect subsidiaries of CR Logic
- Assets to be disposed: The entire issued share capitals of Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited. Following the disposal of these companies, but before the distribution in specie of its equity interest in CSMC and the acquisition of Redland Concrete Limited, CR Logic will hold shareholdings in CSMC and China Resources Semiconductor Company Limited, cash sufficient to discharge all its liabilities which have been accrued but not paid and to repay any residual bank borrowings and unencumbered cash in the amount of approximately HK\$217.7 million.
- Consideration: The issue of a minimum 3,050,581,517 and a maximum of 3,210,167,717 shares in CSMC at an aggregate issue price equal to approximately HK\$1,488.9 million, representing the combined net asset value of the companies being acquired by CSMC based on the management accounts of such companies as at 30th June, 2007 adjusted for the payment of a dividend of approximately HK\$474.4 million. This dividend has been determined as the amount necessary to provide CR Logic with sufficient working capital primarily to (i) repay all outstanding bank borrowings; (ii) have sufficient funds to pay all estimated liabilities accruing up to the completion date; and (iii) pay the cash consideration for the acquisition of Redland Concrete Limited. Such dividend has been declared and is expected to be fully paid on or before 31st January, 2008.

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## LETTER FROM THE BOARD OF CR LOGIC

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The number of shares in CSMC to be issued as consideration in excess of the minimum number will be determined by how many optionholders of CR Logic accept the offer of shares in CSMC in consideration for the cancellation of their options, or exercise their options at such time when the shares in CR Logic falling to be issued to them are entitled to receive the distribution in specie. Such number of shares will be that number which will equal the number of shares in CSMC to be issued to optionholders in consideration for the cancellation of their options and the number of shares in CSMC sufficient to make a distribution to the holders of shares in CR Logic issued on the exercise of their options on the basis of 180 shares in CSMC for every 100 shares in CR Logic held.

The shares in CSMC on allotment and issue will rank *pari passu* in all respects with the existing issued shares in CSMC.

Completion:

Within two weeks of the fulfilment or, if permitted, the waiver of all the conditions to which the proposal is subject or 31st March, 2008, or such other later date as the parties may agree, whichever is earlier.

The activities of the businesses to be acquired by CSMC:

The interests to be acquired under the agreement are those businesses of the CR Logic group, other than China Resources Semiconductor Company Limited, which are engaged in IC design, discrete device manufacture, IC captive foundry operations and the testing and packaging of ICs, which are based in the PRC. These businesses constitute the entire semiconductor operations of CR Logic, excluding those undertaken by China Resources Semiconductor Company Limited and the CSMC group.

### *Basis of consideration*

The consideration was based on an assessment of the relative market prices of shares in CSMC and CR Logic, their attributable profits of their separate businesses, underlying net asset value, financial condition and prospects. The acquisition terms were designed to achieve an equitable basis for both sets of shareholders for the amalgamation of the semiconductor interests of the China Resources group in terms of attributable earnings, underlying net assets and market value and to have no significant impact on the underlying net asset values of the shares in both companies. The effects of the terms of the amalgamation are discussed further in the section headed “Reasons for, and benefits of, the proposal”.

Based on the closing price of the shares in CSMC of HK\$0.68 per share immediately before the publication of the Holding Announcement, the acquisition values the semiconductor businesses of CR Logic at between approximately HK\$2,074.4 million and HK\$2,182.9 million. Based on the closing price of the shares in CSMC of HK\$0.56 per share as at the Latest Practicable Date, the acquisition

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## LETTER FROM THE BOARD OF CR LOGIC

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values the semiconductor business of CR Logic at between approximately HK\$1,708.3 million and HK\$1,797.7 million. Based on the net asset value of the shares in CSMC as at 30th June, 2007 of approximately HK\$0.51 per share, the acquisition values the semiconductor business of CR Logic at between approximately HK\$1,555.8 million and HK\$1,637.2 million. For further financial information of the CR Logic Semiconductor group, please refer to “Financial Information on the CR Logic Semiconductor group” in Appendix I to this composite circular.

### *Financial effect of the disposal of CR Logic’s semiconductor businesses*

As it is not possible to ascertain with complete certainty the issue price of the shares in CSMC to be issued in consideration for the CR Logic Semiconductor group as this will be determined with reference to the aggregate net asset value of the companies to be acquired and the number of shares in CSMC which can only be determined when the shares in CR Logic cease to be entitled to the distribution in specie, it is not possible to give an accurate estimate of any profit or loss arising for CR Logic from the transaction which will be the difference between the net book value of the CR Logic Semiconductor group and the then market value of the consideration shares issued by CSMC. However, to the extent there is a profit arising on the disposal, such profit will not be reported by CR Logic group as the transactions constitutes an intergroup transaction but will form part of the distributable reserves out of which the distribution in specie will be made. The value of the distribution in specie will be determined by the book value of CR Logic’s shareholding in CSMC at the time of distribution. Consequently no profit on disposal, if it were to arise, will be retained or reported by CR Logic following the distribution of the shareholding in CSMC.

After the distribution in specie to the shareholders of CR Logic, their interest in the amalgamated semiconductor businesses shall be held directly through their shareholding in CSMC and CSMC will cease to be a subsidiary of CR Logic. For further financial information of the amalgamated group, please refer to “Unaudited Pro Forma Financial Information of the enlarged CSMC group” in Appendix V to this composite circular.

### *Classification of the disposal of CR Logic’s semiconductor businesses*

The disposal of the semiconductor businesses to CSMC and the distribution in specie of the shareholding interest in CSMC in full to the shareholders of CR Logic under the proposal, if implemented, together with the disposal of compressor business to China Resources group completed during 2007, are viewed by the Stock Exchange as a very substantial disposal for CR Logic. The disposal of the semiconductor businesses to CSMC will be subject to the approval by the shareholders of CR Logic but no shareholders are required to abstain from voting.

### *Conditions in respect of the disposal of CR Logic’s semiconductor businesses*

The conditions precedent for the disposal of CR Logic’s semiconductor businesses include but are not limited to the following:

- the passing by the shareholders of CR Logic of a resolution to approve the disposal of the semiconductor businesses to CSMC;

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## LETTER FROM THE BOARD OF CR LOGIC

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- the passing by the independent shareholders of CSMC, being shareholders other than CR Logic and its associates, of a resolution to approve the acquisition of CR Logic's semiconductor businesses and the resulting continuing connected transaction with votes to be taken by way of poll;
- the passing by the shareholders of CR Logic and CSMC of respective resolutions to approve the cancellation of share options in CR Logic and the allotment of CSMC shares to directors of CR Logic and, or, CSMC who are holders of share options granted by CR Logic, with such directors and their respective associates being required to abstain from voting;
- the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in, the shares to be issued by CSMC in consideration for the acquisition of the semiconductor businesses of CR Logic and in connection with the cancellation of CR Logic's share options; and
- the receipt of all consents and the making of all necessary notifications, as appropriate, regarding the proposal which may be required from or to third parties including any lenders and joint venture partners of CR Logic, the CR Logic Semiconductor group or any lenders of CSMC.

### *Management of the amalgamated group*

The boards of directors of CR Logic and CSMC do not expect the proposal of itself will have any impact on the management and staff of the amalgamated group under CSMC. It is anticipated that changes will be made to the board of CSMC to reflect its status as the holding company of all the China Resources group's semiconductor interests. Changes are also anticipated to the board of CR Logic. All such changes will be announced when they are made.

### **Agreement to acquire Redland Concrete Limited**

Date of agreement:	4th December, 2007, entered by the contracting parties after trading hours
Purchaser:	CR Logic or any wholly-owned subsidiary nominated by it
Vendor:	China Resources Concrete Limited, a wholly owned indirect subsidiary of a member of the China Resources group
Assets to be acquired:	the entire issued voting share capital of Redland Concrete Limited
Consideration:	HK\$217,757,665 payable in cash to be funded by internal resources of CR Logic

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## LETTER FROM THE BOARD OF CR LOGIC

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Completion: Within two weeks of the fulfilment or, if permitted, the waiver of all the conditions to which the proposal is subject or 31st March, 2008, or such later date as the parties may agree, whichever is the earlier

### *Information about Redland Concrete Limited*

The Redland Concrete group commenced business in 1986 and became wholly-owned by the China Resources group in 1999. It formed part of the activities of China Resources Cement Holdings Limited, which was listed on the main board of the Stock Exchange until its privatisation in July 2006.

The principal business of the China Resources group is investment holding and the Redland Concrete group is principally engaged in the production and sale of ready mixed concrete in Hong Kong which is prepared to its customers' specifications either at its own batching plants and then transported by mixer truck or, in the case of larger contracts, at on-site batching plants. Ready mixed concrete represents by far the largest component of its sales and has wide usage in the construction and civil engineering contracting sectors.

In addition to ready mixed concrete, the Redland Concrete group also produces and sells ready mixed mortars both on and off site. The mortars produced include wall plaster mortars, screed mortars, cement sand grout mortar, cement grout mortar, lightweight concrete and lightweight foam concrete. The Redland Concrete group also produces shotcrete, both wet and dry, for use principally in slope stabilisation and excavation support for tunnelling.

The Redland Concrete group's customers are principally construction and civil engineering companies engaged in building and infrastructure works. It also trades cement products to customers in Macau.

The Redland Concrete group presently operates two batching plants in Hong Kong at Yau Tong and Yuen Long. The Redland Concrete group's other batching plant in Chai Wan is not operational. Both these are wet batching plants which mix the cement, aggregates and other chemical admixtures to their customers' specification before being transported to the customers' site. Both aggregate and cement are sourced from a number of suppliers and, in respect of the supply of cement, includes cement produced by members of the China Resources group.

Through its wholly owned subsidiary, Quality Control Consultants Limited, the Redland Concrete group is accredited by The Hong Kong Laboratories Accreditation Scheme to conduct a wide range of tests on a number of construction materials, including concrete, aggregates, cement, steel, mortars and coatings. The services provided include building inspection and structural investigation work, such as quality control and assurance, site monitoring, field surveys, core drilling, site instrumentation and chemical analysis. These services are provided to both in-house and outside customers, including other members of the China Resources group.

### *Basis of consideration*

The consideration was determined by reference to the unaudited consolidated net asset value of Redland Concrete Limited as at 31st October, 2007 of approximately HK\$217.7 million and its

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## LETTER FROM THE BOARD OF CR LOGIC

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financial results in recent years. This consolidated net asset value does not reflect the net deficit of approximately HK\$57.2 million arising from the valuation as at 31st October, 2007 of the properties owned by members of the Redland Concrete group based on an independent professional valuation using a direct comparison approach. The consideration represents a price earning ratio of some 7.6 times based on the audited consolidated net profit of Redland Concrete Limited for the year ended 31st December, 2006.

Under the applicable size tests for notifiable transactions, the acquisition by CR Logic of Redland Concrete Limited is a discloseable transaction for CR Logic. The acquisition is also a connected transaction because the vendor is an indirect subsidiary of China Resources Holdings which is a substantial and controlling shareholder of CR Logic, holding some 69.1% of its issued share capital, and will give rise to a number of continuing connected transactions after the acquisition. Accordingly, it requires the approval of the independent shareholders of CR Logic, being those shareholders other than China Resources Holdings and its associates, as defined by the Listing Rules.

### *Conditions in respect of the acquisition of Redland Concrete Limited*

The conditions precedent for the acquisition of Redland Concrete Limited include but are not limited to the following:

- the completion of the sale and purchase of the semiconductor businesses of CR Logic; and
- the passing by the independent shareholders of CR Logic, being shareholders other than China Resources Holdings and its associates, of a resolution to approve the acquisition of Redland Concrete Limited and certain of the continuing connected transactions that will follow from its acquisition with votes to be taken by way of poll.

### *The performance of Redland Concrete Limited*

The following shows the financial performance of Redland Concrete Limited based on its audited consolidated financial statements for the two financial years ended 31st December, 2006 prepared in accordance with HK GAAP and its unaudited consolidated financial statements for the nine months ended 30th September, 2007.

	<b>Year ended</b>		<b>Nine months</b>
	<b>31st December,</b>		<b>ended 30th</b>
	<b>2005</b>	<b>2006</b>	<b>September,</b>
	<i>(Note 1)</i>		<b>2007</b>
	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>
Turnover	418,625	265,272	252,110
Net profit (loss) before taxation	(24,381)	35,793	43,019
Net profit (loss) after taxation attributable to shareholders	(24,804)	28,747	34,844
Shareholders' funds <i>(Note 2)</i>	247,383	276,129	310,973

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## LETTER FROM THE BOARD OF CR LOGIC

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*Notes:*

- (1) Including the results of Redland Precast Concrete Products Limited and its subsidiaries which have subsequently been sold.
- (2) The consolidated net asset value has been reduced by approximately HK\$102 million by the payment of a dividend of that amount since 30th September, 2007. Further, the consolidated net asset value does not reflect the net deficit on the valuation of the properties of approximately HK\$57.2 million, as described above.

It should also be noted that as at 31st December, 2006 and 30th September, 2007 Redland Concrete Limited had no significant interest bearing liabilities and as at 30th September, 2007 an amount due from its intermediate holding company of approximately HK\$102 million.

*Financial effect of the acquisition of Redland Concrete Limited*

As stated above, the net asset value of Redland Concrete Limited as at 31st October, 2007 was approximately HK\$217.7 million before taking into account of the revaluation deficit of some HK\$57.2 million. The Redland Concrete group has no significant interest bearing liabilities as at the Latest Practicable Date. CR Logic will use internal resources to fund the cash consideration of HK\$217.7 million and there will be no material impact on the net asset value and gearing of CR Logic after such acquisition. Redland Concrete Limited will become a subsidiary of CR Logic and the revenue and profit of the Redland Concrete group will be consolidated under CR Logic.

**Continuing connected transactions for CR Logic**

Redland Concrete Limited and its subsidiaries have entered into a number of related transactions with other members of the China Resources group and these are anticipated to continue following the acquisition of Redland Concrete Limited by CR Logic. All these transactions have been entered into in the usual course of business and are on normal commercial terms after arm's length negotiation. In compliance with the requirements of the Listing Rules the acquisition of Redland Concrete Limited is also conditional upon the approval by the independent shareholders of CR Logic of the continuing connected transactions which are described below.

*Sales of goods to a fellow subsidiary*

The Redland Concrete group sells goods, primarily ready mixed concrete, to China Resources Construction Company Limited, a fellow subsidiary and a member of the China Resources group. It is anticipated that these sales will continue following the acquisition of Redland Concrete Limited by CR Logic.

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## LETTER FROM THE BOARD OF CR LOGIC

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During the past two completed financial years and the nine months ended 30th September, 2007 sales to China Resources Construction Company Limited were as follows:

	<b>Year ended</b>		<b>Nine months</b>
	<b>31st December,</b>		<b>ended 30th</b>
	<b>2005</b>	<b>2006</b>	<b>September,</b>
	<i>HK\$000's</i>	<i>HK\$000's</i>	<b>2007</b>
			<i>HK\$000's</i>
Sales to China Resources Construction Company Limited	17,111	16,526	14,768

The independent shareholders of CR Logic will be asked to approve an annual cap on these sales of HK\$20 million, HK\$22 million and HK\$24 million for the next three financial years ending 2010. The cap has been determined with reference to the prevailing market price and past sales making an allowance for a moderate increase in sales in anticipation of a general growth in the economy and in the construction activity of China Resources Construction Company Limited.

In addition to the requirement to announce this potential non-exempt continuing connected transaction and to obtain independent shareholders' approval under Rule 14A.35, these transactions will be subject to an annual review by the independent non-executive directors and auditors of CR Logic in compliance with Rule 14A.37 and the reporting requirements of Rule 14A.45 of the Listing Rules.

### *Purchases of goods from fellow subsidiaries*

The Redland Concrete group purchases cement and clinker from a number of fellow subsidiaries which are members of the China Resources group, including China Resources Dongguan Cement Manufactory Holdings Limited, Dongguan Huarun Cement Manufactory Co., Ltd. and China Resources Cement (Guigang) Limited, which are engaged in manufacture and sale of cement in the PRC. This is an essential input for ready mix concrete production and to a minor extent for its trading business and these purchases are anticipated to continue following the acquisition of Redland Concrete Limited by CR Logic.

During the past two completed financial years and the nine months ended 30th September, 2007 purchases from fellow subsidiaries of cement by Redland Concrete Limited were as follows:

	<b>Year ended</b>		<b>Nine months</b>
	<b>31st December,</b>		<b>ended 30th</b>
	<b>2005</b>	<b>2006</b>	<b>September,</b>
	<i>HK\$000's</i>	<i>HK\$000's</i>	<b>2007</b>
			<i>HK\$000's</i>
Purchases of cement from fellow subsidiaries	25,856	41,862	46,685



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## LETTER FROM THE BOARD OF CR LOGIC

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The independent shareholders of CR Logic will be asked to approve annual caps on these purchases of HK\$150 million for the 2008 financial year, increasing by 10% in each of the subsequent two financial years to HK\$165 million and HK\$182 million respectively. As can be seen from the tabulation above the amount of purchases have fluctuated markedly as purchases have been determined by reference to availability and price. Since purchases are likely to fluctuate in the future and Redland Concrete group is expected to continue to expand its production and trading business, the base cap has been set at HK\$150 million with reference to the prevailing market price and the possible increases in volume and price for the sale of ready mixed concrete in Hong Kong and Macau.

In addition to the requirement to announce this potential non-exempt continuing connected transaction and to obtain independent shareholders' approval under Rule 14A.35, these transactions will be subject to an annual review by the independent non-executive directors and auditors of CR Logic in compliance with Rule 14A.37 and the reporting requirements of Rule 14A.45 of the Listing Rules.

### *Reasons for the continuing connected transactions*

The Redland Concrete group has a long business relationship with China Resources Construction Company Limited and the directors of CR Logic consider the sales of goods to this customer will continue to generate revenue to CR Logic after the acquisition. In addition, the Redland Concrete group will continue to purchase cement and clinker from fellow subsidiaries as it secures a stable source of quality raw material for its own production and its trading business.

Both of the above continuing connected transactions will be on an on-going basis and constitute non-exempted continuing connected transaction subject to approval of the independent shareholders of CR Logic under Rules 14A.48 of the Listing Rules. China Resources Holdings and its associates are required to abstain from voting on the relevant resolution at the special general meeting of CR Logic.

The directors of CR Logic, including the independent non-executive directors, are of the view that all of the above continuing connected transactions, and the corresponding annual caps set out above are fair and reasonable so far as the shareholders are concerned and are in the interest of CR Logic and its shareholders as a whole.

### **Capital Reorganisation**

The board of directors of CR Logic proposes to effect a capital reorganisation which involves a capital reduction and reduction of share premium in accordance with its bye-laws and all applicable laws, followed by a share consolidation and increase in authorised share capital after the distribution in specie referred to above and discussed further below. Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the new shares of CR Logic on implementation of the capital reorganisation. The capital reorganisation enables CR Logic to have sufficient reserves to distribute in full its CSMC shares in specie and to make further dividend payments in the future. The share consolidation will increase the per share value of shares in CR Logic and the increase in authorised share capital gives it flexibility to issue its shares in the future.

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## LETTER FROM THE BOARD OF CR LOGIC

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### *Capital reduction and reduction of the share premium*

The directors of CR Logic propose to reduce the capital of CR Logic which involves the nominal value of each of the existing shares in issue being reduced from HK\$0.10 to HK\$0.01 by the reduction of HK\$0.09 paid up capital on each existing share. All amounts standing to the credit of the share premium account of CR Logic will be reduced to nil. As at the Latest Practicable Date, there were 2,818,635,425 shares in CR Logic in issue and the share premium based on the unaudited management accounts as at 31st December, 2007 amounted to approximately HK\$1,015 million. The credit arising from the above reduction in capital and share premium will be credited to the contributed surplus account of CR Logic where it may be utilised by the directors in accordance with the bye-laws and all applicable laws, including for distribution of dividends. All issued shares of CR Logic after the capital reduction and share premium reduction will rank pari passu in all respects. The proposed capital and share premium reduction of CR Logic is conditional upon the passing of a special resolution by the shareholders of CR Logic at the special general meeting, and no shareholder is required to abstain from voting on such resolution.

### *Share consolidation*

Following the distribution in specie, the directors of CR Logic propose to consolidate the shares of CR Logic on the basis of one consolidated share in CR Logic of HK\$0.10 for every 10 shares in CR Logic of HK\$0.01. Shortly before the share consolidation becomes effective, a timetable will be announced by CR Logic regarding the arrangements for parallel trading of consolidated shares and matching services by a designated broker. The proposed share consolidation by CR Logic is conditional upon the passing of any ordinary resolution by the shareholders of CR Logic at the special general meeting, and no shareholder is required to abstain from voting on such resolution.

### *Increase in share capital*

Following the share consolidation becoming effective, the directors of CR Logic propose to increase the authorised share capital of CR Logic from HK\$60,000,000 to HK\$1,000,000,000 by the creation of an additional 9,400,000,000 shares of HK\$0.10 each, ranking pari passu in all respects with the existing shares. The directors do not have any present intention to issue any part of the increased share capital. The proposed increase in the authorised share capital of CR Logic is conditional upon the passing of an ordinary resolution by the shareholders of CR Logic at the special general meeting, and no shareholder is required to abstain from voting on such resolution.

### *Effects of the capital reorganisation*

As at the Latest Practicable Date, the authorised share capital of CR Logic was HK\$600,000,000 divided into 6,000,000,000 shares of HK\$0.10 each, of which 2,818,635,425 shares had been issued and fully paid or credited as fully paid. Immediately upon the capital reduction taking effect, the authorised share capital shall be reduced to HK\$60,000,000 by the amount of HK\$540,000,000 comprising 6,000,000,000 shares of HK\$0.01 each. Upon the share consolidation and increase in share capital becoming effective, the par value will be restored to HK\$0.10 and authorised share capital will be HK\$1,000,000,000 comprising 10,000,000,000 consolidated shares of HK\$0.10 each. Other than the expenses to be incurred in relation to the capital reorganisation, the implementation of the capital reorganisation of itself will not alter the underlying assets, net asset value and earnings of the CR Logic group.

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## LETTER FROM THE BOARD OF CR LOGIC

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### *Conditions in respect of the capital reorganisation of CR Logic*

- the agreement for the sale and purchase of the semiconductor businesses of CR Logic and the transactions thereunder having been approved by shareholders of CR Logic and CSMC;
- the passing by the shareholders of CR Logic of a special resolution to approve the capital reduction and share premium reduction and an ordinary resolution to approve the increase in authorised share capital and share consolidation; and
- compliance with all other relevant legal procedures and requirements under the Companies Act 1981 of Bermuda (as amended) to effect the capital reorganisation.

### *Share certificates and arrangements for matching odd lots*

In order to alleviate the difficulties arising from the existence of odd lots of consolidated shares, CR Logic has agreed to procure an arrangement with an agent to stand in the market to provide matching services for the odd lots of consolidated shares on a best efforts basis. Details of such arrangements will be provided in a further announcement to be made by CR Logic upon the share consolidation becoming effective.

Upon implementation of the capital reorganisation, all existing share certificates of CR Logic or any issued shares of CR Logic with reduced nominal value will continue to be evidence of title to the shares of CR Logic and valid for trading, settlement and registration purpose. Upon the share consolidation becoming effective, shareholders may, subject to further announcement, submit certificates to the branch share register of CR Logic in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for exchange at the expense of CR Logic, for certification of consolidated shares. Thereafter, certificates for existing shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate. Nevertheless, certificates for existing shares will continue to be good evidence of legal title and may be exchanged for certificates for consolidated shares at any time.

### **Distribution in specie**

Provided the disposal of the CR Logic Semiconductor group and the acquisition of Redland Concrete Limited become unconditional, it is intended that the distribution in specie to the shareholders of CR Logic, being shares in CSMC held by the CR Logic group on the basis of 180 shares in CSMC for every 100 shares held in CR Logic and so in proportion for any greater or lesser number of shares held, will be made as soon as practicable after the capital and share premium reduction set out above are effected. No fraction of a share will be issued. The shares to be issued by CSMC as consideration for acquiring the semiconductor businesses from CR Logic will be directed to be issued to shareholders of CR Logic who are entitled to receive the distribution in specie. In the event that CR Logic holds any shares in CSMC after the distribution in specie, these will be sold.

If, however, the acquisition of Redland Concrete Limited does not become unconditional, CR Logic will effect the distribution in specie in such other ratio to be determined by the board of

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## LETTER FROM THE BOARD OF CR LOGIC

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directors of CR Logic as appropriate in order to maintain at all times a 25% public float in CSMC to warrant the maintenance of its listing and the continuation of trading in its shares on the Stock Exchange. It will result in CR Logic having tangible assets, including cash, a controlling interest in CSMC and the 4 inch wafer fab in Tai Po and CSMC will remain as a subsidiary of CR Logic with its financial statement being consolidated under CR Logic. Please refer to page 35 on the shareholding structure of CSMC after the distribution in specie.

The proposed distribution in specie is conditional upon the capital reduction and reduction of share premium by CR Logic taking effect, and the passing of an ordinary resolution by the shareholders of CR Logic at the special general meeting, and no shareholder is required to abstain from voting on such resolution.

*Record date for entitlement to the distribution in specie*

**In the event that the relevant resolutions are approved at the special general meeting, in order to establish entitlement to the distribution in specie, the register of members of the CR Logic will be closed from 19th February, 2008 to 22nd February, 2008, both days inclusive, or such other date(s) as may be notified to the shareholders by way of an announcement.** In order to qualify for the distribution in specie, all completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of CR Logic in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 18th February, 2008. The record date for the distribution in specie will be on 22nd February, 2008.

*Overseas shareholders*

The shares in CSMC to be distributed will not be transferred to, and certificates in respect of the such shares will not be despatched to, overseas shareholders in the event that the board of directors of CR Logic, upon making enquiry, considers such exclusion to be necessary or expedient on account of either legal restrictions under the laws of the relevant place where those overseas shareholders are located or the requirements of the relevant regulatory body or stock exchange in those places. Accordingly, certain overseas shareholders may not receive the distribution in specie. Instead, arrangements will be made for the shares in CSMC which will otherwise have been transferred to such overseas shareholders to be sold in the market and for the proceeds of such sale to be paid to such shareholders.

*Despatch of share certificates*

Subject to the proposal being approved, the share certificates of CSMC in respect of the shares in CSMC to be distributed by way of the dividend in specie are currently expected to be despatched to the shareholders of CR Logic on or before 29th February, 2008. The share certificates will be sent by ordinary mail to the shareholders whose names appear on the register of members of CR Logic on the record date to their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the register of members of CR Logic in respect of the joint holding. All such share certificates will be sent at the risk of the persons entitled thereto and CR Logic will not be liable for any loss or delay in transmission.

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## LETTER FROM THE BOARD OF CR LOGIC

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### *Taxation*

The shareholders of CR Logic, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the proposal and, in particular, whether the receipt of the distribution in specie would make such shareholder liable to taxation in Hong Kong or in other jurisdictions.

### **The termination of CR Logic's employee share option scheme and cancellation of outstanding options**

Since substantially all of the employees of the CR Logic group will become employees of the CSMC group after the implementation of the proposal and CR Logic will no longer be engaged in the semiconductor business once the future of China Resources Semiconductor Company Limited has been settled, it is proposed subject to the agreement of the relevant employees to cancel their outstanding options granted under the existing and past employee share option schemes of CR Logic and to terminate its existing share option scheme. There are 67,551,000 outstanding share options as at the Latest Practicable Date with exercise prices ranging from HK\$0.479 to HK\$0.92 per share and 15,830,000 of these share options were held by the directors of CR Logic and, or, CSMC.

The consideration for the cancellation of the CR Logic options will be in new CSMC shares. The number of CSMC shares to be allotted and issued as consideration for such cancellation will be calculated by:

- converting the number of shares which fall to be issued under the options into the equivalent number of CSMC shares using the ratio of shares in CSMC to be distributed to the shareholders of CR Logic by way of the proposed distribution in specie;
- valuing each optionholder's options by multiplying the number of CSMC shares, as calculated above, by the "see-through" price of each option being the issue price of the shares in CSMC, calculated by taking its average share price on the last ten trading days before trading was suspended pending the publication of the Holding Announcement, being HK\$0.694 per share in CSMC, less the option price divided by the proposed distribution ratio for the distribution in specie, and adding to that the sum of HK\$0.089, being the approximate net asset value of CR Logic per share after the implementation of the proposal, multiplied by the number of shares in CR Logic which fall to be issued on exercise of such shareholder's options; and
- dividing the aggregate value of each optionholder's options, as calculated above and provided it is positive, by HK\$0.694 to compute the number of CSMC shares, rounded down to the nearest whole number of shares, which will be issued in consideration for the cancellation of each optionholder's options.

It is estimated that, provided all the optionholders as at the date of the Holding Announcement agree to the cancellation of their options, 78,222,686 shares in CSMC will be issued in consideration for the cancellation of all the outstanding options of CR Logic granted under its present and past employee share option schemes. If none of the optionholders as at the date of the Holding

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## LETTER FROM THE BOARD OF CR LOGIC

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Announcement accept the offer for their options but instead exercise their options before the shares in CR Logic cease to be entitled to the distribution in specie, this will result in 3,210,167,717 shares in CSMC being issued, representing the maximum number of shares to be issued by CSMC in consideration for the acquisition of the semiconductor businesses of CR Logic. All amounts received on the exercise of options during the period when the shares in CR Logic are cum-entitlement to the distribution in specie will be retained by the CR Logic Semiconductor group. The last day for the optionholders of CR Logic to accept the cancellation offer is at 4:00 p.m. on 14th February, 2008, which is also the last day of dealings in the shares of CR Logic on cum-entitlement basis.

Any options which are not cancelled, as described above, or exercised during the period when the shares in CR Logic are cum-entitlement to the distribution in specie will remain outstanding but the exercise price will be adjusted in accordance with the terms of the employee share option schemes to take account of the effect of the distribution in specie and the share consolidation on the value of shares in CR Logic.

The cancellation of the options granted under the CR Logic employee share option schemes is conditional upon the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in, the shares in CSMC which will be issued in consideration for the cancellation of the options, and the completion of the sale and purchase of CR Logic's semiconductor businesses. Shares of CSMC will be allotted to accepting optionholders at the same time when the distribution in specie is made to the shareholders of CR Logic.

Optionholders of CR Logic, whether in Hong Kong or in other jurisdiction, are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the exercise and, or, cancellation of the outstanding options, in particular, whether the receipt of CSMC shares as consideration for cancellation of their options would make such optionholder liable to taxation in Hong Kong or in other jurisdictions.

### *Reasons for the termination of share option scheme of CR Logic and cancellation of outstanding share options*

Substantially all of the employees of the CR Logic group will effectively become employees of the CSMC group after the implementation of the proposal and it is expected that CSMC will cease to be a subsidiary of CR Logic after the distribution of CSMC shares in full. CR Logic will cease to be engaged in the semiconductor business and will instead be engaged primarily in the supply of ready mixed concrete. The boards of directors of both CR Logic and CSMC consider that contribution from the existing employees of the CR Logic group should not be neglected after the amalgamation of businesses. Accordingly existing optionholders are being given this opportunity to determine their options in a manner which will result in them holding shares in CSMC, the holding company of the amalgamated semiconductor group for which they will be working. The calculation of the value of their options takes into account the terms of the proposal and the market price of the shares in CSMC prevailing at the time the proposal was announced.

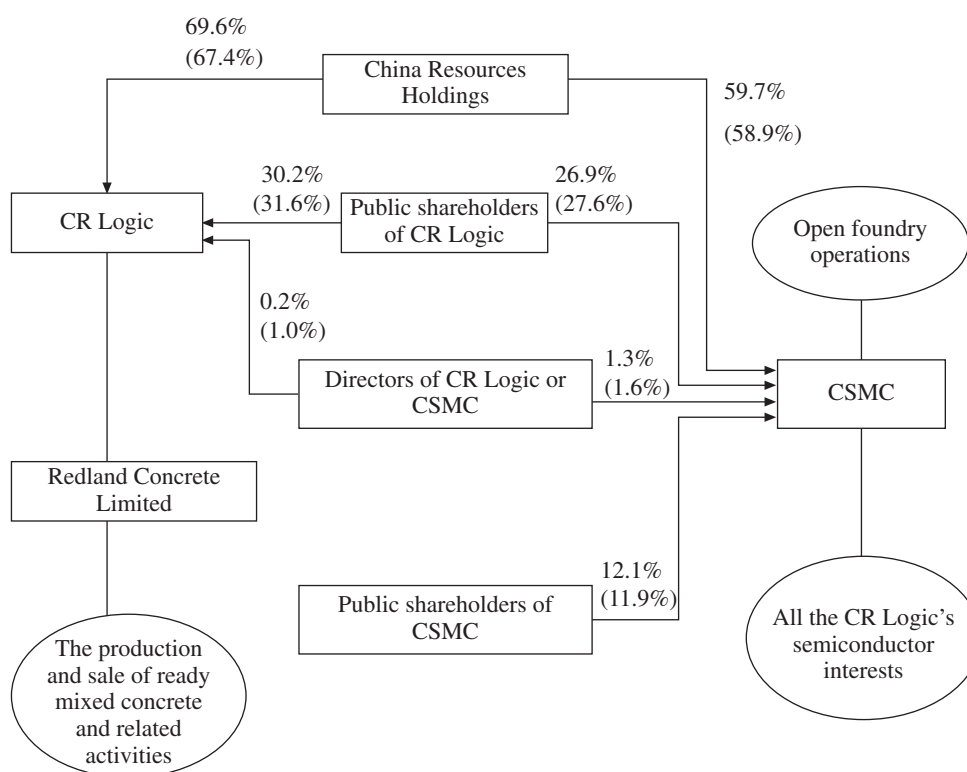
The offer to those directors of CR Logic who are optionholders for the cancellation of their share options constitutes a connected transaction for CR Logic. As the cancellation of share options will involve CSMC allotting its shares to the directors of CSMC who are also holders of the share options,

## LETTER FROM THE BOARD OF CR LOGIC

such allotment constitutes a connected transaction for CSMC. The share option cancellation by allotment of CSMC shares to directors of CR Logic and, or, CSMC who are holders of share option requires the approval of the respective independent shareholders of CR Logic and CSMC with such directors and their respective associates being required to abstain from voting.

### The expected shareholding structure of CR Logic and the CSMC group after the implementation of the proposal and the cancellation in full of the existing CR Logic share options

Based on the shareholding structure as at the date of the Holding Announcement, the chart below sets out in summary form the shareholding structure of CR Logic and the CSMC group and the principal activities of each after the implementation of the proposal, the sale and, or closure of China Resources Semiconductor Company Limited and the cancellation in full of all outstanding CR Logic options:



*Note:* The figures in parenthesis are the shareholdings calculated on the basis that no optionholder accepts the offer to cancel his options and all optionholders exercise their options to subscribe for shares in CR Logic at a time when such shares are entitled to receive the distribution in specie.

### Reasons for, and benefits of, the proposal

The respective boards of directors of CR Logic and CSMC believe it is in the interests of both companies that their respective semiconductor businesses are amalgamated under one listed company which holds all the China Resources group's interests in this sector. The amalgamated group will have a broad spread of interests within the sector from its own IC design to open foundry operations for the group and outside customers. This is expected to provide for a greater stability of earnings and

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## LETTER FROM THE BOARD OF CR LOGIC

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greater financial resources to fund expansion. As all its major operations will be wholly-owned, it will give the amalgamated group much greater flexibility in deploying its existing resources and discretionary cashflows. It is also anticipated that there will be rationalisation benefits arising from a closer cooperation between the foundry operations of CR Logic and CSMC. Both sets of public shareholders will have an investment in a larger capitalised company which should provide a more liquid investment and consequently one which attracts greater investor attention.

Based on the past performance of CR Logic's semiconductor business when compared to CSMC for the financial years ended 31st December, 2005 and 2006 and for the six months ended 30th June, 2007, it can be expected that the terms of the proposal, had it been implemented with effect from 1st January, 2005 and CSMC had been a member of the CR Logic group throughout this period, would have resulted in an increase in the earnings attributable to CSMC shareholders. The pro forma statements of the enlarged CSMC group as set out in Appendix V to this composite circular show profit attributable to equity holders for the nine months ended 30th September, 2007 was approximately HK\$158.5 million and the pro forma earning per share of the enlarged CSMC group was approximately HK\$0.027 calculated on the assumption that maximum number of CSMC shares were issued to CR Logic for the acquisition of its semiconductor businesses. Such earning per share for the enlarged CSMC group was approximately the same as the earnings per share of CSMC for the nine months ended 30th September, 2007 of US cent 0.35, equivalent to approximately HK\$0.027. It is not anticipated that the amalgamation will result in a significant dilution in underlying net asset value per share for the shareholders of either CR Logic or CSMC.

As previously mentioned the decision has been taken to sell and, or close down the 4 inch wafer fab operation of China Resources Semiconductor Company Limited, a wholly-owned indirect subsidiary of CR Logic. Based on the unaudited management accounts as at 30th September, 2007, the operation is loss-making, although it has sufficient cash on hand and generates sufficient cashflow to fund its operations without recourse to other members of the CR Logic group. As at 30th September, 2007, based on its management accounts, its shareholders' funds amounted to approximately HK\$110.8 million. A provision of HK\$65 million has been made in its books as at 31st December, 2007 to cater for possible losses arising from the closure and, or, sale of this operation. Up to 31st December, 2007, 126 employees have been laid off and further lay-off are anticipated in early 2008. The negotiation to dispose a viable part of this operation is on-going.

The implementation of the proposal in full will result in CR Logic acquiring the entire issued voting share capital of Redland Concrete Limited which represents substantially all of the China Resources group's interests in the building materials sector in Hong Kong. Redland Concrete Limited is a subsidiary of China Resources Cement Holdings Limited, the listing of whose shares on the main board of the Stock Exchange was withdrawn on 26th July, 2006, and has a long record of supplying the Hong Kong market with ready mixed concrete and related products and services. In line with the improvement in the local economy and increased building activity, its profits have shown a marked recovery since 2005. The board of CR Logic considers investment in Redland Concrete Limited provide diversification of the CR Logic group business in a sector with favourable prospects. China Resources group considers that the listed platform of its subsidiary, CR Logic, will strengthen the ability of Redland Concrete Limited to raise further financing to take advantage of revived market conditions. Both CR Logic and the China Resources group expect that the latest Policy Address by the Chief Executive of the Hong Kong SAR Government on 10th October, 2007 regarding the "10



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## LETTER FROM THE BOARD OF CR LOGIC

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Infrastructure projects” will further benefit the building material industry as a whole in Hong Kong. CR Logic will explore opportunities to expand its business operations, however, no proposals in this regard are under consideration and no decision will be made until after the implementation of the proposal.

The board of directors of CR Logic, including its independent non-executive directors, are of the view that the proposal is fair and reasonable so far as its shareholders are concerned and are in the interest of CR Logic and its shareholders as a whole.

### **Future prospectus of the remaining CR Logic group**

CR Logic is an investment holding company which, as described above, holds primarily interests in businesses engaged in the semiconductor industry, including IC design, discrete device manufacture, IC captive foundry operations and the testing and packaging of ICs, all of which are based in the PRC, with the exception of China Resources Semiconductor Company Limited’s operation in Tai Po.

The semiconductor business has continued to improve its performance during the first half of 2007 with revenue hitting HK\$1,330 million, representing an increase of 72% over the previous corresponding period’s HK\$771 million. This has provided the CR Logic group with a solid foundation to expand its operations in a market which continues to sustain strong growth. The ownership of the semiconductor businesses of the China Resources group by a single listed holding company is expected to assist the amalgamated group in maintaining a leading position in the mature technology IC market segment in the PRC with a strong positions in manufacturing and packaging analogue ICs and discrete devices in addition to operating a fabless design house and providing open foundry service technology.

The performance of compressor business of the CR Logic group for the first half of 2007 was less satisfactory due to excess production capacity in the industry and rising raw material costs. The CR Logic group sold its compressor business in August 2007.

The implementation of the proposal in full will result in CR Logic acquiring the entire issued voting share capital of Redland Concrete Limited and the distribution in specie of its entire interest in semiconductor businesses, other than the Tai Po plant which will be closed down and, or sold. Redland Concrete Limited is a subsidiary of China Resources Cement Holdings Limited, which represents substantially all of the China Resources group’s interests in the building materials sector in Hong Kong and Macau, has a long record of supplying the Hong Kong market with ready mixed concrete and related products and services. The Redland Concrete group recovered from a loss in 2005 to record a net profit of approximately HK\$28.7 million in 2006. With the continued recovery of the local property market and steady growth of construction projects in Hong Kong, it is expected that performance of the Redland Concrete group will improved further.

### **Financial information on the remaining CR Logic group**

The 2007 interim report of CR Logic showed attributable net profit for the six months ended 30th June, 2007 of approximately HK\$111.3 million with net assets attributable to equity holders of

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## LETTER FROM THE BOARD OF CR LOGIC

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approximately HK\$2,949.7 million. The principal contributions to profit and net assets were the CR Logic group's compressor and semiconductor businesses. The compressor business was sold during August 2007 and upon implementation of the proposal in full, substantially all the semiconductor businesses of CR Logic will be amalgamated under CSMC. As the Tai Po plant which will be sold and, or closed down, the CR Logic group will be engaged primarily the production and supply of ready mixed concrete and related activities through the Redland Concrete group. Based on its unaudited management accounts as at 31st October, 2007, the consolidated net asset value of Redland Concrete Limited was approximately HK\$217.7 million. Its attributable net profit for the nine months ended 30th September, 2007 amounted to some HK\$34.8 million.

With the disposal of Redland Precast Concrete Products Limited in 2005 and the improved market environment, Redland Concrete Limited recovered from a loss of approximately HK\$24.8 million in 2005 to a net profit of approximately HK\$28.7 million in 2006. Redland Concrete Limited transacts substantially all of its business in Hong Kong dollars and therefore exposure to fluctuations in exchange rates is minimal. The Redland Concrete group has no significant interest bearing liabilities or material capital expenditure commitments as at the Latest Practicable Date. None of the assets of the Redland Concrete group are charged or encumbered and it has no material contingent liabilities as at the Latest Practicable Date. As at 31st October 2007, Redland Concrete Limited had no borrowing. At that date it employed 136 people.

For further financial information on the remaining CR Logic group, please refer to "Unaudited Pro Forma Financial Information on the remaining CR Logic group" in Appendix IV to this composite circular.

### GENERAL

Set out on pages N-1 to N-5 of this composite circular is a notice convening the special general meeting of CR Logic to be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February, 2008 at 2:00 p.m. at which resolutions will be proposed to approve, if thought fit (i) the disposal of semiconductor businesses of CR Logic to CSMC; (ii) the acquisition of Redland Concrete Limited and the continuing connected transactions arising therefrom; (iii) the capital reorganisation, including the reduction of capital and share premium, share consolidation and increase in authorised capital; and (iv) cancellation of the outstanding share options held by directors of CR Logic.

A form of proxy for use by the shareholders at the special general meeting is enclosed. Shareholders are advised to read the notice and to complete the accompanying white form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of CR Logic in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

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## LETTER FROM THE BOARD OF CR LOGIC

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### RECOMMENDATION

The directors of CR Logic consider the amalgamation proposal, the acquisition of Redland Concrete Limited and certain continuing connected transactions after such acquisition, the capital reorganisation and the cancellation of share options are on normal commercial terms and that such terms are fair and reasonable and in the interest of CR Logic and its shareholders as a whole. Accordingly, the directors of CR Logic recommend the shareholders of CR Logic to vote in favour of the resolutions to be proposed in the special general meeting.

Your attention is drawn to the recommendation of the independent board committees of CR Logic as set out on pages 41 to 42 to this composite circular and the letters from CIMB-GK Securities (HK) Limited as set out on pages 43 to 52.

### FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this composite circular and in the appendices to it.

Yours faithfully,  
For and on behalf of  
**China Resources Logic Limited**  
**Zhu Jinkun**  
*Chairman*

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LETTER FROM THE BOARD OF CSMC

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華潤上華科技有限公司\*  
**CSMC TECHNOLOGIES CORPORATION**  
*(incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 597)**

*Executive Directors:*

CHEN Cheng-yu, Peter (*Chairman*)  
DENG Mao-song, Elvis

*Non-executive Directors:*

ZHU Jinkun  
WANG Guoping  
ONG Thiam Kin  
YU Yu  
CHEN Nan-xiang

*Independent Non-executive Directors:*

Kum Loon OON  
Mark HSUE Chi Nan  
Ralph Sytze YBEMA

*Registered Office:*

Scotia Center, P.O. Box 2804  
George Town, Grand Cayman  
Cayman Island  
British West Indies

*Principal Place of Business:*

No. 14 Liangxi Road  
Wuxi, Jiangsu  
214061  
China

16th January, 2008

*To the shareholders of CSMC*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Further to the publication of the Holding Announcement on 28th November, 2007 regarding the principal terms of the amalgamation proposal and capital reorganisation, the respective boards of directors of CR Logic and CSMC announced on 4th December, 2007 a proposal, which, if implemented, will result in the amalgamation of both companies' semiconductor businesses under CSMC. Under all size tests for notifiable transactions under the Listing Rules, the acquisition of semiconductor businesses of CR Logic constitutes a very substantial acquisition for CSMC. As CR Logic is the holding company and substantial shareholder of CSMC, holding some 72.4% of its issued share capital, it is also a connected transaction for CSMC and will give rise to a non-exempt continuing connected transaction for CSMC following completion of such acquisition which required the approval of independent shareholders, being shareholders other than CR Logic and its associates, as defined by the Listing Rules.

*\* for identification purpose only*

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## LETTER FROM THE BOARD OF CSMC

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Once the proposal is implemented, substantially all of the employees of the CR Logic group will become employees of the CSMC group and CR Logic will no longer be engaged in the semiconductor business. It is proposed subject to the agreement of the relevant employees to cancel their outstanding options granted under the existing and past employee share option schemes of CR Logic by allotment of CSMC shares. All existing optionholders, including some of the directors of CR Logic and, or, CSMC, will be offered shares in CSMC in consideration for the cancellation of their share options. As the cancellation of share options will involve CSMC allotting its shares to the directors of CSMC who are also optionholders, namely Mr. Zhu Jinkun, Mr. Wang Guoping, Mr. Ong Thiam Kin and Mr. Yu Yu, such allotment constitutes a connected transaction for CSMC.

The purpose of this composite circular is to provide the shareholders of CSMC with further information about the amalgamation proposal and give notice to all shareholders of the extraordinary general meeting at which resolutions will be proposed for the purpose of, amongst other things, approving the acquisition of semiconductor businesses of CR Logic and a continuing connected transaction following such acquisition, allotment of CSMC shares as consideration if optionholders of CR Logic, including directors of CSMC, accept the cancellation of their share options and change of company name of CSMC. This composite circular also contains advice from KGI Capital Asia Limited to the independent board committee and the independent shareholders of CSMC and the recommendation of the independent board committee of CSMC which has been formed to advise the independent shareholders of CSMC.

### AMALGAMATION PROPOSAL

#### **The agreement to acquire the semiconductor businesses of CR Logic**

Date of agreement:	4th December, 2007, entered by the contracting parties after trading hours
Purchaser:	CSMC or any wholly-owned subsidiary nominated by it
Vendors:	CR Logic, China Resources Microelectronics (Holdings) Limited and China Resources Semiconductor (International) Limited, the latter two companies being wholly-owned indirect subsidiaries of CR Logic
Assets to be acquired:	The entire issued share capitals of Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited. These companies will become subsidiaries of the CSMC group upon completion of the acquisition.

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## LETTER FROM THE BOARD OF CSMC

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- Consideration: The issue of a minimum 3,050,581,517 and a maximum of 3,210,167,717 shares in CSMC at an aggregate issue price equal to approximately HK\$1,488.9 million, representing the combined net asset value of the companies being acquired by CSMC based on the management accounts of such companies as at 30th June, 2007 adjusted for the payment of a dividend of approximately HK\$474.4 million. Such dividend has been declared and is expected to be fully paid on or before 31st January, 2008.
- The number of shares in CSMC to be issued as consideration in excess of the minimum number will be determined by how many optionholders of CR Logic accept the offer of shares in CSMC in consideration for the cancellation of their options, or exercise their options at such time when the shares in CR Logic falling to be issued to them are entitled to receive the distribution in specie. Such number of shares will be that number which will equal the number of shares in CSMC to be issued to optionholders in consideration for the cancellation of their options and the number of shares in CSMC sufficient to make a distribution to the holders of shares in CR Logic issued on the exercise of their options on the basis of 180 shares in CSMC for every 100 shares in CR Logic held.
- The shares in CSMC on allotment and issue will rank *pari passu* in all respects with the existing issued shares in CSMC.
- Completion: Within two weeks of the fulfilment or, if permitted, the waiver of all the conditions to which the proposal is subject or 31st March, 2008, or such other later date as the parties may agree, whichever is earlier.
- The activities of the businesses to be acquired by CSMC: The interests to be acquired under the agreement are those businesses of the CR Logic group, other than China Resources Semiconductor Company Limited, which are engaged in IC design, discrete device manufacture, IC captive foundry operations and the testing and packaging of ICs, which are based in the PRC. These businesses constitute the entire semiconductor operations of CR Logic, excluding those undertaken by China Resources Semiconductor Company Limited and the CSMC group.

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## LETTER FROM THE BOARD OF CSMC

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### *Basis of consideration*

The consideration was based on an assessment of the relative market prices of shares in CSMC and CR Logic, their attributable profits of their separate businesses, underlying net asset value, financial condition and prospects. The acquisition terms were designed to achieve an equitable basis for both sets of shareholders for the amalgamation of the semiconductor interests of the China Resources group in terms of attributable earnings, underlying net assets and market value and to have no significant impact on the underlying net asset values of the shares in both companies. CSMC will apply to the Listing Committee of the Stock Exchange for the granting of listing or, and permission to deal in, the consideration shares on the Stock Exchange. The effects of the terms of the amalgamation are discussed further in the section headed “Reasons for, and benefits of, the proposal”.

Based on the closing price of the shares in CSMC of HK\$0.68 per share immediately before the publication of the Holding Announcement, the acquisition values the semiconductor business of CR Logic at between approximately HK\$2,074.4 million and HK\$2,182.9 million. Based on the closing price of the shares in CSMC of HK\$0.56 per share as at the Latest Practicable Date, the acquisition values the semiconductor business of CR Logic at between approximately HK\$1,708.3 million and HK\$1,797.7 million. Based on the net asset value of the shares in CSMC as at 30th June, 2007 of approximately HK\$0.51 per share, the acquisition values the semiconductor business of CR Logic at between approximately HK\$1,555.8 million and HK\$1,637.2 million.

### *Conditions in respect of the acquisition of CR Logic’s semiconductor businesses*

The conditions precedent for the acquisition of CR Logic’s semiconductor businesses include but are not limited to the following:

- the passing by the shareholders of CR Logic of a resolution to approve the disposal of semiconductor businesses to CSMC;
- the passing by the independent shareholders of CSMC, being shareholders other than CR Logic and its associates, of a resolution to approve the acquisition of CR Logic’s semiconductor businesses and the resulting continuing connected transaction with votes to be taken by way of poll;
- the passing by the shareholders of CR Logic and CSMC of respective resolutions to approve the cancellation of share options in CR Logic and the allotment of CSMC shares to directors of CR Logic and, or, CSMC who are holders of share options granted by CR Logic, with such directors and their respective associates being required to abstain from voting;
- the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in, the shares to be issued by CSMC in consideration for the acquisition of the semiconductor businesses of CR Logic and in connection with the cancellation of CR Logic’s share options; and

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## LETTER FROM THE BOARD OF CSMC

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- the receipt of all consents and the making of all necessary notifications, as appropriate, regarding the proposal which may be required from or to third parties including any lenders and joint venture partners of CR Logic, the CR Logic Semiconductor group or any lenders of CSMC.

### **Information about the semiconductor businesses of CR Logic**

CR Logic is one of the largest participants in the PRC semiconductor industry. It has become a leading supplier of analogue ICs and discrete device components for the PRC consumer electronic manufacturing industry by capitalising on the PRC's eminent position as the global manufacturing powerhouse and its burgeoning domestic market.

The semiconductor businesses of CR Logic include IC design, IC captive foundry, IC testing and packaging and discrete device manufacture operations.

#### *IC design*

This operation is principally carried out by Wuxi China Resources Semico Co., Ltd., CR PowTech (Shanghai) Limited, and InPower Semiconductor (Wuxi) Co., Ltd. These companies are engaged in the design and development of micro-controller units and audio and video processing SoC (System on a Chip) ICs, power management ICs and high power discrete devices applied in consumer electronic products such as televisions, Hi-Fis, DVDs and MP3 players, game consoles, telecommunication devices and voice synthesisers.

#### *IC captive foundry operation*

Wuxi CR Semiconductor Wafers & Chips Ltd., a wholly-owned subsidiary of CR Logic, operates a 6 inch wafer fabrication line. This company has a production capacity of 30,000 wafers per month and 0.5 $\mu$ m capability. It provides various technical platforms including bipolar, BiCMOS (Bipolar Complementary Metal-Oxide-Semiconductors) and BCD (Bipolar Complementary Double Diffused Metal-Oxide-Semiconductors) platforms for both its in-house and outside customers.

#### *IC testing and packaging operation*

This operation is carried out by Wuxi CR Micro-Assemb Tech. Ltd., a joint venture with STATS ChipPAC Ltd., a leading global IC assembly and testing foundry operator. As one of the major enterprises engaged in IC testing and packaging in the PRC, the joint venture principally provides services for internationally well-known enterprises with its advanced wire bond packaging testing technology and has a packaging capacity of 2.5 billion wires per month.

#### *Discrete device manufacture*

Wuxi China Resources Huajing Microelectronics Co., Ltd., a wholly-owned subsidiary of CR Logic, is a leader in the development and manufacture of power semiconductor discrete devices in the PRC. This company has an annual capacity of 1.5 million 4-6 inch wafers for discrete devices and is a major supplier of discrete device wafers and finished products in a number of growing sectors in the PRC, including energy saving lighting, home appliances and industrial control devices.



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## LETTER FROM THE BOARD OF CSMC

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### The performance of the semiconductor businesses of CR Logic to be acquired by CSMC

The following shows the financial performance on a combined basis of the semiconductor businesses to be acquired by CSMC based on the audited or unaudited financial statements of the companies which comprise the semiconductor business of CR Logic prepared in accordance with HK GAAP for the two financial years ended 31st December, 2005 and 2006 and for the six months ended 30th June, 2007 and nine months ended 30th September, 2007:

	Year ended		Six months	Nine month
	31st December,	31st December,	ended	ended
	2005	2006	30th June,	30th September,
	2005	2006	2007	2007
	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>
Turnover	1,388,666	1,684,143	917,744	1,500,418
Profit before taxation ( <i>Note 1</i> )	148,995	176,683	97,377	109,764
Profit after taxation attributable to shareholders ( <i>Note 1</i> )	146,509	158,922	96,178	103,380
Net attributable assets ( <i>Note 2</i> )	1,071,503	1,814,757	1,963,307	1,964,033

*Notes:*

- 1) No account has been taken in the tabulation above of unallocated interest costs and office expenses of CR Logic and China Resources Microelectronics (Holdings) Limited which are as follows:

	Year ended		Six months	Nine months
	31st December,	31st December,	ended	ended
	2005	2006	30th June,	30th September,
	2005	2006	2007	2007
	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>
Unallocated interest expenses	33,830	41,647	17,604	23,115
Head office expenses	20,655	22,449	9,187	17,999

- 2) As mentioned above, the proposal requires CR Logic to be paid dividends by the companies to be sold to CSMC amounting in aggregate to approximately HK\$474.4 million.

For further financial information of the semiconductor businesses of CR Logic, please refer to "Financial information on the CR Logic Semiconductor group" in Appendix I to this composite circular.

### Financial effect of the acquisition of CR Logic's semiconductor businesses

As it is not possible to ascertain with complete certainty the issue price of the shares in CSMC to be issued in consideration for the CR Logic Semiconductor group as this will be determined with reference to the aggregate net asset value of the companies to be acquired and the number of shares

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## LETTER FROM THE BOARD OF CSMC

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in CSMC which can only be determined when they cease to be entitled to the distribution in specie, it is not possible to give an accurate estimate of any profit or loss arising for CSMC from the transaction which will be the difference between the net book value of the CR Logic Semiconductors group and the then market value of the consideration share issued by CSMC.

### *Business review and future prospects of the CSMC group*

CSMC is an investment holding company which through subsidiary companies owns what is believed to be the largest 6 inch open foundry operation as measured by production capacity in the PRC. Its foundries are located in Wuxi, Jiangsu Province and Beijing with a total manufacturing capacity of approximately 80,000 wafers per month. All the existing open foundry service businesses will be injected into a new wholly-owned subsidiary of CSMC so that each operation of the China Resources group's semiconductor businesses such as IC design, IC captive foundry and discrete device manufacture, open foundry service and testing and packaging services will remain distinct from one another and operate independently. The amalgamated group will have a broad spread of interests within the sector from its own IC design to open foundry operations for the group and outside customers.

The businesses of CR Logic Semiconductor group to be acquired by CSMC includes a number of growing businesses with leading positions in their respective sectors in the semiconductor industry in the PRC. For example CR Logic's discrete device manufacture business is one of the largest and most profitable in China and its IC design operation ranks sixth in China in terms of turnover for the year 2006. These operations are expected to continue registering growth in 2008 as a result of the rapid growth in the PRC semiconductor market.

CR Logic's IC captive foundry operation, with a capacity of 30,000 wafers per month, is entering its fourth year of production and expects to achieve greater capacity utilisation and operating efficiencies. In common with foundry operations in the semiconductor industry, this production line incurred losses as capacity utilisation was being progressively increased from a low initial base when its operations commenced. The order book for this operation looks encouraging for 2008 with the indication of greater orders from one of its major international customers. In respect of this operation, capacity is expected to be fully utilised in 2008.

CR Logic's IC testing and packaging operation entered into a joint venture with STATS ChipPAC Ltd of Singapore in 2006. Operating losses have been incurred since then due to cost outlays associated with the initial process of transferring higher value-added equipment and customers from STATS ChipPAC Ltd. This transfer process is entering its final phase and is expected to be completed in 2008, which is expected to result in this operation to make positive contribution to the group.

Overall, it is expected that the addition of CR Logic's semiconductor businesses, a number of which are emerging from early stages of development holding the prospect of substantial improvements in capacity utilisation, will broaden and strengthen the operating base of the CSMC group and will further enhance its leading position as one of the largest and most profitable domestic operators in the PRC semiconductor industry.

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## LETTER FROM THE BOARD OF CSMC

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As stated in an announcement made by CSMC dated 5th September, 2007, the board of directors of CSMC decided not to purchase manufacturing equipment from an independent third party in view of the uncertainties in the capital market and economic conditions of the global markets at that time. However, China Resources Holdings has advised CSMC that it entered into a conditional agreement with that independent third party to acquire the relevant equipment instead. In response CSMC announced that it would continue to monitor economic and market conditions and the board of CSMC would review, and if it thought it appropriate, put forward to China Resources Holdings proposals concerning the ownership and, or, use of the equipment. Further to that announcement, more detailed consideration has been given to this matter by CSMC and consideration is being given to possible arrangements which, if implemented, are likely to result in CSMC owning a stake in the equipment and, or, managing its operations as CSMC will, after completion of the proposal, be the sole listed company in China Resources group holding all its semiconductor interests. The terms of such an arrangement and ownership structure have not been finalised and no decision has been made by the board of CSMC whether to proceed with such arrangements. If any agreement or arrangement is entered into by CSMC and China Resources Holdings or its associates in the future, the transaction may constitute a connected transaction of CSMC or otherwise under the Listing Rules. CSMC will comply with all applicable requirements under the Listing Rules as and when required.

### *Management of the amalgamated group*

The boards of directors of CR Logic and CSMC do not expect the proposal of itself will have any impact on the management and staff of the amalgamated group under CSMC. It is anticipated that changes will be made to the board of CSMC to reflect its status as the holding company of all the China Resources group's semiconductor interests. Changes are also anticipated to the board of CR Logic. All such changes will be announced when they are made.

### **CONTINUING CONNECTED TRANSACTION OF CSMC**

The CR Logic Semiconductor group has entered into a number of continuing connected transactions with connected persons and these are anticipated to continue when CSMC completes the acquisition of the semiconductor businesses of CR Logic. These transactions have been entered into in the usual course of business and are on normal commercial terms after arm's length negotiation. The following non-exempt continuing connected transaction will be subject to the approval of independent shareholders under Chapter 14A of the Listing Rules.

### **Manufacturer's representative agreement**

Subject to the completion of the acquisition of the semiconductor businesses of CR Logic, the manufacturer's representative agreement that Wuxi CR Micro-Assemb Tech. Ltd., an indirect wholly-owned subsidiary of CR Logic, has entered into with, amongst others, STATS ChipPAC (BVI) Limited, under which CR Logic acts as the guarantor for Wuxi CR Micro-Assemb Tech. Ltd. will continue. STATS ChipPAC Ltd. is a substantial shareholder of a company within the CR Logic Semiconductor group and therefore a connected person of CSMC under the Listing Rules upon completion of the acquisition. This agreement was entered into on normal commercial terms and was previously approved by the independent shareholders of CR Logic, details of which were included in

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## LETTER FROM THE BOARD OF CSMC

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the announcements of CR Logic dated 22nd June, 2006 and 30th November, 2006. A novation agreement will be entered by CSMC on or prior to completion of the acquisition of the semiconductor businesses of CR Logic and CSMC will make necessary disclosure in compliance with the Listing Rules.

Date of agreement:	22nd June, 2006
Parties:	Wuxi CR Micro-Assemb Tech. Ltd., as manufacturer CR Logic, as guarantor STATS ChipPAC (BVI) Limited, as manufacturer's representative STATS ChipPAC Ltd., the holding company of STATS ChipPAC (BVI) Limited
Services provided:	The provision of certain services by the manufacturer's representative such as soliciting orders from certain customers transferred to it by STATS ChipPAC (BVI) Limited, referred to here as the transferred customers, which orders will be placed with manufacturer and to use reasonable efforts to assist the manufacturer in promotional activities and events in respect of the semiconductors manufactured by the manufacturer.
Fees and commissions:	A fee payable by the manufacturer payable quarterly, calculated as certain percentage of the commissionable revenues, being the aggregate revenues of the manufacturer for assembly and testing services provided by it for orders from transferred customers, for that quarter, for the calendar years 2007 and 2008 and a lesser percentage of the commissionable revenues for the calendar year 2009.
Tenor:	Commenced on 1st January, 2007 and ending 31st December, 2009.

The independent shareholders of CSMC will be asked to approve an annual cap of HK\$18 million for each of the two years ending 31st December, 2009, which is based on an assessment by the directors of CR Logic of the payment of fees by the manufacturer in respect of sales to transferred customers. The cap previously approved for each the three years ending 31st December, 2009 was HK\$18 million. The actual amount incurred up to 31st October, 2007 was approximately HK\$0.6 million.

In addition to the requirement to announce this potential non-exempt continuing connected transaction and to obtain independent shareholders' approval under Rule 14A.35, the payments made in terms of the agreement will be subject to an annual review by the independent non-executive directors and the auditors of CSMC in compliance with Rule 14A.37 and the reporting requirements of Rule 14A.45 of the Listing Rules.

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## LETTER FROM THE BOARD OF CSMC

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### *Reasons for the continuing connected transaction*

The transaction contemplated under the manufacturer's representative agreement will broaden the customer base of the manufacturer which is expected to include a number of leading international companies in the semiconductor industry. It is also expected that the manufacturer's IC packaging and testing business volume and revenue, particularly from overseas customers, will increase significantly under the arrangement.

The above continuing connected transaction will be on an on-going basis and constitute non-exempted continuing connected transaction subject to approval of the independent shareholders of CSMC under Rules 14A.48 of the Listing Rules. STATS ChipPAC Ltd. and its associates are required to abstain from voting on the relevant resolution at the extraordinary general meeting of CSMC.

The directors of CSMC, including the independent non-executive directors, are of the view that the above continuing connected transaction, and the annual cap set out above are fair and reasonable so far as the shareholders are concerned and are in the interest of CSMC and its shareholders as a whole.

## LETTER FROM THE BOARD OF CSMC

### Shareholding structure of CSMC

As stated in the “Letter from the board of CR Logic”, it is proposed that CR Logic will distribute its shares in CSMC subject to, amongst other things, completion of the sale and purchase of the semiconductor businesses of CR Logic and the capital reorganisation. The following table shows the shareholding structure of CSMC upon implementation of the amalgamation proposal based on its shares in issue as at the date of the Holding Announcement. There is no change in the effective control of CSMC after completion of the distribution in specie.

#### Immediately after the sale of semiconductor businesses by CR Logic to CSMC

	As at the date of the Holding Announcement		(Assuming all optionholders of CR Logic exercise their options and distribution in specie in full to shareholders of CR Logic)		(Assuming all optionholders of CR Logic accept the cancellation offer and distribution in specie in full to shareholders of CR Logic)		(Assuming all share options in CSMC were exercised and assuming partial distribution of 0.95 CSMC share per CR Logic share)	
					No. of shares	%	No. of shares	%
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
CR Logic group	1,984,967,848	72.5%	—	—	—	—	2,516,014,511	42.3%
China Resources Holdings	—	—	3,504,783,883	58.9%	3,504,783,883	59.7%	1,849,747,049	31.1%
Directors of CR Logic and, or, CSMC	43,571,430	1.6%	93,067,830	1.6%	73,823,968	1.3%	72,689,530	1.2%
Existing shareholders or optionholders of CR Logic	—	—	1,640,855,282	27.6%	1,578,735,630	26.9%	803,250,905	13.5%
Existing shareholders of CSMC	709,033,801	25.9%	709,033,801	11.9%	709,033,801	12.1%	709,033,801	11.9%
Public shareholders	709,033,801	25.9%	2,349,889,083	39.5%	2,287,769,431	39.0%	1,512,284,706	25.4%
<b>Total</b>	<b>2,737,573,079</b>	<b>100%</b>	<b>5,947,740,796</b>	<b>100%</b>	<b>5,866,377,282</b>	<b>100%</b>	<b>5,950,735,796</b>	<b>100%</b>

*Note:* CR Logic will continue to control of the board of directors of CSMC. Accordingly CSMC will remain as the subsidiary of CR Logic with its financial statements being consolidated under CR Logic.

### Reasons for, and benefits of, the proposal

The respective boards of directors of CR Logic and CSMC believe it is in the interests of both companies that their respective semiconductor businesses are amalgamated under one listed company which holds all the China Resources group’s interests in this sector. The amalgamated group will have a broad spread of interests within the sector from its own IC design to open foundry operations for the group and outside customers. This is expected to provide for a greater stability of earnings and greater financial resources to fund expansion. As all its major operations will be wholly-owned, it will

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## LETTER FROM THE BOARD OF CSMC

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give the amalgamated group much greater flexibility in deploying its existing resources and discretionary cashflows. It is also anticipated that there will be rationalisation benefits arising from a closer cooperation between the foundry operations of CR Logic and CSMC. Both sets of public shareholders will have an investment in a larger capitalised company which should provide a more liquid investment and consequently one which attracts greater investor attention.

Based on the past performance of the CR Logic Semiconductor group when compared to CSMC for the financial years ended 31st December, 2005 and 2006 and for the six months ended 30th June, 2007, it can be expected that the terms of the proposal, had it been implemented with effect from 1st January, 2005 and CSMC had been a member of the CR Logic group throughout this period, would have resulted in an increase in the earnings attributable to CSMC shareholders. The pro forma statements of the enlarged CSMC group as set out in Appendix V to this composite circular show profit attributable to equity holders for the nine months ended 30th September, 2007 was approximately HK\$158.5 million and the pro forma earning per share of the enlarged CSMC group was approximately HK\$0.027 calculated on the assumption that maximum number of CSMC shares were issued to CR Logic for the acquisition of its semiconductor businesses. Such earning per share for the enlarged CSMC group was approximately the same as the earnings per share of CSMC for the nine months ended 30th September, 2007 of US cent 0.35, equivalent to approximately HK\$0.027. It is not anticipated that the amalgamation will result in a significant dilution in underlying net asset value per share for the shareholders of either CR Logic or CSMC.

### **The termination of CR Logic's employee share option scheme and cancellation of outstanding options**

Since substantially all of the employees of the CR Logic group will become employees of the CSMC group after the implementation of the proposal and CR Logic will no longer be engaged in the semiconductor business once the future of China Resources Semiconductor Company Limited has been settled, it is proposed subject to the agreement of the relevant employees to cancel their outstanding options granted under the existing and past employee share option schemes of CR Logic and to terminate its existing share option scheme in consideration of the allotment and issue of shares in CSMC. There are 67,551,000 outstanding share options as at the Latest Practicable Date with exercise prices ranging from HK\$0.479 to HK\$0.92 per share and 15,830,000 of these share options were held by the directors of CR Logic and, or, CSMC.

The consideration for the cancellation of CR Logic options will be in new CSMC shares. The number of CSMC shares to be allotted and issued as consideration for such cancellation will be calculated by:

- converting the number of shares which fall to be issued under the options into the equivalent number of CSMC shares using the ratio of shares in CSMC to be distributed to the shareholders of CR Logic by way of the proposed distribution in specie;
- valuing each optionholder's options by multiplying the number of CSMC shares, as calculated above, by the "see-through" price of each option being the issue price of the shares in CSMC, calculated by taking its average share price on the last ten trading days before trading was suspended pending the publication of the Holding Announcement, being

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## LETTER FROM THE BOARD OF CSMC

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HK\$0.694 per share in CSMC, less the option price divided by the proposed distribution ratio for the distribution in specie by CR Logic, and adding to that the sum of HK\$0.089, being the approximate net asset value of CR Logic after the implementation of the proposal, multiplied by the number of shares in CR Logic which fall to be issued under such shareholder's option; and

- dividing the aggregate value of each optionholder's options, as calculated above and provided it is positive, by HK\$0.694 to compute the number of CSMC shares, rounded down to the nearest whole number of shares, which will be issued in consideration for the cancellation of each optionholder's options.

It is estimated that, provided all the optionholders as at the date of the Holding Announcement agree to the cancellation of their options, 78,222,686 shares in CSMC will be issued in consideration for the cancellation of all the outstanding options of CR Logic granted under its present and past employee share option schemes. If none of the optionholders as at the date of the Holding Announcement accept the offer for their options but instead exercise their options before the shares in CR Logic cease to be entitled to the distribution in specie, this will result in 3,210,167,717 shares in CSMC being issued, representing the maximum number of shares being issued by CSMC in consideration for the acquisition of the semiconductor businesses of CR Logic. All amounts received on the exercise of options during the period when the shares in CR Logic are cum-entitlement to the distribution in specie will be retained by the CR Logic Semiconductor group. The last day for the optionholders of CR Logic to accept the cancellation offer is at 4:00 p.m. on 14th February, 2008, which is same as the last day of dealing in the shares of CR Logic on a cum-entitlement basis.

Any options which are not cancelled, as described above, or exercised during the period when the shares in CR Logic are cum-entitlement to the distribution in specie will remain outstanding but the exercise price will be adjusted in accordance with the terms of the employee share option schemes to take account of the effect of the distribution in specie and the share consolidation on the value of shares in CR Logic.

The cancellation of the options granted under the CR Logic employee share option schemes is conditional upon the Listing Committee of the Stock Exchange granting a listing of, and permission to deal in, the shares in CSMC which will be issued in consideration for the cancellation of the options, and the completion of the sale and purchase of CR Logic's semiconductor businesses. Shares of CSMC will be allotted to the accepting optionholders at the same time when the distribution in specie is made to the shareholders of CR Logic.

### *Reasons for the termination of share option scheme of CR Logic and cancellation of outstanding share options*

Substantially all of the employees of the CR Logic group will effectively become the employees of the CSMC group after the implementation of the proposal and it is expected that CSMC will cease to be a subsidiary of CR Logic after the distribution of CSMC shares in full. CR Logic will cease to be engaged in the semiconductor business and will instead be engaged primarily in the supply of ready mixed concrete. The boards of directors of both CR Logic and CSMC consider that contribution from the existing employees of the CR Logic group should not be neglected after the amalgamation of



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## LETTER FROM THE BOARD OF CSMC

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businesses. Accordingly existing optionholders are being given this opportunity to determine their options in a manner which will result in them holding shares in CSMC, the holding company of the amalgamated semiconductor group for which they will be working. The calculation of the value of their options takes into account the terms of the proposal and the market price of the shares in CSMC prevailing at the time the proposal was announced.

The offer to those directors of CR Logic who are optionholders for the cancellation of their share options constitutes a connected transaction for CR Logic. As the cancellation of share options will involve CSMC allotting its shares to the directors of CSMC who are also holders of the share options, such allotment constitutes a connected transaction for CSMC. The share option cancellation by allotment of CSMC shares to directors of CR Logic and, or, CSMC who are holders of share option requires the approval of the respective independent shareholders of CR Logic and CSMC with such directors and their respective associates being required to abstain from voting.

### PROPOSED CHANGE OF COMPANY NAME

The board of directors of CSMC proposes to change the name of CSMC from “CSMC Technologies Corporation” to “China Resources Microelectronics Limited (華潤微電子有限公司)”.

The proposed change of name will be subject to the following:

- (i) the agreement for the sale and purchase of the semiconductor businesses of CR Logic and the transactions thereunder having been approved by shareholders of CR Logic and CSMC;
- (ii) the approval of the CSMC’s shareholders by way of a special resolution at the extraordinary general meeting; and
- (iii) the approval of the Registrar of Companies in the Cayman Islands to the proposed change of name of CSMC.

The new name of CSMC will take effect at the time a certificate of incorporation on change of name is issued by the Registrar of Companies in the Cayman Islands. CSMC will then carry out all necessary filing procedures with the Registrar of Companies in Hong Kong.

Upon the change of name of CSMC becoming effective, an announcement will be made to advise the shareholders of CSMC of the new stock short name for trading of the shares on the Stock Exchange and the shares will be traded on the Stock Exchange under the new name of China Resources Microelectronics Limited (華潤微電子有限公司).

### *Existing share certificates*

All existing share certificates bearing the existing name of CSMC will continue to be evidence of title to the shares of CSMC and valid for trading, settlement and registration purpose. Upon the change of name becoming effective, any issue of share certificates thereafter will be in the new name of CSMC. Shareholders may, subject to further announcement, submit certificates to the share registrar of CSMC, Computershare Hong Kong Investor Services Limited, Rooms 1806-1807, 18th

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## LETTER FROM THE BOARD OF CSMC

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Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for exchange at the expense of CSMC, for certificates of new shares. Thereafter, certificates for existing shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate. Nevertheless, certificates for existing shares will continue to be good evidence of legal title and may be exchanged for certificates for consolidated shares at any time. A further announcement will be made when the proposed change of name becomes effective.

### GENERAL

Set out on pages N-6 to N-8 of this composite circular is a notice convening the extraordinary general meeting of CSMC to be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February at 3:30 p.m. at which ordinary resolutions will be proposed and, if thought fit, passed to approve (i) the acquisition of the semiconductor businesses from CR Logic by CSMC; (ii) the continuing connected transaction arising out of such acquisition; and (iii) the allotment of CSMC shares to certain directors of CSMC or such other connected persons who are holders of share options granted by CR Logic in respect of cancellation of their share options, and at which a special resolution will be proposed and if thought fit, passed to approve the proposed change of name of CSMC.

A form of proxy for use by the shareholders at the extraordinary general meeting is enclosed. Shareholders are advised to read the notice and to complete the accompanying yellow form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of CSMC, Computershare Hong Kong Investor Services Limited, Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

### RECOMMENDATION

The directors of CSMC consider the acquisition of semiconductor businesses of CR Logic, the continuing connected transaction after such acquisition and allotment of CSMC shares as consideration for cancellation of the share options granted by CR Logic are on normal commercial terms and that such terms are fair and reasonable and in the interest of CSMC and its shareholders as a whole. Accordingly, the directors of CSMC recommend the shareholders of CSMC to vote in favour of the resolutions to be proposed in the extraordinary general meeting.

Your attention is drawn to the recommendation of the independent board committee of CSMC as set out on page 53 to this composite circular and the letter from KGI Capital Asia Limited as set out on page 54.

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**LETTER FROM THE BOARD OF CSMC**

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**FURTHER INFORMATION**

Your attention is drawn to the information set out elsewhere in this composite circular and in the appendices to it.

By order of the board of  
**CSMC Technologies Corporation**  
**Chen Cheng-yu, Peter**  
*Chairman*

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# LETTER FROM THE INDEPENDENT BOARD COMMITTEE OF CR LOGIC

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**華潤勵致有限公司**  
**China Resources Logic Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

16th January, 2008

*To the independent shareholders of CR Logic,*

Dear Sir/Madam,

## **DISCLOSEABLE AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the independent board committee of CR Logic to advise the independent shareholders in respect of the acquisition of Redland Concrete Limited and certain continuing connected transactions thereafter, details of which are set out in the letter from the board of CR Logic in this composite circular dated 16th January, 2008 (the “Circular”) to the shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of CIMB-GK Securities (HK) Limited, the independent financial adviser appointed in respect of, among other things, the acquisition of Redland Concrete Limited and certain continuing connected transactions thereafter as set out in the Circular. Having taken into account the advice of CIMB-GK Securities (HK) Limited, we consider that the acquisition of Redland Concrete Limited and certain continuing connected transactions thereafter are on normal commercial terms and are in the interests of CR Logic and its shareholders as a whole and the terms of these transactions are fair and reasonable so far as CR Logic and the independent shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the special general meeting to approve the acquisition of Redland Concrete Limited and certain continuing connected transactions thereafter.

Yours faithfully,

Independent board committee of CR Logic

**Luk Chi Cheong**

*Independent Non-executive Director*

**Wong Tak Shing**

*Independent Non-executive Director*

**Ko Ping Keung**

*Independent Non-executive Director*

**Yang Chonghe, Howard**

*Independent Non-executive Director*

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# LETTER FROM THE INDEPENDENT BOARD COMMITTEE OF CR LOGIC

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**華潤勵致有限公司**  
**China Resources Logic Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1193)**

16th January, 2008

*To the independent shareholders of CR Logic,*

Dear Sir/Madam,

## **OFFER TO CANCEL OUTSTANDING OPTIONS**

I have been appointed as the sole member of the independent board committee of CR Logic to advise the independent shareholders in respect of the offer to cancel outstanding share options held by the directors of CR Logic, details of which are set out in the letter from the board of CR Logic in this composite circular dated 16th January, 2008 (the “Circular”) to the shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of CIMB-GK Securities (HK) Limited, the independent financial adviser appointed in respect of, among other things, the cancellation of outstanding share options held by the directors of CR Logic as set out in the Circular. Having taken into account the advice of CIMB-GK Securities (HK) Limited, I consider that the terms of the cancellation of outstanding share options held by the directors of CR Logic are normal commercial terms and are in the interests of CR Logic and its shareholders as a whole and are fair and reasonable so far as CR Logic and the independent shareholders are concerned. I therefore recommend that you vote in favour of the resolutions to be proposed at the special general meeting to approve the cancellation of outstanding share options held by the directors of CR Logic.

Yours faithfully,

Independent board committee of CR Logic

**Yang Chonghe, Howard**  
*Independent Non-executive Director*

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**LETTER FROM CIMB-GK SECURITIES (HK) LIMITED**

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**CIMB-GK Securities (HK) Limited**

25/F., Central Tower  
28 Queen's Road Central  
Hong Kong

16 January 2008

*To the independent board committee and  
the independent shareholders of China Resources Logic Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTIONS**

We refer to our engagement as the independent financial adviser to the independent board committee and the independent shareholders of CR Logic in relation to the agreement to acquire Redland Concrete Limited (“Redland Agreement”), the continuing connected transactions (the “Continuing Connected Transactions”) to be conducted between Redland Concrete group and China Resources group, details of which are contained in a circular (the “Circular”) to the Shareholders dated 16 January 2008, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An independent board committee comprising Messrs. Wong Tak Shing, Luk Chi Cheong, Ko Ping Keung and Yang Chonghe, Howard, being all the independent non-executive directors of CR Logic, has been formed to advise the independent shareholders of CR Logic in relation to the Redland Agreement and the Continuing Connected Transactions. Any vote of the independent shareholders at the SGM shall be taken by poll. China Resources Holdings with a material interest in the Redland Agreement and the Continuing Connected Transactions and its associates will abstain from voting in relation to the resolutions to be proposed to approve the Redland Agreement and the Continuing Connected Transactions.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the directors and senior management of CR Logic. The directors of CR Logic have declared in a responsibility statement set out in the Appendix VII to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the directors of CR Logic as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the directors and senior management of CR Logic. We have also been advised by the directors of CR Logic and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of CR Logic or Redland Concrete Limited or any of their respective subsidiaries or associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Redland Agreement and the Continuing Connected Transactions, we have considered the following principal factors and reasons:

#### 1. The Redland Agreement

##### *Background and rationale*

Following the disposal of the air-conditioner compressor business in August 2007, the CR Logic group is principally engaged in the semiconductor business. The implementation of the proposal in full will result in CR Logic acquiring the entire issued voting share capital of Redland Concrete Limited which represents substantially all of the China Resources group's interests in the building material sector in Hong Kong, and the principal business of the CR Logic group will be engaged in the supply of ready mixed concrete and related products in Hong Kong.

We noted that Redland Concrete Limited has a long record of supplying the Hong Kong market with ready mixed concrete and related products and services. The board of CR Logic considers investment in Redland Concrete Limited provides diversification of the CR Logic group's business in a sector with prospects. We noted that in line with the improvement in the local economy and increased

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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building activity, Redland Concrete Limited has shown a marked recovery since 2006. The consolidated financial statements of Redland Concrete Limited for the two financial years under 31st December, 2006 prepared in accordance with HK GAAP and the unaudited consolidated financial statements for the nine months ended 30th September, 2007 are as follows:

	Year ended		Nine months
	31 December		ended
	2005	2006	30 September
	HK\$000's	HK\$000's	2007
			HK\$000's
Turnover	418,625	265,272	252,110
Net profit (loss) after taxation attributable to shareholders	(24,804)	28,747	34,844
Shareholders' funds	247,383	276,129	310,973

We are given to understand that the main reason for the decrease in the turnover of Redland Concrete Limited in FY2006 was due to the disposal of the precast business of Redland Concrete Limited in early 2006. With the disposal of the loss making precast business and the improvement in the average selling price of products in FY2006, Redland Concrete Limited was able to record profits in FY2006. As for FY2007, given the continued improvement in the average selling price of ready mixed concrete products and the commencement of cement trading business, the profit margin of Redland Concrete Limited continued to increase during the nine months ended 30 September 2007. Based on information provided by Redland Concrete group on its average monthly selling prices of concrete, we noted that the selling price of concrete has been on an increasing trend since 2006.

Given the historical performance of Redland Concrete Limited and the latest Policy Address by the Chief Executive of the Hong Kong SAR Government on 10 October 2007 regarding the "10 Infrastructure Projects" which will further benefit the building material industry as a whole in Hong Kong, we concur with the view of the directors of CR Logic that the Redland Agreement will enable CR Logic to principally engage in the supply of ready mixed concrete and related products in Hong Kong after the disposal of CR Logic Semiconductor group and the distribution in specie of CSMC shares, and hence, is in the interest of CR Logic and its shareholders as a whole.

### *The consideration*

The consideration payable under the Redland Agreement of approximately HK\$217.7 million (the "Consideration") has been arrived at after arm's length negotiations among the parties concerned and with reference to the consolidated net asset value of Redland Concrete Limited as at 31 October 2007 of approximately HK\$217.7 million (before taking into account the net deficit of property revaluation of approximately HK\$57.2 million) and the historical financial performance of Redland Concrete Limited. The Consideration represents a price-to-earnings ratio ("PER") of approximately 7.6 times the audited consolidated net profit of Redland Concrete Limited for the year ended 31 December 2006.



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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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In assessing the fairness of the Consideration, we have, to our best efforts, identified and reviewed the relevant comparable companies listed on the Main Board of the Stock Exchange whose principal business is engaged in similar business as those of Redland Concrete Limited (the “Comparable Companies”). We noted that of these Comparable Companies, most of their core market is in the PRC with Luks Group (Vietnam Holdings) Co., Ltd’s core market in Vietnam, which is different from those of Redland Concrete Limited whose principal market is in Hong Kong. Nonetheless, for reference purposes, we set out below the PER and the price to net asset value of each of Redland Concrete Limited and those of the Comparable Companies.

<b>Comparable Companies</b>	<b>Market capitalisation (HK\$ in million) (Note 1)</b>	<b>PER (times) (Note 2)</b>	<b>Premium of the closing price to net asset value per share (times) (Note 2)</b>
Anhui Conch Cement Co., Ltd	111,131	50.00	2.80
Chia Hsin Cement Greater China Holdings Corporation	5,943	116.96	3.37
Luks Group (Vietnam Holdings) Co., Ltd	5,624	24.16	2.78
Shanghai Allied Cement Ltd	1,933	519.61	6.30
TCC International Holdings Ltd	7,065	Loss making	5.46
Average:		177.68	4.14
 Redland Concrete Limited	 217.7 (being the Consideration)	 7.60	 1.00 (Note 3a) 1.36 (Note 3b)

*Source: Bloomberg and respective latest published annual/interim report of the Comparable Companies*

*Notes:*

1. Based on the share price of the Comparable Companies as at 16 November 2007, the last trading day (the “Last Trading Day”) prior to the date of the Holding Announcement.
2. Calculated based on the closing price of the shares of the Comparable Companies as of the Last Trading Day and their respective latest published annual/interim reports.
3.
  - a) calculated based on the consolidated net asset value of Redland Concrete Limited as at 31 October 2007 of approximately HK\$217.7 million (before property valuation deficit of approximately HK\$57.2 million);
  - b) calculated based on the consolidated net asset value of Redland Concrete Limited as at 31 October 2007 of approximately HK\$160.6 million after taking into account the property valuation deficit of approximately HK\$57.2 million.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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As noted from the table above, each of the PER and the price to net asset value as implied under the Redland Agreement is lower than the lowest and the average of those of the Comparable Companies. Having taken into account the above, we consider that the Consideration is fair and reasonable so far as CR Logic and the independent shareholders are concerned.

### *Possible financial effect*

#### *Earnings and net asset value*

Redland Concrete Limited will become a wholly-owned subsidiary of CR Logic upon completion of the Redland Agreement and its profit as well as asset base will be consolidated into the CR Logic group.

Given that the Consideration represents the consolidated net asset value of Redland Concrete Limited as at 31 October 2007 and with no significant interest bearing liabilities as at the Latest Practicable Date, we concur with the views of the directors of CR Logic that there should not be any material impact to the net asset value and gearing position of the CR Logic group immediately following the completion of the Redland Agreement.

As noted from the section headed “Appendix IV Unaudited Pro Forma Financial Information of the Remaining CR Logic Group” of this Circular, assuming the acquisition had been completed on 31 December 2006, the proforma consolidated profit attributable to equity holder of the Company and the proforma net asset value of the Group would have been increased by HK\$28.7 million and HK\$58.4 million respectively.

#### *Working capital*

As the Consideration will be funded by a dividend of approximately HK\$474.4 million fully paid to CR Logic by the CR Logic Semiconductor group being disposed of, we concur with the views of the directors of CR Logic that the Redland Agreement would not materially affect the working capital position of the CR Logic group immediately following the completion of the Redland Agreement.

## **2. THE CONTINUING CONNECTED TRANSACTIONS**

The Redland Concrete group have entered into a number of connected transactions with the China Resources group for a long time and these are anticipated to continue when Redland Concrete Limited has been acquired by CR Logic. The Redland Concrete group will continue to sell goods to the China Resources group within its usual and ordinary course of business and to purchase cement and clinker from China Resources group as this secures a stable source of quality raw materials for Redland Concrete Limited’s own production and cement trading business. All these transactions have been entered into in the usual course of business of Redland Concrete group on normal commercial terms with reference to prevailing market prices.

We have reviewed the purchase and sales invoices provided by the Company and noted that the purchase prices for cement and clinker from China Resources Group are in line with the prices charged by other independent supplier and the selling prices for sale of goods to the China Resources group are in line with the prices charged by the Redland Concrete group to other independent customers.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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### *Views*

Given that the nature of the Continuing Connected Transactions falls within the principal business and operations of the Redland Concrete group, we concur with the views of the directors of CR Logic and consider it is in the interest of CR Logic and its shareholders as a whole to continue with the Continuing Connected Transactions.

### *Annual Cap*

#### *Sales of goods to a fellow subsidiary*

During the past two financial years and the nine months ended 30 September 2007, sales of goods to China Resources Construction Company Limited amounted to approximately HK\$17.1 million, HK\$16.5 million and HK\$14.8 million, respectively. The annual cap for these sales for the next three financial years ending 31 December 2010 is HK\$20 million, HK\$22 million and HK\$24 million, respectively.

We noted that the cap has been determined by the directors of CR Logic principally with reference to the prevailing market price and historical sales amount with an allowance for a moderate increase in sales in anticipation of a general growth in the economy and in the construction activity of China Resources Construction Company Limited. Based on information provided by Redland Concrete Limited, we noted that the selling prices of the ready mixed concrete in Hong Kong has experienced an increasing trend in recent years. Given this, we consider the annual cap for the sales of goods to connected person to be fair and reasonable so far as CR Logic and the independent shareholders are concerned.

#### *Purchases of goods from fellow subsidiaries*

During the past two financial years and the nine months ended 30 September 2007, purchases from fellow subsidiaries of cement by Redland Concrete group amounted to approximately HK\$25.9 million, HK\$41.9 million and HK\$46.7 million, respectively. The annual caps on these purchases for the next three financial years ending 31 December 2010 is HK\$150 million, HK\$165 million and HK\$182 million respectively.

We noted that the amount of purchases from connected persons has increased significantly in recent years. Redland Concrete Limited advised that this was due to the fact that purchases were mainly determined by reference to availability and price. We have discussed with the management of Redland Concrete Limited and understand that Redland Concrete Limited expects to increase its cement trading activities based on the volume of orders in negotiations and already signed with existing and prospective clients. As advised by the Company based on information provided by Redland Concrete Limited, the actual orders on hand for sales of clinker and cement products to clients already represented approximately 4 times the estimated sales for the year ended 31 December 2007, which would lead to the increase in the demand for the purchase of cement from connected persons.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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Given that i) purchases will continue to fluctuate in the future based on market conditions and pricing; ii) cement is a principal raw material required for production of ready mixed concrete; and iii) Redland Concrete group will continue to expand its production of ready mixed concrete and cement trading business, we consider the annual caps which have been determined with reference to the prevailing market price and the possible increases in volume and price for the cement and ready mixed concrete in Hong Kong and Macau to be fair and reasonable so far as CR Logic and the independent shareholders are concerned.

However, shareholders should note that as the annual caps relate to future events and is based on the assumptions which may not remain valid for the entire period up to 31 December 2010, and they do not represent any forecast amounts to be incurred under the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual amounts to be incurred under the Continuing Connected Transactions correspond with the annual caps.

### RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Redland Agreement and the Continuing Connected Transactions are in the interests of CR Logic and the shareholders as a whole and the terms thereof including the relevant annual caps are fair and reasonable so far as CR Logic and the independent shareholders are concerned. Accordingly, we advise the independent shareholders and the independent board committee of CR Logic to recommend the independent shareholders of CR Logic to vote in favour of the ordinary resolutions to be proposed at the special general meeting of CR Logic to approve the Redland Agreement and the Continuing Connected Transactions (together with the adoption of the relevant annual caps).

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

**Flavia Hung**

*Executive Vice President*

*Senior Vice President*

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**LETTER FROM CIMB-GK SECURITIES (HK) LIMITED**

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**CIMB-GK Securities (HK) Limited**

25/F., Central Tower  
28 Queen's Road Central  
Hong Kong

16 January 2008

*To the independent non-executive director and  
the independent shareholders of China Resources Logic Limited*

Dear Sirs,

**OFFER TO CANCEL OUTSTANDING OPTIONS**

We refer to our engagement as the independent financial adviser to the independent non-executive director and the independent shareholders of CR Logic in relation to the proposed offer of CSMC shares to directors of CR Logic in consideration for the cancellation of the share options held by them (the "Cancellation Offer"), details of which are contained in a circular (the "Circular") to the Shareholders dated 16 January 2008, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

As three of the other independent non-executive directors of CR Logic have vested interests in the Cancellation Offer, Mr. Yang Chonghe, Howard will be the sole independent non-executive director of CR Logic to advise the independent shareholders in relation to the Cancellation Offer. Any vote of the independent shareholders at the SGM shall be taken by poll. The directors of CR Logic, who are also the optionholders, and their respective associates will abstain from voting from the relevant resolution to be proposed to approve the Cancellation Offer.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the directors and senior management of CR Logic. The directors of CR Logic have declared in a responsibility statement set out in the Appendix VII to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the directors of CR Logic as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the directors and senior management of CR Logic. We have also been advised by the directors of CR Logic and believe that no material facts have been omitted from the Circular.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of CR Logic or any of their respective subsidiaries or associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Cancellation Offer, we have considered the following principal factors and reasons:

As stated in the Letter from the board of CR Logic, there are 67,551,000 CR Logic options outstanding as at the Latest Practicable Date with exercise price ranged from HK\$0.479 to HK\$0.92, and 15,830,000 of which were held by the directors of CR Logic and, or directors of CSMC. Terms of the Cancellation Offer will be calculated by:

- i) converting the number of CR Logic shares which fall to be issued under the CR Logic options into the equivalent number of CSMC shares using the ratio of shares in CSMC to be distributed to the CR Logic shareholders by way of the proposed distribution in specie;
- ii) valuing each optionholder's options by multiplying the number of CSMC shares, as calculated above, by the "see-through" price of each CR Logic option being the issue price of the shares in CSMC, calculated by taking its average share price on the last ten trading days ("10-day Average Price") before trading was suspended pending the publication of the Holding Announcement, being HK\$0.694 per share in CSMC, less the CR Logic option price divided by the proposed dividend distribution ratio, and adding to that the sum of HK\$0.089, being the approximate net asset value of CR Logic after the implementation of the proposal, multiplied by the number of CR Logic shares which fall to be issued under such shareholder's option; and
- iii) dividing the aggregate value of each optionholder's options, as calculated above and provided it is positive, by HK\$0.694, being the 10-day Average Price as explained above, to compute the number of CSMC shares, rounded down to the nearest whole number of shares, which will be issued in consideration for the cancellation of each optionholder's options.

We noted that the terms of the Cancellation Offer is to return to the optionholders of the CR Logic options the embedded value under their CR Logic options following the disposal of the CR Logic Semiconductor group and the proposed distribution in specie. The embedded value of each CR Logic share to be issued upon exercise of the CR Logic options comprises two parts being a) the value of entitlement to the CSMC shares under the proposed distribution in specie; and b) the net asset value per CR Logic share upon completion of the disposal of the CR Logic Semiconductor group. Given this, we consider that the basis of the aforesaid formula underlying the Cancellation Offer is fair and reasonable so far as CR Logic and the independent shareholders are concerned.

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## LETTER FROM CIMB-GK SECURITIES (HK) LIMITED

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We noted that the share conversion ratio to be adopted in converting the number of CR Logic shares which fall to be issued under the CR Logic options into the number of CSMC shares is the same as the share conversion ratio used under the distribution in specie of CSMC shares. The see-through principle has been adopted in determining the entitlement of the number of CSMC shares that the CR Logic options are entitled under the proposed distribution in specie of CSMC shares. We noted that the 10-day Average Price of CSMC share of HK\$0.694 has been used in the see-through formula. Given that the share price of CSMC shares ranged from HK\$0.66 to HK\$0.75 during the 10 days period and closed at HK\$0.68 on the Last Trading Day, we regard the adoption of the 10-day Average Price in the see-through formula to be fair and reasonable.

As stated in the Letter from the board of CR Logic, the approximate net asset value per CR Logic share after implementation of the proposal is HK\$0.089. We have been advised by CR Logic that this approximate net asset value per CR Logic share comprises the aggregate value of the Consideration and CR Logic management's estimation on the net asset value of the Tai Po plant which will be closed down or sold.

### Views

Having taken account of the above, as the terms of Cancellation Offer is to give the optionholders (the directors of CR Logic and other employees alike) an aggregate value which they would have entitled upon their exercise of their existing CR Logic options and under the proposed distribution in specie, we consider that the terms of the Cancellation Offer are fair and reasonable so far as CR Logic and the independent shareholders are concerned.

### RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Cancellation Offer is in the interests of CR Logic and the shareholders as a whole and the terms thereof are fair and reasonable so far as CR Logic and the independent shareholders are concerned. Accordingly, we advise the independent shareholders and the independent non-executive director of CR Logic to recommend the independent shareholders of CR Logic to vote in favour of the ordinary resolutions to be proposed at the special general meeting of CR Logic to approve the Cancellation Offer.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

**Flavia Hung**

*Executive Vice President*

*Senior Vice President*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE OF CSMC**

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華潤上華科技有限公司\*

**CSMC TECHNOLOGIES CORPORATION**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 597)**

16th January, 2008

*To the independent shareholders of CSMC*

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,  
CONTINUING CONNECTED TRANSACTION**

We have been appointed as members of the independent board committee of CSMC to advise the independent shareholders in respect of the acquisition of the CR Logic's semiconductor businesses and a non-exempt continuing connected transaction thereafter and the allotment of CSMC shares as consideration for cancellation of outstanding share options held by the directors of CSMC or their associates (if any), details of which are set out in the letter from the board of CSMC in this composite circular dated 16th January, 2008 (the "Circular") to the shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of KGI Capital Asia Limited, the independent financial adviser appointed, in respect of the acquisition of the CR Logic's semiconductor businesses and a non-exempt continuing connected transaction thereafter and the allotment of CSMC shares as consideration for cancellation of outstanding share options held by the directors of CSMC or their associates (if any) as set out in the Circular. Having taken into account the advice of KGI Capital Asia Limited, we consider that the acquisition of the semiconductor businesses from CR Logic and the continuing connected transaction thereupon and the allotment of CSMC shares as consideration for cancellation of outstanding share options held by the directors of CSMC or their associates (if any) are on normal commercial terms and are in the interests of CSMC and its shareholders as a whole and the terms of these transactions are fair and reasonable so far as CSMC and the independent shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the extraordinary general meeting to approve the acquisition of CR Logic's semiconductor businesses and the continuing connected transaction thereafter and the allotment of CSMC shares as consideration for cancellation of outstanding share options held by the directors of CSMC.

Yours faithfully,

Independent board committee of CSMC

**Kum Loon OON**  
*Independent Non-executive  
Director*

**Mark HSUE Chi Nan**  
*Independent Non-executive  
Director*

**Ralph Sytze YBEMA**  
*Independent Non-executive  
Director*

*\* for identification purpose only*



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## LETTER FROM KGI CAPITAL ASIA LIMITED

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*Set out below is the text of the letter of advice from KGI Capital Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, prepared for inclusion in this circular.*



**KGI Capital Asia Limited**

27/F, ICBC Tower  
Citibank Plaza  
3 Garden Road  
Central Hong Kong

Tel: 2878 6888  
Fax: 2970 0080

16 January 2008

To the Independent Board Committee and the Independent Shareholders  
CSMC Technologies Corporation  
Room 510, 5/F, IC Development Centre  
No.6 Science Park West Avenue  
Hong Kong Science Park, Shatin  
N.T., Hong Kong

Dear Sirs and Madam,

**(I) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF THE SEMICONDUCTOR BUSINESSES OF CR LOGIC; (II) CONNECTED TRANSACTION INVOLVING ALLOTMENT OF CSMC SHARES TO DIRECTORS OF CSMC WHO ARE ALSO HOLDERS OF THE SHARE OPTIONS OF CR LOGIC IN RELATION TO THE CANCELLATION OF THEIR SHARE OPTIONS OF CR LOGIC; AND (III) CONTINUING CONNECTED TRANSACTION INVOLVING THE MANUFACTURER'S REPRESENTATIVE AGREEMENT**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders in respect of the proposed acquisition of semiconductor businesses from the CR Logic group (the "Acquisition"), the allotment of shares of CSMC to directors of CSMC who are also holders of the share options of CR Logic in relation to the cancellation of their share options of CR Logic (the "Allotment"), and the novation agreement in relation to certain customer referral services to be provided by STATS ChipPAC (BVI) Limited to a subsidiary of CSMC

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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(the “Manufacturer’s Representative Agreement”), particulars of which are set out in the “Letter from the Board of CSMC” (the “Letter”) contained in the circular dated 16 January 2008 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

### **Very substantial acquisition and connected transaction**

As stated in the Letter, the respective boards of directors of CR Logic and CSMC announced a proposal on 4 December 2007 which, if implemented, will result in, among other things, the amalgamation of both companies’ semiconductor businesses under CSMC. Under the proposal, CSMC will acquire by issue of not less than 3,050,581,517 and not more than 3,210,167,717 of its shares as consideration for the semiconductor businesses of CR Logic, being all its semiconductor businesses with the exception of a 4 inch wafer fab in Tai Po, Hong Kong.

Under each of the five size tests for notifiable transactions, the acquisition by CSMC of the semiconductor businesses of CR Logic constitutes a very substantial acquisition for CSMC. In addition, as CR Logic is a substantial shareholder of CSMC, holding approximately 72.4% of issued share capital of CSMC, the Acquisition is a connected transaction for CSMC and thus requires the approval of the independent shareholders of CSMC, being those shareholders other than CR Logic and its associates, as defined by the Listing Rules.

### **Connected transaction involving the allotment of CSMC shares to the directors of CSMC who are also holders of share options of CR Logic in relation to the cancellation of their share options of CR Logic**

As stated in the Letter, since substantially all of the employees of the CR Logic group will become employees of the CSMC group after the implementation of the proposal and CR Logic will no longer be engaged in the semiconductor business once the proposal is implemented, it is proposed that existing employee share option scheme of CR Logic be terminated. All existing optionholders, including some of the directors of CSMC, will be offered shares in CSMC in consideration for the cancellation of their share options of CR Logic. As the cancellation of share options may involve CSMC allotting its shares to the directors of CSMC who are also optionholders, such allotment constitutes a connected transaction for CSMC. The share option cancellation by allotment of CSMC shares to directors of CSMC who are also holders of share options granted by CR Logic requires the approval of the independent shareholders of CSMC, with such directors and their respective associates being required to abstain from voting.

### **Continuing connected transaction involving a novation agreement for the provision of customers referrals services by STATS ChipPAC (BVI) Limited**

As stated in the Letter, it is also proposed that, subject to the completion of the acquisition of the semiconductor businesses of CR Logic by CSMC, the manufacturer’s representative agreement that Wuxi CR Micro-Assemb Tech. Ltd., an indirect wholly-owned subsidiary of CR Logic, has entered into with, amongst others, STATS ChipPAC (BVI) Limited on 22 June 2006, under which CR Logic acts as the guarantor for Wuxi CR Micro-Assemb Tech. Ltd. will continue. Under such agreement, STATS ChipPAC (BVI) Limited would provide certain services including soliciting orders

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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from certain customers transferred to it. STATS ChipPAC Limited (the holding company of STATS ChipPAC (BVI) Limited) is a substantial shareholder of a subsidiary in CR Logic group and therefore a connected person under the Listing Rules. Details of the agreement were included in the announcements of CR Logic dated 22 June 2006 and 30 November 2006. A novation agreement will be entered by CSMC on or prior to completion of the acquisition of the semiconductor businesses of CR Logic. Upon the completion of the acquisition of the semiconductor businesses of CR Logic, STATS ChipPAC Limited will become a connected person of CSMC under the Listing Rules and thus the transaction under the Manufacturer's Representative Agreement will constitute a non-exempt continuing connected transaction of CSMC and such transaction and an annual cap of HK\$18 million for each of the two years ending 31 December 2009 require the approval of the independent shareholders of CSMC, being shareholders other than CR Logic and its associates, as defined by the Listing Rules.

### THE INDEPENDENT BOARD COMMITTEE

The independent board committee, comprising all three independent non-executive directors, namely Mrs. Kum Loon OON, Mr. Mark HSUE Chi Nan and Mr. Ralph Sytze YBEMA, has been established to consider the terms of the agreement to acquire the semiconductor businesses of CR Logic (the "Acquisition Agreement"), the allotment of shares of CSMC to the directors of CSMC arising from the cancellation of their share options in CR Logic and the terms of the Manufacturer's Representative Agreement and the annual caps for each of the two years ending 31 December 2009 and to advise the independent shareholders as to whether the terms of the Acquisition Agreement, the allotment of CSMC's new shares to the directors of CSMC and the Manufacturer's Representative Agreement and the corresponding annual caps for each of the two years ending 31 December 2009 are fair and reasonable and are in the interests of CSMC and the independent shareholders as a whole.

We, KGI Capital Asia Limited, have been appointed to advise the independent board committee and the independent shareholders as to whether or not the terms of the Acquisition Agreement, the allotment of CSMC's new shares to the directors of CSMC who are also holders of the share options of CR Logic and the Manufacturer's Representative Agreement and the corresponding annual caps for each of the two years ending 31 December 2009 are fair and reasonable and are in the interests of the independent shareholders and CSMC so far as the independent shareholders are concerned.

### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the executive directors and/or the management of CSMC and have assumed that all such information, financial information, facts, statements of belief, opinion and intention and any representation made to us, or referred to in the Circular, in all material aspect, are true, accurate and complete as at the time they were made and as at the date of the Circular and shall continue to be true, accurate and complete at the date of the extraordinary general meeting of CSMC, and has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by CSMC and/or the management of CSMC, and are based on honestly-held opinions. The executive directors and/or the management of CSMC have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have also assumed that all statement of intention of the executive directors and management of CSMC as set out in the Circular will be implemented. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided to us and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the executive directors and management of CSMC in connection with the proposed transactions and discussed with the management of CSMC so as to assess the fairness and reasonableness of the terms of the Acquisition Agreement, the Allotment and the Manufacturer's Representative Agreement. Relevant information and documents included, among other things, the Acquisition Agreement, the manufacturer's representative agreement dated 22 June 2006, the annual report of CSMC for the year ended 31 December 2006, the interim report for the six months ended 30 June 2007, the draft novation agreement, and relevant unaudited pro forma financial information. We believe that we have reviewed sufficient information to enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion regarding the terms of the Acquisition Agreement, the Allotment and the Manufacturer's Representative Agreement and the corresponding annual caps. We have not, however, carried out any independent verification of the information and representations provided to us by the executive directors and management of CSMC nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of CSMC, CR Logic, China Resources Holdings, the Sale Companies (as defined below), STATS ChipPAC Limited, STATS ChipPAC (BVI) Limited, or their respective subsidiaries or associated companies. We have not studied, investigated nor verified the validity of all the legal aspects of, and procedural aspects for, the transactions under the Acquisition Agreement, the Allotment and the Manufacturer's Representative Agreement. We have further assumed that all material governmental, regulatory or other consents, waivers, authorizations, clearances and approvals necessary for the effectiveness and implementation of the proposed transactions will be obtained without any adverse effect on the CSMC group or the contemplated benefits to the CSMC group as derived from the proposed transactions.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address CSMC's own decision to proceed with the entering into the Acquisition Agreement, the Allotment or the Manufacturer's Representative Agreement. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the independent board committee and the independent shareholders in relation to the proposed transactions, we have taken the following principal factors and reasons into consideration:

#### (1) THE ACQUISITION

##### 1. Background of and reasons for the Acquisition

*Background information and assets to be acquired:*

Pursuant to the Acquisition Agreement, CSMC or any wholly-owned subsidiary nominated by it, as the purchaser, agreed to acquire, and CR Logic and China Resources Microelectronics (Holdings) Limited and China Resources Semiconductor (International) Limited, as the vendors, agreed to dispose, the semiconductor businesses of CR Logic. The assets to be acquired include the entire issued share capital (the “Sale Shares”) of Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited (collectively the “Sale Companies”). The interests to be acquired under the Acquisition Agreement are those businesses of the CR Logic group, other than China Resources Semiconductor Company Limited, which are engaged in IC design, discrete device manufacture, IC captive foundry operations and the testing and packaging of IC, which are based in the PRC (details of which are stated in the Letter). These businesses constitute the entire semiconductor operations of CR Logic, excluding those undertaken by China Resources Semiconductor Company Limited which operates a 4 inch wafer fab in Tai Po, Hong Kong and the CSMC group.

*Business and financial performance of the CSMC group*

CSMC is an investment holding company. The CSMC group operates open semiconductor foundries in China and is principally engaged in providing manufacturing services mainly for analog and logic semiconductors. It provides integrated circuits (“IC”) manufacturing services for fables design houses and integrated device manufacturers (IDMs). The CSMC group offers a broad range of analog and power process technologies including Mixed Signal, BCD, BICMOS, Planer DMOS, Trench DMOS, EEPROM and CMOS Logic to worldwide customers. It also offers assistance to fables customers by arranging upstream IC design services as well as downstream testing and packaging services. As set out in the Letter, CSMC owns what is believed by its directors to be the largest 6 inch open foundry operation as measured by production capacity in the PRC. Its foundries are located in Wuxi, Jiangsu Province and Beijing with a total manufacturing capacity of approximately 80,000 wafers per month.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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According to the interim report for the six months ended 30 June 2007, the CSMC group recorded turnover of approximately US\$64.21 million for the six months ended 30 June 2007, representing a 20.1% increase as compared to approximately US\$53.44 million for the same period in 2006. Out of the total turnover, the CSMC group's business in mainland China contributed approximately US\$45.55 million or approximately 70.9% of the total turnover of the CSMC group in the first half of 2007, which represents an increase of approximately 21.3% over approximately US\$37.57 million in the first half of 2006.

According to the interim report for the six months ended 30 June 2007, gross profit and gross margin of the CSMC group increased to approximately US\$15.49 million and approximately 24.1% in the first half of 2007 from approximately US\$9.13 million and approximately 17.1% in the same period of 2006, respectively. The increase in gross margin was mainly due to the increase in average selling price of approximately 9.2% for the first half of 2007. The unaudited consolidated profit attributable to equity holders of CSMC for the six months ended 30 June 2007 improved to approximately US\$3.10 million, nearly a six fold increase over approximately US\$0.52 million reported for the first half of 2006.

*The performance of the semiconductor businesses of CR Logic to be acquired by CSMC*

As set out in the Letter, the following shows the financial performance on a combined basis of the semiconductor businesses to be acquired by CSMC based on the audited or unaudited financial statements of the companies which comprise the semiconductor businesses of CR Logic prepared in accordance with HK GAAP for the two financial years ended 31 December 2006 and for the six months ended 30 June 2007 and nine months ended 30 September 2007:

	<b>Year ended</b>		<b>Six months</b>	<b>Nine months</b>
	<b>31 December</b>		<b>ended</b>	<b>ended</b>
	<b>2005</b>	<b>2006</b>	<b>30 June</b>	<b>30 September</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>
Turnover	1,388,666	1,684,143	917,744	1,500,418
Profit before taxation (Note 1)	148,995	176,682	97,377	109,764
Profit after taxation attributable to shareholders (Note 1)	146,509	158,922	96,178	103,380
Net attributable assets (Note 2)	1,071,503	1,814,757	1,963,307	1,964,033

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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*Notes:*

- 1) No account has been taken in the tabulation above of unallocated interest costs and office expenses of CR Logic and China Resources Microelectronics (Holdings) Limited which are as follows:

	Year ended		Six months	Nine months
	31 December		30 June	30 September
	2005	2006	2007	2007
	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>	<i>HK\$000's</i>
Unallocated interest expenses	33,830	41,647	17,604	23,115
Head office expenses	20,655	22,449	9,187	17,999

- 2) The proposal requires CR Logic to be paid dividends by the companies to be sold to CSMC amounting in aggregate to approximately HK\$474.4 million.

*Reasons for, and benefit of, entering into the Acquisition Agreement*

**Strengthen the position of CSMC in the semiconductor market in China:** As stated in the Letter, after the Acquisition, all of the China Resources group's interests in the semiconductor sector will be amalgamated under CSMC and the amalgamated group will have a broad spread of interests within the sector from its own IC design to open foundry operations for the group and outside customers. As confirmed by the management of CSMC, by the consolidation of existing sales network, production capabilities, relationships with domestic fables design houses, IC design capabilities and experienced management teams of CSMC and the Sale Companies, the Acquisition would allow CSMC to enhance its competitive advantage in the semiconductor market in China and strengthen its position as one of the major, open semiconductor foundries in China (as measured by operational capacity). As stated in its interim report for the six months ended 30 June 2007, CSMC foresees a continuing growth in the China analog semiconductor market that significantly outpaces the worldwide market. Therefore, we are of the view that, the Acquisition would strengthen the competitiveness and presence of CSMC in the semiconductor market in China and that, upon completion of the Acquisition, the shareholders of CSMC will have an investment in a larger capitalised company having a stronger foothold in the semiconductor market in China.

**Greater financial resources and operational flexibility:** As stated in the Letter, as all of the amalgamated group's major semiconductor operations will be wholly-owned, it will give the amalgamated group, being the post-Acquisition CSMC group, much greater flexibility in deploying its existing resources and discretionary cashflows. It is also anticipated by CSMC that there will be rationalization benefits arising from a closer cooperation between the foundry operations of CR Logic and CSMC. According to the unaudited financial statements of the Sale Companies prepared in accordance with HK GAAP, net assets attributable to the Sale Companies as at 30 June 2007 was approximately HK\$1,963 million. As such, we concur with the views of the management of CSMC that the Acquisition could provide CSMC with more flexibility in allocation of resources to fund its expansion.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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**Profit contribution:** According to the unaudited financial statements of the Sale Companies prepared in accordance with HK GAAP, profit after taxation attributable to shareholders for the two years ended 31 December 2006 and six months ended 30 June 2007 was approximately HK\$146.5 million, HK\$158.9 million and HK\$96.2 million, respectively. The management of CSMC anticipates that the Acquisition would result in an increase in the earnings attributable to the equity holders of CSMC.

Having taken into account the above, in particular that (i) the Acquisition represents the consolidation of existing sales network, production capabilities, relationships with domestic fables design houses, IC design capabilities and experience management teams of CSMC and the Sale Companies which would allow CSMC to enhance its competitiveness in the semiconductor market in China and strengthen its position as one of the major, open semiconductor foundries in China; (ii) the Acquisition would provide greater financial resources and operational flexibility to CSMC; and (iii) the earnings attributable to shareholders of CSMC would be increased upon completion of the Acquisition as expected by the management of CSMC, we consider that the Acquisition is in the interests of CSMC and the shareholders of CSMC as a whole.

### 2. Principal terms of the Acquisition Agreement

#### *Basis of consideration*

Pursuant to the Acquisition Agreement, the total consideration for the acquisition of the Sale Shares is equal to approximately HK\$1,488.9 million, representing the unaudited net asset value of the Sale Companies as at 30 June 2007 adjusted for the payment of a dividend of approximately HK\$474.4 million. This dividend has been determined as the amount necessary to provide CR Logic with sufficient working capital to primarily (i) repay all outstanding bank borrowings; (ii) have sufficient funds to pay all estimated liabilities accruing up to the completion date; and (iii) pay the cash consideration for the acquisition of Redland Concrete Limited (detail of which is set out in the “Letter from the Board of CR Logic” contained in the Circular). The total consideration of approximately HK\$1,488.9 million will be satisfied by CSMC by an issue of not less than 3,050,581,517 and not more than 3,210,167,717 of its shares, credited as fully paid, to the CR Logic.

As stated in the Letter, the number of shares in CSMC to be issued as consideration in excess of the minimum number will be determined by how many optionholders of CR Logic accept the offer of shares in CSMC in consideration for the cancellation of their options, or exercise their options at such time when the shares in CR Logic falling to be issued to them are entitled to receive the distribution in specie. Such number of shares will be that number which will equal the number of shares in CSMC to be issued to optionholders in consideration for the cancellation of their options and the number of shares in CSMC sufficient to make a distribution to the holders of shares in CR Logic issued on the exercise of their options on the basis of 180 shares in CSMC for every 100 shares in CR Logic held. It is estimated that, provided all such optionholders as at the date of the Holding Announcement agree to the cancellation of their options, 78,222,686 shares in CSMC will be issued in consideration for the cancellation of all the outstanding options of CR Logic granted under its present and past share option schemes. If none of the optionholders accept the offer for cancellation of their options but instead exercise their options before the shares in CR Logic cease to be entitled to the distribution in specie, this will result in the maximum number of shares, being 3,210,167,717,



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## LETTER FROM KGI CAPITAL ASIA LIMITED

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in CSMC being issued as consideration for the Acquisition. As stated in the Letter, all amounts received on the exercise of options of CR Logic during the period when the shares in CR Logic are cum the entitlement to the distribution in specie will be retained by the semiconductor businesses to be acquired by CSMC. As stated in the “Letter from the Board of CR Logic” contained in the Circular, upon completion of the Acquisition, CR Logic will effect a distribution of dividend in specie being its shareholding interest in CSMC to shareholders of CR Logic as appropriate in order to maintain at all time a 25% public float in CSMC to warrant the maintenance of the listing of CSMC and the continuation of trading in the shares of CSMC on the Stock Exchange.

As stated in the Letter, the consideration for the Acquisition was based on an assessment of the relative market prices of shares in CSMC and CR Logic, their attributable profits of their separate businesses, underlying net asset value, financial condition and prospects. The acquisition terms were designed to achieve an equitable basis for both sets of shareholders for the amalgamation of the semiconductor interests of the China Resources group in terms of attributable earnings, underlying net assets and market value and to have no significant impact on the underlying net asset values of the shares in both companies.

Based on the closing price of the shares in CSMC of HK\$0.68 per share immediately before the publication of the Holding Announcement, the Acquisition values the semiconductor businesses of CR Logic at between approximately HK\$2,074.4 million and approximately HK\$2,182.9 million. Based on the closing price of the shares in CSMC of HK\$0.56 per share as at the Latest Practicable Date, the Acquisition values the semiconductor businesses of CR Logic at between approximately HK\$1,708.3 million and approximately HK\$1,797.7 million. Based on the unaudited consolidated net asset value of the shares in CSMC as at 30 June 2007 of approximately HK\$0.51 per share, the Acquisition values the semiconductor businesses of CR Logic at between approximately HK\$1,555.8 million and approximately HK\$1,637.2 million.

### *Comparison of the consideration of the Acquisition with the price-to-earnings ratio and price-to-net asset ratio of comparable companies*

In order to assess the fairness and reasonableness of the consideration of the Acquisition, we have selected a number of comparable companies and calculated their price-to-earnings ratio and price-to-net asset ratio for comparison with such ratios of the Acquisition. Our criteria in selecting the comparable companies was based primarily upon similarity of business with the semiconductor businesses of CR Logic and the stock market (including the Main Board and the Growth Enterprise Market of the Stock Exchange), where shares of the comparable companies are traded. Information related to these selected companies was all sourced from Bloomberg and website of the Stock Exchange as at the Latest Practicable Date. Based on the abovementioned criteria, 5 companies listed in Stock Exchange which operate in the semiconductor industry were selected on a best effort basis.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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While the comparable companies operate in a similar industry sector of the semiconductor businesses of CR Logic, we note that the products, the industry segments and the markets of these companies listed below may not replicate exactly as that of the semiconductor businesses of CR Logic. The information on the comparable companies listed below nevertheless provides a useful reference in terms of valuation. Summary of the comparison are as follows:

Stock code	Name of Company	Closing price as at 4 December 2007, being the date of the relevant joint announcement (HK\$)	Price/ earnings <sup>(1)</sup>	Price/ NAV <sup>(1) (2)</sup>
8102	Shanghai Fudan Microelectronics Company Limited	1.18	33.18	2.75
3355	Advanced Semiconductor Manufacturing Corporation Limited	0.40	135.79	0.32
2878	Solomon Systech (International) Limited	0.68	15.05	1.22
981	Semiconductor Manufacturing International Corporation	0.73	Not applicable	0.58
527	Galaxy Semi-Conductor Holdings Limited	0.60	7.41	1.00
<b>Lowest</b>			7.41	0.32
<b>Highest</b>			135.79	2.75
<b>Average</b>			18.54 <sup>(3)</sup>	1.17
<b>The Acquisition</b>			9.36 <sup>(4)</sup>	1.00 <sup>(5)</sup>

Source: Bloomberg

Notes:

(1) Based on the closing price of the shares of the comparable companies as at 4 December 2007, being the date of the joint announcement made by CR Logic and CSMC regarding the amalgamation proposal and capital reorganisation.

(2) NAV represents the consolidated net asset value attributable to the shareholders of the comparable companies as at the date of their respective latest audited balance sheet date.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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- (3) The price-to-earnings ratio of Semiconductor Manufacturing International Corporation (#981) and Advanced Semiconductor Manufacturing Corporation Limited (#3355) are excluded in calculating the average price-to-earnings ratio of the comparable companies as such ratio for Semiconductor Manufacturing International Corporation is meaningless given it recorded losses in its latest audited financial year and the ratio for Advanced Semiconductor Manufacturing Corporation Limited is exceptionally high thus being regarded as a statistical outlier.
- (4) The price-to-earnings ratio of the Acquisition is calculated by dividing the aggregate consideration of approximately HK\$1,488.9 million for the Acquisition by the audited profit after taxation attributable to shareholders of the semiconductor businesses to be acquired by CSMC for the year ended 31 December 2006.
- (5) The price-to-NAV ratio of the Acquisition is calculated by dividing the aggregate consideration of approximately HK\$1,488.9 million for the Acquisition by the net asset value of the Acquisition of approximately HK\$1,488.9 million, being the aggregate net asset value of the companies being acquired by CSMC based on the management accounts of such companies as at 30 June 2007 adjusted for the payment of a dividend of approximately HK\$474.4 million.

Given that the price-to-earnings ratio (P/E) of the semiconductor businesses of CR Logic to be acquired by CSMC as represented by the consideration of approximately HK\$1,488.9 million of 9.36 falls within the range of that of a set of comparable companies in semiconductor business sector of 7.41 to 33.18 (P/E of Advanced Semiconductor Manufacturing Corporation Limited is excluded) and is substantially below the average of the P/E of the comparable companies of 18.54, we consider the P/E of the semiconductor businesses of CR Logic to be acquired by CSMC as represented by the consideration of approximately HK\$1,488.9 million is fair and reasonable. Likewise, the price-to-net asset value ratio (P/B) of the semiconductor businesses of CR Logic to be acquired by CSMC as represented by the consideration of approximately HK\$1,488.9 million of 1.00 falls within the range of the P/B of the comparable companies in semiconductor business sector of 0.32 to 2.75 and is below the average of the P/B of the comparable companies of 1.17. As such, we consider the consideration for the Acquisition is in line with market valuations and is fair and reasonable so far as CSMC as a whole and the shareholders are concerned.

### *Settlement terms*

As mentioned above, not less than 3,050,581,517 of shares of CSMC, representing approximately 111.28% of the existing issued shares of CSMC as at the Latest Practicable Date, and not more than 3,210,167,717 of shares of CSMC, representing approximately 117.10% of the existing issued shares of CSMC as at the Latest Practicable Date, will be issued in consideration of the acquisition of the Sale Shares. Based on the aggregate consideration of approximately HK\$1,488.9 million and the number of shares of CSMC to be issued as consideration, the effective issue price of the shares of CSMC to be issued will be not less than approximately HK\$0.464 per share and not more than approximately HK\$0.488 per share.

The effective issue price of not less than approximately HK\$0.464 per share and not more than approximately HK\$0.488 per share represents:

- a discount of approximately 20.00% to 23.93% to the closing price of the shares in CSMC of HK\$0.61 per share as quoted on the Stock Exchange immediately before the joint announcement made by CR Logic and CSMC dated 4 December 2007;

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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- a discount of approximately 24.69% to 28.4% to the average closing price of approximately HK\$0.648 per share as quoted on the Stock Exchange for the last 5 trading days up to and including 4 December 2007; and
- a discount of approximately 25.72% to 29.38% to the average closing price of approximately HK\$0.657 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 4 December 2007.

To assess whether the relevant discounts of the effective issue price of the shares of CSMC for the Acquisition are in line with that of other acquisition transactions involving an issue of shares, we have identified, on a best effort basis, the following similar transactions carried out by 10 Hong Kong listed companies (including the Main Board and the Growth Enterprise Market of the Stock Exchange) which were selected on the basis that they are (i) acquisitions; (ii) involving issuance of consideration shares; and (iii) the last 10 transactions occurred prior to the date of the joint announcement made by CR Logic and CSMC in connection with the Acquisition, being 4 December 2007.

Date of announcement (dd/mm/yy)	Company (Stock code)	Issue price (HK\$)	Premium/ (discount) of issue price of consideration shares over the closing price/ average closing price prior to the relevant announcement		
			5 trading days' average closing price (%)	10 trading days' average closing price (%)	10 trading days' average closing price (%)
03/12/07	Tianjin Development Holdings Limited (0882)	8.32	(8.67)	(6.94)	(5.99)
03/12/07	China Resources Land Limited (1109)	16.83	(11.05)	(5.02)	(1.00)
30/11/07	K.P.I. Company Limited (0605)	0.45	(4.26)	1.12	2.74
30/11/07	China National Resources Development Holdings Limited (0661)	1.58	38.60	40.82	36.68
29/11/07	Neptune Group Limited (0070)	0.30	(13.04)	(8.26)	(7.98)
29/11/07	China Medical and Bio Science Limited (8120)	0.85	51.79	51.79	52.60

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**LETTER FROM KGI CAPITAL ASIA LIMITED**

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Date of announcement (dd/mm/yy)	Company (Stock code)	Issue price (HK\$)	Premium/ (discount) of issue price of consideration shares over the closing price/ average closing price prior to the relevant announcement		
			5 trading days' average closing price (%)	10 trading days' average closing price (%)	
28/11/07	Jinheng Automotive Safety Technology Holdings Limited (8293)	1.28	3.23	0	(3.76)
23/11/07	Hualing Holdings Limited (0382)	0.414	(41.69)	(43.29)	(42.50)
23/11/07	Prosperity International Holdings (H.K.) Limited (8139)	1.00	(48.98)	(50.00)	(50.50)
21/11/07	Sino Haijing Holdings Limited (8065)	1.11	5.71	2.78	0.91
	<b>Highest</b>		51.79	51.79	52.60
	<b>Lowest</b>		(48.98)	(50.00)	(50.50)
	<b>Median</b>		(6.465)	(2.51)	(2.38)
	<b>The Acquisition</b>				
	- based on HK\$0.464 per share		(23.93)	(28.40)	(29.38)
	- based on HK\$0.488 per share		(20.00)	(24.69)	(25.72)

As shown in the data above, the discounts of the minimum issue price of HK\$0.464 per share and the maximum issue price of HK\$0.488 per share to the closing prices immediately before the joint announcement made by CR Logic and CSMC dated 4 December 2007, to average closing price over the last 5 trading days up to and including 4 December 2007 and to average closing price over the last 10 trading days up to and including 4 December 2007 fall within the range of the respective highest and lowest percentages of that of the 10 comparable companies.

In view of the above, we consider that the effective issue price of the shares in CSMC for the Acquisition is comparable with the market practice and is fair and reasonable to CSMC as a whole and so far as the independent shareholders are concerned.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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In assessing the appropriateness of satisfying the consideration of the Acquisition by issuance of new shares, we note and consider that:

- (i) according to the interim report of CSMC for the six months ended 30 June 2007, the unaudited consolidated bank balances and cash account of CSMC as at 30 June 2007 was approximately US\$19.53 million (equivalent to approximately HK\$152.3 million), representing approximately 10.2% of the total consideration of the Acquisition of approximately HK\$1,488.9 million;
- (ii) the management of CSMC considered it would impose a financial burden on CSMC should the funding of the Acquisition be wholly or partially financed by debt and/or convertible notes; and
- (iii) for the reasons and discussion as set out in the section headed “*Dilution effect on shareholding*” under the paragraph headed “Financial effects on the Group” below, we consider that the dilution effect on the shareholdings of the existing public shareholders in CSMC as a result of completion of the Acquisition is acceptable so far as the shareholders are concerned.

In view of the above, we consider that satisfying the consideration of the Acquisition by way of issuance of shares is justifiable and reasonable and in the interests of the shareholders and CSMC as a whole.

### 3. Financial effects on the Group

#### *Earnings*

As extracted from the unaudited pro forma combined income statement of the CSMC group after completion of the Acquisition (the “Enlarged CSMC group”) for the nine months ended 30 September 2007 as stated in the Appendix V to the Circular, the unaudited pro forma consolidated profit attributable to equity holders of the Enlarged CSMC group for the nine months ended 30 September 2007 amounted to approximately HK\$158,525,000, representing an increase of approximately 113.3% to the unaudited consolidated profit attributable to equity holders of the CSMC group for the nine months ended 30 September 2007 of approximately HK\$74,337,000. On the basis of the adjusted weighted average number of shares in issue during the nine months ended 30 September 2007 of 5,939,813,930 shares which was adjusted as if the 3,210,167,717 consideration shares of CSMC had been issued at the beginning of the period and was confirmed by CSMC, the unaudited pro forma consolidated profit per share of the Enlarged CSMC group amounted to approximately HK\$0.027, being the same as the unaudited profit per share of approximately HK\$0.027 (based on the weighted average number of shares in issue during the nine months ended 30 September 2007 of 2,729,646,213 shares) of the CSMC group for the nine months ended 30 September 2007 before the Acquisition.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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### *Net asset value*

As extracted from the unaudited pro forma consolidated balance sheet of the Enlarged CSMC group as stated in the Appendix V to the Circular, the unaudited consolidated net assets attributable to the equity holders of CSMC will be increased from approximately HK\$1,470,526,000 as at 30 September 2007 to approximately HK\$3,014,004,000, representing an increase of approximately 105.0%, upon completion of the Acquisition. The unaudited consolidated net asset value per share of the CSMC group as at 30 September 2007 was approximately HK\$0.54 on the basis of 2,736,348,079 shares in issue. Upon completion of the Acquisition and assuming that 3,210,167,717 shares of CSMC are issued as consideration for the Acquisition, the unaudited pro forma consolidated net asset value per share of the Enlarged CSMC group would be approximately HK\$0.51 (on the basis of 5,946,515,796 shares) representing a decrease of approximately 5.6% to the unaudited consolidated net asset value per share of the CSMC group as at 30 September 2007 before the Acquisition.

### *Current ratio*

According to the unaudited consolidated balance sheet of the CSMC group as at 30 September 2007 as stated in the Appendix III to the Circular, the current ratio of the CSMC group as at 30 September 2007 (defined as total current assets divided by total current liabilities) was approximately 0.96. According to the unaudited pro forma consolidated balance sheet of the Enlarged CSMC group as stated in the Appendix V to the Circular, the current ratio of the Enlarged CSMC group was approximately 0.85.

### *Gearing*

According to the unaudited pro forma consolidated balance sheet of the Enlarged CSMS group as stated in the Appendix V to the Circular, the gearing ratio of the CSMC group (which is calculated as total borrowings divided by the consolidated net asset value attributable to the equity holders of CSMC) will be increased from approximately 24.6% as at 30 September 2007 to approximately 37.2% upon completion of the Acquisition, assuming 3,210,167,717 shares of CSMC are issued as consideration for the Acquisition.

### *Dilution effect on shareholding*

Upon completion of the Acquisition, the shareholding of the existing public shareholders of CSMC will be diluted from approximately 25.9% as at the date of the Holding Announcement to approximately 11.9%, assuming all optionholders of CR Logic exercise their share options, detail of which are set out in the section headed "Dilution effect" under the paragraph headed "The Allotment" below. After taking into account that (i) the shareholders of CSMC can enjoy the contemplated benefits of the Acquisition as mentioned in the paragraph headed "Reasons for, and benefits of, entering into the Acquisition Agreement" above; (ii) the unaudited pro forma consolidated profit and net assets attributable to equity holders of CSMC would be increased upon completion of the Acquisition; and (iii) the issuance of the consideration shares for the Acquisition will allow CSMC to retain its cash resources for its day to day operations and future developments, we are of the opinion that the dilution effect on the shareholdings of the existing public shareholders of CSMC is acceptable so far as the shareholders are concerned.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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Based on the above analysis, we consider that the contemplated benefits of the Acquisition outweigh the dilution effect on the shareholdings of existing public shareholders of CSMC and are therefore of the opinion that the Acquisition is in the interests of CSMC and the independent shareholders as a whole.

#### 4. Conclusion

Having taken into account the above, in particular:

- (i) the Acquisition represents the consolidation of existing sales network, production capabilities, relationships with domestic fables design houses, IC design capabilities and experience management teams of CSMC and the Sale Companies which would allow the Enlarged CSMC group to enhance its competitiveness in the semiconductor market in China and strengthen its position as one of the major, open semiconductor foundries in China;
- (ii) the Acquisition would provide greater financial resources and operational flexibility to CSMC and the earnings attributable to the equity holders of CSMC would be increased upon completion of the Acquisition as expected by the management of CSMC;
- (iii) the P/E of the semiconductor businesses of CR Logic to be acquired by CSMC of 9.36 falls within the range of that of a set of comparable companies in semiconductor business sector and is substantially below the average of the P/E of the comparable companies of 18.54 and the P/B of the semiconductor businesses of CR Logic to be acquired by CSMC of 1.00 falls within the range of the P/B of the comparable companies in semiconductor business and is below the average of the P/B of the comparable companies of 1.17. As such, we consider the consideration for the Acquisition is in line with market valuations and is fair and reasonable so far as CSMC as a whole and the shareholders are concerned;
- (iv) the effective issue price of the shares in CSMC for the Acquisition is comparable with the market practice and is fair and reasonable to CSMC as a whole and so far as the independent shareholders are concerned;
- (v) the settlement of the consideration of the Acquisition by issuance of new shares is considered to be justifiable and reasonable and in the interests of the shareholders and CSMC as a whole having taken into consideration of the cash level of the CSMC group, the contemplated benefits of the Acquisition and that it would impose a financial burden on CSMC should the funding of the Acquisition be wholly or partially financed by debt and/or convertible notes; and
- (vi) the unaudited pro forma consolidated profit attributable to equity holders of the Enlarged CSMC group for the nine months ended 30 September 2007 and the unaudited pro forma consolidated net assets attributable to the equity holders of the Enlarged CSMC group as at 30 September 2007 would be increased upon completion of the Acquisition.

Based on the above, we are of the opinion that, on balance, the Acquisition is in the interests of CSMC and the independent shareholders as a whole.



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## LETTER FROM KGI CAPITAL ASIA LIMITED

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### (2) THE ALLOTMENT

#### **Background of and reasons for the Allotment**

Since substantially all of the employees of the CR Logic group will become employees of the CSMC group after the implementation of the proposal and CR Logic will no longer be engaged in the semiconductor business once the future of China Resources Semiconductor Company Limited has been settled, it is proposed subject to the agreement of the relevant employees to cancel their outstanding options granted under the existing and past employee share option schemes of CR Logic. As stated in the Letter, there are 67,551,000 outstanding share options as at the Latest Practicable Date with exercise price ranged from HK\$0.479 to HK\$0.92 per share, of which 12,300,000 share options were held by the directors of CSMC.

The terms of the cancellation of the share options of CR Logic are set out in detail in the section headed “The termination of CR Logic’s employee share option scheme and cancellation of outstanding options” in the Letter. It is estimated that, provided all such optionholders as at the date of the Holding Announcement agree to the cancellation of their options, 78,222,686 shares in CSMC will be issued in consideration for the cancellation of all the outstanding options of CR Logic granted under its present and past employee share option schemes. If none of the optionholders accept the offer for cancellation of their options but instead exercise their options before the shares in CR Logic cease to be entitled to the distribution in specie, this will result in 3,210,167,717 shares in CSMC being issued, being the maximum number of shares to be issued by CSMC in satisfying the consideration for the acquisition of the semiconductor businesses of CR Logic. All amounts received on the exercise of options during the period when the shares in CR Logic are cum the entitlement to the distribution in specie will be retained by the semiconductor businesses of CR Logic to be acquired by CSMC.

As the cancellation of share options will involve CSMC allotting its shares to the directors of CSMC who are also holders of the share options, such allotment constitutes a connected transaction for CSMC. The allotment of CSMC shares to the directors of CSMC pursuant to the cancellation of their share options of CR Logic requires the approval of the independent shareholders of CSMC, with such directors and their respective associates being required to abstain from voting.

## LETTER FROM KGI CAPITAL ASIA LIMITED

### Dilution effect

As confirmed by CSMC, the shareholding structure of CSMC before and after the acquisition of semiconductor businesses of CR Logic by CSMC is set out below:

	Immediately after the acquisition of semiconductor businesses of CR Logic by CSMC									
	As at the date of the Holding Announcement		(Assuming all optionholders of CR Logic neither accept the cancellation offer nor exercise their options and distribution in species in full to shareholders of CR Logic)		(Assuming all optionholders of CR Logic exercise their options and distribution in species in full to shareholders of CR Logic)		(Assuming all optionholders of CR Logic accept the cancellation offer and distribution in species in full to shareholders of CR Logic)		(Assuming all share options in CR Logic and CSMC were exercised and assuming partial distribution of 0.95 CSMC share per CR Logic share)	
	<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>	<i>No. of shares</i>	<i>%</i>
CR Logic group	1,984,967,848	72.5	—	—	—	—	—	—	2,516,014,511	42.3 <i>(note)</i>
China Resources Holdings	—	—	3,504,783,883	60.6	3,504,783,883	58.9	3,504,783,883	59.7	1,849,747,049	31.1
Directors of CR Logic and/or CSMC	43,571,430	1.6	52,387,830	0.9	93,067,830	1.6	73,823,968	1.3	72,689,530	1.2
Existing shareholders or option holders of CR Logic other than directors of CR Logic and/or CSMC	—	—	1,521,949,082	26.3	1,640,855,282	27.6	1,578,735,630	26.9	803,250,905	13.5
Existing shareholders of CSMC	709,033,801	25.9	709,033,801	12.2	709,033,801	11.9	709,033,801	12.1	709,033,801	11.9
Public shareholders	709,033,801	25.9	2,230,982,883	38.5	2,349,889,083	39.5	2,287,769,431	39.0	1,512,284,706	25.4
<b>Total</b>	<b><u>2,737,573,079</u></b>	<b><u>100</u></b>	<b><u>5,788,154,596</u></b>	<b><u>100</u></b>	<b><u>5,947,740,796</u></b>	<b><u>100</u></b>	<b><u>5,866,377,282</u></b>	<b><u>100</u></b>	<b><u>5,950,735,796</u></b>	<b><u>100</u></b>

*Note:* CR Logic will continue to control of the board of directors of CSMC. Accordingly CSMC will remain as the subsidiary of CR Logic with its financial statements being consolidated under CR Logic.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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Having considered the followings:

- (i) Under the proposal in respect of the cancellation of the share options of CR Logic, the directors of CSMC are entitled to accept the offer under the same terms and conditions of the cancellation of the options of CR Logic and the allotment of CSMC shares as the other optionholders of CR Logic.
- (ii) As confirmed by CSMC, as at the Latest Practicable Date, Mr. Zhu Jinkun, Mr. Wang Guoping, Mr. Ong Thiam Kin and Mr. Yu Yu, being the directors of CSMC, are holders an aggregate of 12,300,000 share options of CR Logic.

According to the annual reports of CSMC and CR Logic for the year ended 31 December 2006, the profiles of Mr. Zhu Jinkun, Mr. Wang Guoping, Mr. Ong Thiam Kin and Mr. Yu Yu are extracted as below respectively:

Mr. Zhu Jinkun, is currently a director of CSMC and also is the Executive Director and Chairman of CR Logic, has extensive experience in semiconductor operations and is responsible for strategic planning, business development and operation of CR Logic's semiconductor business since 1997.

Mr. Wang Guoping, is currently a director of CSMC and is an executive director of CR Logic since 2003, has extensive experiences in semiconductor research & development and production management.

Mr. Ong Thiam Kin, is currently a non-executive director of CSMC and also serves as an executive director and the chief financial officer of CR Logic since 2001, is responsible for the financial and legal operations of the CR Logic group.

Mr. Yu Yu, is currently a non-executive director of CSMC and also serves as executive vice president of CR Logic and joined CR Logic since 2001, has more than 10 years experience in direct investment and project management.

In view of the profitability of the semiconductor businesses of CR Logic to be acquired by CSMC for the two financial years ended 31 December 2006, we note that all of the aforesaid directors of CSMC, who are also holders of share options of CR Logic, had continuously been directors and/or senior management of CR Logic for the two financial years ended 31 December 2006. CSMC considered that the aforesaid directors of CSMC are one of key drivers of the performance of the semiconductor businesses of CR Logic under the Acquisition and considered that they dedicated their expertise and contributed to the profitability of the semiconductor businesses of CR Logic under the Acquisition for the two financial years ended 31 December 2006. The CSMC group recognizes the need to retain well-experienced, high calibre and committed people in order to achieve its business objectives and for the future development of the Enlarged CSMC group in respect of the semiconductor business. In this regard, we are of the view that the allotment of CSMC shares to the directors of CSMC pursuant to the cancellation of their share options of CR Logic is justifiable.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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- (iii) Pursuant to the Acquisition Agreement, completion of the Acquisition is subject to, inter alia, the cancellation of the share options of CR Logic and hence the allotment of CSMC shares to the directors of CSMC being approved by the independent shareholders of CSMC. Therefore, granting the approval on the allotment of CSMC shares to the directors of CSMC is one of the conditions of the Acquisition, upon completion of which CSMC could enjoy the contemplated benefits of entering into the Acquisition Agreement as discussed in the section headed “*Reasons for, and benefit of, entering into the Acquisition Agreement*” above.
- (iv) Assuming all optionholders of CR Logic, including the directors of CSMC, accept the cancellation offer, the shareholding interests of the existing public shareholders of CSMC will be diluted from approximately 25.9% as at the date of the Holding Announcement to approximately 12.1%, while assuming all optionholders of CR Logic, including the directors of CSMC, neither accept the cancellation offer nor exercise their options, the shareholding interests of the existing public shareholders of CSMC will be diluted from approximately 25.9% as at the date of the Holding Announcement to approximately 12.2%. Hence, the maximum dilution effect in respect of the Allotment only is approximately 0.1%, which is acceptable having considered the contemplated benefits of the Allotment and the Acquisition as discussed above.

we are of the view that the allotment of CSMC shares to the directors of CSMC pursuant to the cancellation of their share options of CR Logic is justifiable and reasonable and in the interests of CSMC and the independent shareholders as a whole.

### **(3) CONTINUING CONNECTED TRANSACTION**

#### **1. Background information of the Manufacturer’s Representative Agreement**

As set out in an announcement made by CR Logic dated 22 June 2006, Wuxi CR Micro-Assemb Tech. Ltd. (“ANST”), an indirect wholly-owned subsidiary of CR Logic at that time, as manufacturer, CR Logic, as guarantor, STATS ChipPAC (BVI) Limited (“SCBL”), as manufacturer’s representative, and STATS ChipPAC Limited (“SCL”), the holding company of STATS ChipPAC (BVI) Limited, entered into a manufacturer’s representative agreement, in which SCBL, an independent third party, should solicit orders from existing and future customers of SCL together with its subsidiaries (the “Transfer Customers”) to be placed directly with ANST and assist ANST in relation to promotional activities and events (collectively the “Services”). SCBL is only engaged in the provision of the Services. It has not and will not engage in the same business as that of ANST. The manufacturer’s representative agreement was agreed to be effective from 1 January 2007 and for a duration from 1 January 2007 to 31 December 2009. CR Logic entered into the manufacturer’s representative agreement to guarantee the payment obligation of ANST; whilst SCL undertook to procure the due and punctual performance of SCBL.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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In consideration of the performance of the Services by SCBL, ANST should pay fees (the “Commission Fees”) to SCBL by reference to certain percentages of the aggregate amount of revenues arising from accepted orders from Transfer Customers pursuant to the performance of the Services by SCBL, based on the total amounts invoiced by ANST for such orders (excluding taxes and value of wafer and chips) during relevant period. The Commission Fees are payable quarterly in cash. It was estimated that the annual aggregate amount of payment to SCBL under the manufacturer’s representative agreement dated 22 June 2006 will not exceed HK\$21,500,000 for each of year 2007 to 2009. In another announcement made by CR Logic dated 30 November 2006, the annual cap of the manufacturer’s representative agreement was adjusted to HK\$18,000,000 for each of year 2007 to 2009.

As stated in the announcement made by CR Logic dated 22 June 2006, CR Logic, Wuxi China Resources Microelectronics (Holdings) Limited, Micro Assembly Technologies Limited (“MAT”), ANST (a wholly-owned subsidiary of MAT), and SCL entered into a joint venture arrangement to engage in the business of IC assembly and testing foundry provider. Consequently, SCL became a substantial shareholder of MAT.

According to the joint announcement made by CR Logic and CSMC dated 4 December 2007, subject to the completion of the acquisition of the semiconductor businesses of CR Logic by CSMC, the manufacturer’s representative agreement dated 22 June 2006 will continue. Pursuant to the Acquisition Agreement, MAT and ANST are subsidiaries of one of the Sales Companies which are proposed to be acquired by CSMC. As such, upon the completion of the Acquisition, MAT and ANST will become indirectly non-wholly-owned subsidiaries of CSMC. SCL, being a substantial shareholder of MAT, will be a connected person of CSMC under the Listing Rules. A novation agreement will be entered by CSMC on or prior to completion of the Acquisition. The independent shareholders of CSMC will be asked to approve the annual cap of HK\$18 million in respect of the Manufacturer’s Representative Agreement for each of the two years ending 31 December 2009.

### **2. Reasons for, and benefits of, entering into the Manufacturer’s Representative Agreement**

As stated in the announcements made by CR Logic dated 22 June 2006 and 30 November 2006, the transactions contemplated under the manufacturer’s representative agreement would broaden the customer base of ANST which when materialize, would include leading international entities in the semiconductor industries. The management of CSMC also expected that ANST’s IC assembly and testing foundry business volume and revenue will be increased under the arrangement. We have discussed with the management of ANST and noted that given the high initial cost of setting up marketing offices and employment of sales executives in overseas markets and the related business risk in new markets, the entering into the manufacturer’s representative agreement provided with ANST an effective and conservative way to expand its customer base into overseas markets.

As mentioned before, at the time when the manufacturer’s representative agreement was initially entered into in June 2006, both SCBL and SCL are third parties to ANST. As confirmed by the management of ANST, the terms of such agreement was determined after arm’s length negotiations between the relevant parties.

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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As set out in the manufacturer's representative agreement dated 22 June 2006, ANST should pay the Commission Fees to SCBL on a quarterly basis, equal to 4%, 4% and 2% of the aggregate invoiced revenue for each quarter in year 2007, 2008 and 2009 respectively. As confirmed by the management of CSMC and ANST, the CSMC group and ANST did not have similar customer referral arrangements with other outside parties or in-house sales representative apart from the transactions under the manufacturer's representative agreement and the commission rate is in line with the market practice. In view of the above and having considered the contemplated benefits of entering into such agreement, we consider that the commission rate and the payment terms of the Manufacturer's Representative Agreement are fair and reasonable so far as the shareholders of CSMC are concerned.

Having considered the above and that granting approval on entering into the Manufacturer's Representative Agreement is one of the conditions of the Acquisition, upon completion of which CSMC could enjoy the contemplated benefits of entering into the Acquisition Agreement as discussed in the section headed "*Reasons for, and benefit of, entering into the Acquisition Agreement*" above, we are of the view that the terms of the Manufacturer's Representative Agreement are fair and reasonable so far as the shareholders are concerned and are in the interests of CSMC and its shareholders as a whole.

### 3. The annual caps

As stated in the announcement made by CR Logic dated 30 November 2006, the proposed amount of the annual cap of the Commission Fees for each of the two years ending 31 December 2009 is HK\$18,000,000. As also stated in such announcement, the annual caps were estimated by (i) basing on the forecast of revenues extrapolated from the past orders placed by the Transfer Customers pursuant to the manufacturer's representative agreement dated 22 June 2006; (ii) the production capacity of ANST; and (iii) the expected market demand of products of ANST during the relevant period.

In order to consider the fairness and reasonableness of the annual caps, we take into consideration of the following aspects:

- (i) we have discussed with the management of CSMC and ANST and have been provided with a breakdown of the projected sales under the Manufacturer's Representative Agreement for each of the two years ending 31 December 2009. The management of CSMC and ANST's estimate of revenues under the Manufacturer's Representative Agreement for each of the two years ending 31 December 2009 is approximately US\$56.25 million and US\$68.75 million, respectively;
- (ii) the commission rate for each of the two years ending 31 December 2009 is 4% and 2%, respectively; and

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## LETTER FROM KGI CAPITAL ASIA LIMITED

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(iii) as stated in the joint announcement made by CR Logic and CSMC dated 4 December 2007, the actual amount of the Commission Fees from 1 January 2007 up to 31 October 2007 was approximately HK\$0.6 million. We have discussed with the management of CSMC and noted that the actual amount incurred up to 31 October 2007 was lower than expected mainly due to delay in the customer transfer progress for approximately six months. The management of CSMC expected the revenue to be generated from the Transfer Customers to increase in years 2008 and 2009 and thus wished to maintain the annual cap at HK\$18,000,000 for each of the two years ending 31 December 2009. According to a report issued by iSuppli, a major market research company, in September 2007, global semiconductor revenue will rise by 10% in the second half of year 2007 compared to the first half, marking a major turnaround in market conditions. iSuppli further predicted that the total semiconductor market to achieve a 9.3% revenue expansion in 2008.

In view of the above, we concur with the view of the directors of CSMC that the annual caps for each of the two years ending 31 December 2009 is fairly and reasonably determined and are fair and reasonable so far as the interests of the independent shareholders are concerned.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Acquisition Agreement, the Manufacturer's Representative Agreement and allotment of shares of CSMC to the directors of CSMC in relation to the cancellation of their share options of CR Logic are on normal commercial terms and, on balance, are fair and reasonable and in the interests of CSMC and the independent shareholders as a whole, and the annual cap for each of the two years ending 31 December 2009 under the Manufacturer's Representative Agreement are fair and reasonable so far as the interests of the independent shareholders are concerned. Accordingly, we recommend the independent board committee to advise the independent shareholders and recommend the independent shareholders to vote in favour of the ordinary resolutions to approve the Acquisition Agreement, allotment of shares of CSMC to the directors of CSMC in relation to the cancellation of their share options in CR Logic, the Manufacturer's Representative Agreement and the corresponding annual cap for each of the two years ending 31 December 2009 which will be proposed at the extraordinary general meeting of CSMC.

Yours faithfully,  
For and on behalf of  
**KGI Capital Asia Limited**

**Laurent Leung**  
*Director*

**Jimmy Chan**  
*Senior Vice President*

## I. ACCOUNTANTS' REPORT

**Deloitte.**  
德勤

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Hong Kong

16 January 2008

The Directors  
CSMC Technologies Corporation

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited (“the Companies”) and their respective subsidiaries (hereinafter together with the Companies are collectively referred to as the “Group”) for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 and the nine months ended 30 September 2007 (the “Relevant Periods”) for inclusion in the circular of CSMC Technologies Corporation (“CSMC”) to its shareholders dated 16 January 2008 (“Circular”) in connection with the acquisition of the entire issued capitals of the Companies from China Resources Logic Limited (“CRL”) constituting a very substantial acquisition of CSMC.

The companies in the Group were under the common control of CRL throughout the Relevant Periods. The Financial Information set out in this report, comprising the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 together with notes thereon, have been prepared from the underlying financial statements of the companies comprising the Group on the basis set out in Note 1 of Section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

At the date of this report, the particulars of the Companies as at the date of this report are as follows:

Name of company	Place of incorporation	Date of incorporation	Issued and fully paid ordinary share capital	Principal activities and place of operation
Oriental Gateway Enterprises Limited	British Virgin Islands (“BVI”)	2 February 2000	US\$1	Inactive



**APPENDIX I****FINANCIAL INFORMATION ON THE CR LOGIC  
SEMICONDUCTOR GROUP**

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Date of incorporation</b>	<b>Issued and fully paid ordinary share capital</b>	<b>Principal activities and place of operation</b>
勵致管理服務有限公司 CRL Management Services Limited	Hong Kong	18 May 2005	HK\$1	Provision of administrative service for the Group Hong Kong
CRL Finance Limited	BVI	25 August 2004	US\$1	Treasury operation Hong Kong
賽美科有限公司 Semicon Technology Company Limited	BVI	22 August 2000	US\$3	Investment holding Wuxi, PRC
科鵬微電子有限公司 Kope Microelectronics Company Limited	BVI	22 August 2000	US\$2	Inactive
華潤智能科技有限公司 China Resources Smartech Company Limited	BVI	22 August 2000	US\$2	Inactive
無錫華潤微電子(控股)有限公司 Wuxi China Resources Microelectronics (Holdings) Limited	BVI	23 August 2002	US\$5	Investment holding Wuxi, PRC
華潤微電子有限公司 CRC Microelectronics Company Limited	BVI	22 August 2000	US\$4	Investment holding Hong Kong
科隆物業有限公司 Fortune Property Limited	BVI	22 August 2000	US\$2	Property holding Shenzhen, PRC
華隆物業有限公司 Well-Known Property Limited	BVI	22 August 2000	US\$2	Investment holding Hong Kong

**APPENDIX I**
**FINANCIAL INFORMATION ON THE CR LOGIC SEMICONDUCTOR GROUP**

Particulars of the subsidiaries of the Companies as at the date of this report are as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Companies		Principal activities and place of operation
			Directly	Indirectly	
華潤晶芯半導體(BVI)有限公司 CR Semiconductor Wafers & Chips (BVI) Limited	BVI 14 July 2004	US\$1	100%	—	Investment holding Hong Kong
曼安森技術有限公司 Micro Assembly Technologies Limited	BVI 17 June 2003	US\$4,000,000	75%	—	Investment holding Wuxi, PRC
樂科半導體制造有限公司 Logic Semiconductor Manufacturing Limited	BVI 17 June 2003	US\$40,000,000	100%	—	Investment holding Wuxi, PRC
無錫華潤微電子有限公司 <sup>#</sup> Wuxi China Resources Microelectronics Co., Ltd.	The People's Republic of China ("PRC") 3 December 2002	RMB570,000,000	100%	—	Investment holding, property holding and manufacture and sales of integrated circuit Wuxi, PRC
華進半導體有限公司 Advanced Semiconductor Limited	BVI 2 January 2003	US\$1	100%	—	Investment holding Wuxi, PRC
華晶微電子有限公司 Huajing Microelectronics Limited	BVI 12 January 2004	US\$1	100%	—	Investment holding Wuxi, PRC
愛德森科技有限公司 Anadesign Technologies Limited	BVI 19 May 2004	US\$3,000,000	95.83%	—	Investment holding Shanghai, PRC
華潤微電子設計有限公司 CR Micro Design Technologies Limited	BVI 14 April 2004	US\$1	100%	—	Investment holding Hong Kong
Semico Microelectronics (BVI) Limited	BVI 2 January 2002	HK\$1,560	100%	—	Investment holding Wuxi, PRC

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Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Companies		Principal activities and place of operation
			Directly	Indirectly	
華隆(香港)物業有限公司 Well-Known (Hong Kong) Property Limited	Hong Kong 31 March 2000	HK\$3	100%	—	Property holding Hong Kong
賽美科微電子(深圳)有限公司 <sup>#</sup> Semicon Microelectronics (Shen Zhen) Co., Ltd.	PRC 20 June 2000	US\$7,550,000	—	100%	Testing and packaging wafers Shenzhen, PRC
華潤香港晶芯半導體有限公司 CRHK Semiconductor Wafers & Chips Limited	Hong Kong 17 September 2004	US\$0.05	—	100%	Inactive Hong Kong
無錫華潤安盛科技有限公司 <sup>#</sup> Wuxi CR Micro-Assemb Tech. Ltd.	PRC 23 December 2003	RMB320,000,000	—	75%	Testing and packaging of integrated circuit Wuxi, PRC
無錫華潤晶芯半導體有限公司 <sup>#</sup> Wuxi CR Semiconductor Wafers & Chips Ltd.	PRC 11 February 2004	RMB299,802,210	—	100%	Manufacture and sales of integrated circuit Wuxi, PRC
無錫華潤華晶微電子有限公司 <sup>@</sup> Wuxi China Resources Huajing Microelectronics Co., Ltd	PRC 24 February 2000	RMB235,000,000	—	99.7%	Manufacture and sale of discrete device Wuxi, PRC
中國華晶電子集團進出口有限公司	PRC 16 December 1999	RMB5,000,000	—	100%	Inactive Wuxi, PRC
無錫華晶物業管理有限責任公司	PRC 30 December 1996	RMB648,900	—	100%	Inactive Wuxi, PRC
無錫華晶綜合服務有限公司	PRC 15 November 2002	RMB5,300,000	—	100%	Inactive Wuxi, PRC
華潤微電子(深圳)有限公司 <sup>#</sup> CR Microelectronics (Shenzhen) Limited	PRC 20 January 2005	US\$5,710,000	—	100%	Inactive Shenzhen, PRC

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Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Companies		Principal activities and place of operation
			Directly	Indirectly	
華潤矽威科技(上海)有限公司	PRC 4 August 2004	US\$3,000,000	—	100%	Design, testing and sale of integrated circuit Shanghai, PRC
InPower Semiconductor Company Limited	Hong Kong 25 April 2006	US\$3,000,000	—	100%	Design, testing and sale of integrated circuit Hong Kong
先進集成系統有限公司 Advanced Integrated System Limited	BVI 6 May 2004	US\$1	—	100%	Investment holding Wuxi, PRC
無錫華潤矽科微電子有限公司 <sup>#</sup> Wuxi China Resources Semico Co., Ltd	PRC 26 February 2002	RMB25,000,000	—	100%	Design, testing and sale of integrated circuit products and chips Wuxi, PRC
無錫華潤芯功率半導體設計有限公司 <sup>#</sup> InPower Semiconductor (WuXi) Co., Ltd.	PRC 7 July 2006	US\$1,000,000	—	100%	Design, trading and sale of integrated circuit Wuxi, PRC
無錫盈泰科技有限公司 <sup>#</sup> Wuxi INTECH Technology Co., Ltd.	PRC 10 December 2001	RMB7,500,000	—	100%	Design, testing and sale of integrated circuit products and chips Wuxi, PRC
深圳華潤矽科微電子有限公司 <sup>#</sup>	PRC 4 April 2001	US\$1,800,000	—	100%	Design, testing and sale of integrated circuit products and chips Shenzhen, PRC
Firstar Limited	BVI 19 April 2007	US\$1	—	100%	Inactive

<sup>@</sup> *Equity Joint Venture*

<sup>#</sup> *Wholly foreign-owned enterprises established in the PRC*

All the companies in the Group adopted 31 December as their financial year end date.

We have audited the financial statements of all the companies incorporated in Hong Kong for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

No audited financial statements have been prepared for those companies incorporated in the BVI because there is no statutory requirement in the BVI to do so. For the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by HKICPA on the management accounts of the companies incorporated in the BVI for the Relevant Periods, which were prepared in accordance with HKFRSs issued by the HKICPA.

The statutory annual financial statements of the following companies in the Group which are established in the PRC were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises established in the PRC:

Company	From	To	Auditors
無錫華潤微電子有限公司 Wuxi China Resources Microelectronics Co., Ltd.	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
賽美科微電子(深圳)有限公司 Semicon Microelectronics (Shen Zhen) Co., Ltd.	1 January 2004	31 December 2006	深圳天華會計師事務所有限公司 Tin Wha CPAs, Shenzhen 深圳市萬隆眾天會計師事務所 有限公司 Wanlong Zhong Tian (Shenzhen) Certified Public Accountants
無錫華潤安盛科技有限公司 Wuxi CR Micro-Assemb Tech. Ltd.	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫華潤晶芯半導體有限公司 Wuxi CR Semiconductor Wafers & Chips Ltd.	11 February 2004 (date of establishment)	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫華潤華晶微電子有限公司 Wuxi China Resources Huajing Microelectronics Co., Ltd	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.

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<b>Company</b>	<b>From</b>	<b>To</b>	<b>Auditors</b>
中國華晶電子集團進出口有限公司	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫華晶物業管理有限責任公司	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫華晶綜合服務有限公司	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
華潤微電子(深圳)有限公司 CR Microelectronics (Shenzhen) Limited	20 January 2005 (date of establishment)	31 December 2006	深圳市萬隆眾天會計師事務所 有限公司 Wanlong Zhong Tian (Shenzhen) Certified Public Accountants
華潤矽威科技(上海)有限公司	4 August 2004 (date of establishment)	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫華潤矽科微電子有限公司 Wuxi China Resources Semico Co., Ltd	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
無錫盈泰科技有限公司 Wuxi INTECH Technology Co., Ltd.	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.
深圳華潤矽科微電子有限公司	1 January 2004	31 December 2006	江蘇公証會計師事務所有限公司 Jiangsu Gongzheng Certified Public Accountants Co. Ltd.

For the purpose of this report, the management of CSMC has prepared combined financial statements of the Group comprising the Companies for each of the Relevant Periods (the “Combined Management Accounts”) in accordance with the significant accounting policies, as set out in Note 3 to the Financial Information, which conform with HKFRSs issued by the HKICPA on the basis set out in Note 1 of Section A. We have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the HKICPA on the Combined Management Accounts of the Group for the Relevant Periods. We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Combined Management Accounts are free from material misstatements.

We have examined the Combined Management Accounts (collectively referred to as the “Underlying Financial Statements”) of the Group for the Relevant Periods in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Combined Management Accounts are the responsibility of the directors of CRL who approved their issue. The directors of CSMC are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Combined Management Accounts, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 and of the combined results and cash flows of the Group for the Relevant Periods.

The comparative combined income statement, statement of changes in equity and cash flow statement of the Group for the nine months ended 30 September 2006 together with the notes thereon (the “30 September 2006 Financial Information”) have been extracted from the Group’s combined financial information for the same period which was provided by the directors of CSMC solely for the purpose of this report. We have reviewed the 30 September 2006 Financial Information in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consists principally of making enquires of the management and applying analytical procedures to the 30 September 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 September 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 September 2006 Financial Information.

## A. FINANCIAL INFORMATION OF THE GROUP

## COMBINED INCOME STATEMENTS

	Notes	Year ended 31 December			Nine months ended 30 September	
		2004	2005	2006	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
Turnover	7	1,237,549	1,388,666	1,684,143	1,208,943	1,500,418
Cost of sales		<u>(939,361)</u>	<u>(1,086,615)</u>	<u>(1,257,110)</u>	<u>(895,527)</u>	<u>(1,165,367)</u>
Gross profit		298,188	302,051	427,033	313,416	335,051
Other income	8	74,916	117,126	84,727	61,766	97,640
Distribution costs		(30,303)	(31,677)	(40,933)	(26,330)	(31,840)
Administrative expenses		(116,041)	(122,929)	(138,247)	(106,050)	(126,188)
Other operating expenses		(105,569)	(106,126)	(137,911)	(85,712)	(134,522)
Amortisation of goodwill		(862)	—	—	—	—
Release of negative goodwill		33,938	—	—	—	—
Finance costs	9	<u>(5,086)</u>	<u>(9,450)</u>	<u>(17,986)</u>	<u>(11,540)</u>	<u>(30,377)</u>
Profit before taxation		149,181	148,995	176,683	145,550	109,764
Taxation	11	<u>(3,441)</u>	<u>(2,341)</u>	<u>(14,981)</u>	<u>(13,039)</u>	<u>(8,330)</u>
Profit for the year/period	12	<u>145,740</u>	<u>146,654</u>	<u>161,702</u>	<u>132,511</u>	<u>101,434</u>
Attributable to:						
Equity holders of the Companies		145,245	146,509	158,922	131,349	103,380
Minority interests		<u>495</u>	<u>145</u>	<u>2,780</u>	<u>1,162</u>	<u>(1,946)</u>
		<u>145,740</u>	<u>146,654</u>	<u>161,702</u>	<u>132,511</u>	<u>101,434</u>
Dividend declared and paid	14	<u>—</u>	<u>50,852</u>	<u>—</u>	<u>—</u>	<u>—</u>



**APPENDIX I**
**FINANCIAL INFORMATION ON THE CR LOGIC  
SEMICONDUCTOR GROUP**
**COMBINED BALANCE SHEETS**

		As at 31 December			As at 30 September
	<i>Notes</i>	2004	2005	2006	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>					
Property, plant and equipment	15	1,153,524	1,289,781	1,588,408	1,899,906
Investment properties	16	51,791	50,649	50,090	49,719
Goodwill	17	13,908	13,908	13,908	13,908
Negative goodwill	18	(103,477)	—	—	—
Deposit for acquisition of property, plant and equipment		—	—	63,205	—
Technical know-how	19	—	—	2,859	2,392
Investments securities/Available-for-sale investments	20	975	998	770	571
Prepaid lease payments	21	151,091	142,162	144,822	146,322
Deferred tax assets	31	4,355	4,456	4,355	2,555
		<u>1,272,167</u>	<u>1,501,954</u>	<u>1,868,417</u>	<u>2,115,373</u>
<b>Current assets</b>					
Inventories	22	228,938	256,726	420,954	558,559
Debtors, deposits and prepayments	23	449,171	590,798	663,953	830,663
Prepaid lease payments	21	3,522	3,412	3,637	3,567
Amounts due from subsidiaries of CSMC	24	7,833	10,227	9,710	11,147
Amounts due from CRL and its subsidiaries	24	29,349	40,002	312,871	45,349
Taxation recoverable		—	—	4,881	2,189
Bank balances and cash	25	212,946	116,155	135,130	113,523
		<u>931,759</u>	<u>1,017,320</u>	<u>1,551,136</u>	<u>1,564,997</u>

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	<i>Notes</i>	As at 31 December		As at 30 September	
		2004	2005	2006	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current liabilities</b>					
Creditors and accrued charges	26	470,569	606,358	842,564	1,045,524
Amounts due to subsidiaries of CSMC	27	26,486	38,558	18,402	28,659
Amounts due to CRL and its subsidiaries	27	407,814	350,347	36,437	257,275
Taxation		1,254	829	3,131	5,778
Provisions	28	131,461	93,332	77,111	44,057
Borrowings — due within one year	29	<u>163,294</u>	<u>51,005</u>	<u>543,872</u>	<u>78,931</u>
		<u>1,200,878</u>	<u>1,140,429</u>	<u>1,521,517</u>	<u>1,460,224</u>
<b>Net current (liabilities) assets</b>		<u>(269,119)</u>	<u>(123,109)</u>	<u>29,619</u>	<u>104,773</u>
<b>Total assets less current liabilities</b>		<u>1,003,048</u>	<u>1,378,845</u>	<u>1,898,036</u>	<u>2,220,146</u>
<b>Capital and reserves</b>					
Combined share capital	30	—	—	—	—
Share premium and reserves		<u>835,369</u>	<u>1,071,503</u>	<u>1,814,757</u>	<u>1,964,033</u>
Equity attributable to equity holders of the Companies		835,369	1,071,503	1,814,757	1,964,033
Minority interests		<u>6,969</u>	<u>2,616</u>	<u>83,279</u>	<u>84,272</u>
<b>Total equity</b>		<u>842,338</u>	<u>1,074,119</u>	<u>1,898,036</u>	<u>2,048,305</u>
<b>Non-current liabilities</b>					
Borrowings — due after one year	29	<u>160,710</u>	<u>304,726</u>	<u>—</u>	<u>171,841</u>
		<u>1,003,048</u>	<u>1,378,845</u>	<u>1,898,036</u>	<u>2,220,146</u>

**APPENDIX I**
**FINANCIAL INFORMATION ON THE CR LOGIC  
SEMICONDUCTOR GROUP**
**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to equity holders of the Companies							Minority interests	Total equity
	Share capital	Share premium	Translation reserve	Other reserves	Retained profits	Total	Total equity		
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2004	—	399,387	(5,216)	15,287	280,657	690,115	8,405	698,520	
Exchange differences (Note a)	—	—	9	—	—	9	12	21	
Profit for the year	—	—	—	—	145,245	145,245	495	145,740	
Total recognised income for the year	—	—	9	—	145,245	145,254	507	145,761	
Transfer between categories	—	—	—	12,611	(12,611)	—	—	—	
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(1,793)	(1,793)	
Dividends paid and payable to minority interests	—	—	—	—	—	—	(150)	(150)	
At 31 December, 2004	—	399,387	(5,207)	27,898	413,291	835,369	6,969	842,338	
Opening balance adjustments arising from changes in accounting policies (Note 2)	—	—	—	—	103,477	103,477	—	103,477	
At 1 January 2005, as restated	—	399,387	(5,207)	27,898	516,768	938,846	6,969	945,815	
Exchange differences (Note a)	—	—	37,000	—	—	37,000	140	37,140	
Profit for the year	—	—	—	—	146,509	146,509	145	146,654	
Total recognised income for the year	—	—	37,000	—	146,509	183,509	285	183,794	
Transfer between categories	—	—	—	16,635	(16,635)	—	—	—	
Dividends paid	—	—	—	—	(50,852)	(50,852)	—	(50,852)	
Disposal of a subsidiary	—	—	—	—	—	—	(4,379)	(4,379)	
Dividends paid to minority interests	—	—	—	—	—	—	(259)	(259)	

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	Attributable to equity holders of the Companies							Minority interests	Total equity
	Share capital	Share premium	Translation reserve	Other reserves	Retained profits	Total	Total equity		
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2005	—	399,387	31,793	44,533	595,790	1,071,503	2,616	1,074,119	
Exchange differences (Note a)	—	—	68,882	—	—	68,882	215	69,097	
Profit for the year	—	—	—	—	158,922	158,922	2,780	161,702	
Total recognised income for the year	—	—	68,882	—	158,922	227,804	2,995	230,799	
Deemed distribution to equity participant (Note c)	—	—	—	—	(1,000)	(1,000)	—	(1,000)	
Shares issued at premium	—	516,450	—	—	—	516,450	—	516,450	
Issue of new shares in a subsidiary and capital contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	77,786	77,786	
Transfer between categories	—	—	—	29,450	(29,450)	—	—	—	
Dividends paid to minority interests	—	—	—	—	—	—	(118)	(118)	
At 31 December 2006	—	915,837	100,675	73,983	724,262	1,814,757	83,279	1,898,036	
Exchange differences (Note a)	—	—	62,896	—	—	62,896	2,939	65,835	
Profit (loss) for the period	—	—	—	—	103,380	103,380	(1,946)	101,434	
Total recognised income for the period	—	—	62,896	—	103,380	166,276	993	167,269	
Deemed distribution to equity participant (Note c)	—	—	—	—	(17,000)	(17,000)	—	(17,000)	
At 30 September 2007	—	915,837	163,571	73,983	810,642	1,964,033	84,272	2,048,305	

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	Attributable to equity holders of the Companies							Minority interests	Total equity
	Share capital	Share premium	Translation reserve	Other reserves	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Unaudited)									
At 1 January 2006	—	399,387	31,793	44,533	595,790	1,071,503	2,616	1,074,119	
Exchange differences (Note a)	—	—	51,662	—	—	51,662	161	51,823	
Profit for the period	—	—	—	—	131,349	131,349	1,162	132,511	
Total recognised income for the period	—	—	51,662	—	131,349	183,011	1,323	184,334	
Issue of new shares in a subsidiary and capital contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	77,786	77,786	
At 30 September 2006	—	399,387	83,455	44,533	727,139	1,254,514	81,725	1,336,239	

*Note:*

- (a) The exchange differences arose from translation of assets and liabilities of foreign operations into the presentation currency.
- (b) Other reserves comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in the PRC.
- (c) Deemed distribution to equity participant represents the fair value adjustment on non-interest bearing amount due from CRL on initial recognition in 2006 and subsequently in 2007 on revision of estimated timing of repayment.

## COMBINED CASH FLOW STATEMENTS

	Year ended 31 December			Nine months ended 30 September		
	Note	2004	2005	2006	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
OPERATING ACTIVITIES						
Profit before taxation		149,181	148,995	176,683	145,550	109,764
Adjustments for:						
Finance costs		5,086	9,450	17,986	11,540	30,377
Depreciation of property, plant and equipment		149,547	187,972	130,137	85,300	129,611
Amortisation of prepaid lease payments		3,430	3,424	3,436	2,453	2,579
Depreciation of investment properties		2,317	2,339	2,425	1,754	1,873
Amortisation of technical know-how		—	—	179	—	552
Loss (gain) on disposal of property, plant and equipment		15,595	(10,191)	(3,085)	1,619	(1,755)
Gain on disposal of available-for-sales investments		—	—	—	—	(1,924)
Write back of accrued interest expense		(13,307)	(23,797)	—	—	—
Amortisation of goodwill		862	—	—	—	—
Release of negative goodwill		(33,938)	—	—	—	—
Interest income		(2,568)	(1,433)	(2,193)	(1,278)	(798)
Imputed interest income on non-interest bearing amount due from CRL		—	—	(1,000)	—	(17,000)
Write back of other loans		—	—	(14,735)	(14,517)	—
Write back of provision		—	(19,662)	—	—	(26,221)

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<i>Note</i>	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Operating cash flows before movements in working capital	276,205	297,097	309,833	232,421	227,058
Increase in inventories	(30,052)	(27,788)	(164,228)	(118,165)	(137,605)
Increase in debtors, deposits and prepayments	(56,825)	(141,627)	(73,155)	(131,707)	(166,710)
Increase in amount due from CRL and its subsidiary	(17,173)	(10,653)	(3,486)	(783)	(1,861)
(Increase) decrease in amounts due from subsidiaries of CSMC	(2,332)	(2,394)	517	(876)	(1,437)
Increase in creditors and accrued charges	108,161	158,722	236,206	230,327	162,949
(Decrease) increase in amounts due to CRL and its subsidiaries	(2,633)	4,950	13,161	14,192	9,894
Increase (decrease) in amounts due to subsidiaries of CSMC	17,518	12,072	(20,156)	(14,581)	10,257
Decrease in provisions	<u>(8,940)</u>	<u>(19,477)</u>	<u>(17,580)</u>	<u>(13,448)</u>	<u>(7,846)</u>
Cash generated from operations	283,929	270,902	281,112	197,380	94,699
Income tax paid	<u>(7,446)</u>	<u>(2,895)</u>	<u>(17,602)</u>	<u>(14,238)</u>	<u>(1,082)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>276,483</u>	<u>268,007</u>	<u>263,510</u>	<u>183,142</u>	<u>93,617</u>

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	<i>Note</i>	Year ended 31 December			Nine months ended 30 September	
		2004	2005	2006	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
<b>INVESTING ACTIVITIES</b>						
Purchase of property, plant and equipment		(525,500)	(307,740)	(451,422)	(339,588)	(292,613)
(Advance to) repayment from CRL		—	—	(269,383)	—	269,383
Purchase of technical know-how		—	—	(3,038)	—	—
Purchase of prepaid lease payments		—	—	(2,818)	(2,718)	(87)
Disposal of a subsidiary	34	—	(4,379)	—	—	—
Acquisition of additional interest in a subsidiary		(1,793)	—	—	—	—
Proceeds on disposal of property, plant and equipment		6,060	29,242	12,120	4,088	6,570
Proceeds on disposal of available-for-sale investments		—	—	264	264	2,146
Decrease in pledged bank deposits		6,324	—	—	—	—
Interest received		2,568	1,433	2,193	1,278	798
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(512,341)</u>	<u>(281,444)</u>	<u>(712,084)</u>	<u>(336,676)</u>	<u>(13,803)</u>
<b>FINANCING ACTIVITIES</b>						
New bank loans raised		163,334	181,214	311,206	427,845	1,244,446
Repayment of borrowings		(235,373)	(153,457)	(108,866)	(201,214)	(1,537,576)
Increase (decrease) in amounts due to CRL and its subsidiaries		271,163	(62,417)	189,379	(65,596)	210,944
Interest paid on borrowings		(5,086)	(8,586)	(17,986)	(11,540)	(30,377)
Dividend paid		—	(50,852)	—	—	—
Dividend paid to minority interests		(150)	(259)	(118)	—	—



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	Year ended 31 December			Nine months ended 30 September	
	<i>Note</i> 2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2006 HK\$'000	2007 HK\$'000
Issue of new shares in a subsidiary and capital contribution from minority shareholders of a subsidiary	<u>—</u>	<u>—</u>	<u>77,786</u>	<u>77,786</u>	<u>—</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>193,888</u>	<u>(94,357)</u>	<u>451,401</u>	<u>227,281</u>	<u>(112,563)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(41,970)</u>	<u>(107,794)</u>	<u>2,827</u>	<u>73,747</u>	<u>(32,749)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	255,690	212,946	116,155	116,155	135,130
Effect of foreign exchange rate changes	(774)	11,003	16,148	(1,070)	11,142
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>212,946</u>	<u>116,155</u>	<u>135,130</u>	<u>188,832</u>	<u>113,523</u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	<u>212,946</u>	<u>116,155</u>	<u>135,130</u>	<u>188,832</u>	<u>113,523</u>

**1. BASIS OF PRESENTATION**

The Companies comprising the Group were under the common control of CRL throughout the Relevant Periods. As a result, the Financial Information, comprising the combined income statements, combined statements of changes in equity and combined cash flow statements of the Companies and their subsidiaries for the Relevant Periods and the combined balance sheets of the Companies and their subsidiaries as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 together with notes thereon, was prepared on the basis of merger accounting, and included the financial information of the Companies and their subsidiaries for the period in which common control is in existence throughout the Relevant Periods or occurs since their respective date of incorporation/establishment, where this is a shorter period.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The Group had applied all the HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “HKFRSs”) issued by the HKICPA that are effective for its accounting period beginning 1 January 2007. The adoption of the HKFRSs has been applied to all periods in the Relevant Periods presented, except as described below.

**Goodwill**

The Group has applied the relevant transitional provisions in HKFRS 3 Business Combinations by eliminating the carrying amount of the related accumulated amortisation of HK\$2,744,000 with a corresponding decrease in the cost of goodwill as at 1 January 2005 (see Note 17). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the year ended 31 December 2005. Comparative figures for 2004 have not been restated.

For the year ended 31 December 2005, the Group has also applied HKAS 21. The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

**Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)**

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the year in which the acquisition takes place. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 of HK\$103,477,000, which was previously presented as a deduction from assets, with a corresponding increase of HK\$103,477,000 to the Group’s retained profits (see Note 18). As a result of this change in accounting policy, no negative goodwill is released to income in the year ended 31 December 2005. Comparative figures for 2004 have not been restated.

**Classification and measurement of financial assets and financial liabilities**

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in equity securities are classified as “investment securities” and are carried at cost less impairment losses (if any). From

1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities (including financial assets and liabilities previously outside the scope of the SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities under HKAS 39 are classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (“other financial liabilities”)”. As a result of the adoption of HKAS 39, the Group has redesignated “investment securities” recorded on the consolidated balance sheet at 1 January 2005 amounting to HK\$975,000 as “available-for-sale investments”.

#### Share-based Payment

For the year ended 31 December 2005, the Group has applied HKFRS 2 Share based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted by CRL to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In accordance with the relevant transitional provision, the Group has applied HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1 January 2005. The adoption of this new HKFRS has had no material effect on how the results and financial position of the Group for 2005 or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been made.

At the date of this report, the Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Companies anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Companies and their subsidiaries.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>3</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial Information has been prepared on the historical cost basis and in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA.

#### Basis of combination

The Financial Information incorporate the financial information of the companies and entities controlled by the Companies (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the Financial Information from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Minority interests in the net assets of subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Merger accounting**

In applying merger accounting, financial statement items of the combining entities or businesses for all periods presented, are included in the Financial Information of the combined entity as if the common control combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or business at the carrying amounts in the Financial Information of the controlling party or parties prior to the common control combinations.

#### **Acquisition of additional interests in subsidiaries**

On acquisition of an additional interest in a subsidiary, the difference between the consideration paid and the carrying amounts of the underlying assets and liabilities attributable to the additional interest in the subsidiary acquired is recognised as goodwill.

#### **Goodwill**

##### *Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the combined balance sheets.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised directly in the combined income statements and is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")**

A discount on acquisition arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in combined income statement.

As explained in Note 2 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Property, plant and equipment**

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, ranging from zero to 10%, using the straight-line method, as follows:

Leasehold properties	25 to 40 years or over the relevant lease terms, if shorter
Furniture and fixtures	5 to 13 years
Machinery and equipment	5 to 13 years
Motor vehicles	3 <sup>1</sup> / <sub>3</sub> to 6 years

Construction in progress represents property, plant and equipment in the course of construction for production or for own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statements in the year in which the item is derecognised.

**Prepaid lease payments**

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease terms and the operation period of the entity which incurred such payment.

**Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the remaining terms of the leases.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the combined income statements in the year/period in which the item is derecognised.

**Technical know-how**

Technical know-how comprises the acquired rights to use certain technologies for the manufacture of wafer products.

Costs incurred in the acquisition of technical know-how are capitalised and carried at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over their estimated useful lives of ten to twelve years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets excluding goodwill below).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the combined income statements and are reported separately as 'other income'.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes combined income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the combined income statements, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The costs of finished goods and work in progress comprise raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

**Financial instruments**

Financial assets and financial liabilities are recognised on the combined balance sheets when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's financial assets comprise loans and receivables and available-for-sale financial assets, the accounting policies adopted in respect of which are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, amounts due from subsidiaries of CSMC, amounts due from CRL and its subsidiaries and bank deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value, except for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity investments classified as available-for-sale investments, a significant or prolonged decline in the fair value of the investments below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.



For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments that do not have a quoted market price in an active market and whose gain value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### **Financial liabilities**

Financial liabilities, including creditors, borrowings, amounts due to subsidiaries of CSMC and amounts due to CRL and its subsidiaries are measured at amortised cost, using the effective interest method subsequent to initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial liabilities and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liabilities, or, where appropriate, a shorter period.

#### *Equity instruments*

Equity instruments issued by the Companies are recorded at the proceeds received, net of direct issued costs.

#### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is the lessor, rental income from operating leases is recognised in the combined income statements on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Where the Group is the lessee, rental expense under operating leases is charged to the combined income statements on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Foreign currencies**

The functional currency (i.e. the currency of the primary economic environment in which the entity operates) of subsidiaries in the PRC is Renminbi. The Financial Information is presented in the currency of Hong Kong dollars ("Presentation currency") because the management consider Hong Kong dollars is more appropriate in evaluating and controlling the performance of Semiconductor business of CRL.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition prior to 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of acquisition.

**Impairment losses of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. An impairment loss is 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.

**4. CHANGES OF ACCOUNTING ESTIMATES**

In periods prior to 1 January 2006, the costs of mechanical based semiconductor machinery and equipment were depreciated over their estimated useful lives of 5 years. During the year ended 31 December 2006, management of the Group reviewed the useful lives and the residual values of such machinery and equipment, and determined that with effect from 1 January 2006, the carrying amounts of such machinery and equipment less their estimated residual value of 10% are to be depreciated over their estimated useful lives of 8 years. The changes reflect the current best estimates based on the Group's previous experiences of these machinery and equipment after taking account of commercial and technological environment as well as normal wear and tear to better reflect the estimated periods in which such assets will remain in service. The changes in accounting estimates, which have been applied prospectively, have resulted in a decrease in the depreciation charges for the year ended 31 December 2006 and the nine months ended 30 September 2007 of approximately HK\$92,514,000 and HK\$75,194,000 respectively. Such change in accounting estimates will have an effect on the depreciation charges of the future years, however, it is impracticable to estimate with certainty the amount of that effect.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimation of useful lives of property, plant and equipment**

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

**Allowance for inventories**

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

## 6. FINANCIAL INSTRUMENTS

**Financial risk management objectives and policies**

The Group's major financial instruments include trade debtors, amounts due from/to subsidiaries of CSMC, amounts due from/to CRL and its subsidiaries, bank balances, trade creditors and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risk arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, liquidity risk and credit risk. The directors review policies for managing each of these risks and they are summarised below.

**Categories of financial instruments**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2007</i>
				<i>HK\$'000</i>
<b>Financial assets</b>				
Loans and receivables	665,011	708,853	1,056,990	908,772
Available-for-sale investments	975	998	770	571
<b>Financial liabilities</b>				
Amortised cost	<u>1,106,979</u>	<u>1,229,328</u>	<u>1,277,967</u>	<u>1,366,963</u>

**Foreign currency risk management**

The Group undertakes certain sales and purchases transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arises. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. Management will consider hedging foreign currency exposure should the need arise.

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The carrying amount of the Group's monetary assets and monetary liabilities denominated in foreign currency, i.e. currency other than the functional currency of the respective subsidiaries, which are mainly certain debtors, creditors and bank balances, at respective balance sheet dates is as follow:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
<b>Assets</b>				
United States dollars	8,937	22,448	39,958	47,500
Hong Kong dollars	<u>92,701</u>	<u>32,131</u>	<u>23,137</u>	<u>38,708</u>
	<u>101,638</u>	<u>54,579</u>	<u>63,095</u>	<u>86,208</u>
<b>Liabilities</b>				
United States dollars	19,351	12,259	34,168	37,696
Hong Kong dollars	<u>—</u>	<u>—</u>	<u>—</u>	<u>567</u>
	<u>19,351</u>	<u>12,259</u>	<u>34,168</u>	<u>38,263</u>

The respective subsidiaries are mainly exposed to currency fluctuation of United States dollars and Hong Kong dollars.

*Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi, the functional currency of the subsidiaries in the PRC, against relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for 5% change in foreign currency rates. A positive (negative) number indicates an increase (decrease) in profit for the year/period or decrease (increase) in loss for the year/period where Renminbi strengthens against the relevant foreign currencies. For a 5% weakening of Renminbi against the relevant currency, there would be an equal but opposite impact on the profit for the year/period.

	Year ended 31 December			Nine months ended	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<b>United States dollars</b>					
Profit for the year/period	<u>506</u>	<u>(479)</u>	<u>(270)</u>	<u>(3,635)</u>	<u>(463)</u>
<b>Hong Kong dollars</b>					
Profit for the year/period	<u>(4,425)</u>	<u>(1,512)</u>	<u>(1,079)</u>	<u>(1,889)</u>	<u>(1,800)</u>

**Cash flow interest rate risk management**

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Group's interest rate risk relates primarily to the Group's floating rate borrowings. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

*Interest rate sensitivity analysis*

At the balance sheet dates, if interest rates had been increased by 200 basis points and all other variables were held constant, the Group's profit would decrease by approximately HK\$827,000, HK\$4,608,000, HK\$7,295,000, HK\$4,449,000 and HK\$12,371,000 for the three years ended 31 December 2006 and nine months ended 30 September 2006 and 2007 respectively. If interest rates had been decreased by 200 basis points, there would be equal but opposite impact on the profit for the year/period.

**Credit risk management**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheets. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out research on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers that the credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade debtors.

The carrying amount of financial assets recorded in the Financial Information represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

**Liquidity risk management**

The Group's liquidity position is monitored closely by the management of the Group. The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted- average effective interest rate							Total Over undiscounted cash flows	Carrying amounts	
		0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-3 years			
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 31 December 2004										
Non-interest bearing		624,140	53,642	94,750	10,443	—	—	—	782,975	782,975
Variable interest rate instruments	1.62%	<u>201</u>	<u>100</u>	<u>38,244</u>	<u>113,320</u>	<u>14,553</u>	<u>160,906</u>	<u>—</u>	<u>327,324</u>	<u>324,004</u>
		<u>624,341</u>	<u>53,742</u>	<u>132,994</u>	<u>123,763</u>	<u>14,553</u>	<u>160,906</u>	<u>—</u>	<u>1,110,299</u>	<u>1,106,979</u>
As at 31 December 2005										
Non-interest bearing		636,273	87,092	143,098	7,134	—	—	—	873,597	873,597
Variable interest rate instruments	4.5%	<u>22,223</u>	<u>5,478</u>	<u>16,438</u>	<u>6,927</u>	<u>328,911</u>	<u>—</u>	<u>—</u>	<u>379,977</u>	<u>355,731</u>
		<u>658,496</u>	<u>92,570</u>	<u>159,536</u>	<u>14,061</u>	<u>328,911</u>	<u>—</u>	<u>—</u>	<u>1,253,574</u>	<u>1,229,328</u>
As at 31 December 2006										
Non-interest bearing		422,015	118,360	192,022	1,698	—	—	—	734,095	734,095
Variable interest rate instruments	4%	<u>17,582</u>	<u>17,041</u>	<u>20,229</u>	<u>505,478</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>560,330</u>	<u>543,872</u>
		<u>439,597</u>	<u>135,401</u>	<u>212,251</u>	<u>507,176</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,294,425</u>	<u>1,277,967</u>
As at 30 September 2007										
Non-interest bearing		761,962	130,901	216,811	6,517	—	—	—	1,116,191	1,116,191
Variable interest rate instruments	4.09%	<u>20,197</u>	<u>11,428</u>	<u>52,434</u>	<u>4,829</u>	<u>9,659</u>	<u>84,103</u>	<u>100,000</u>	<u>282,650</u>	<u>250,772</u>
		<u>782,159</u>	<u>142,329</u>	<u>269,245</u>	<u>11,346</u>	<u>9,659</u>	<u>84,103</u>	<u>100,000</u>	<u>1,398,841</u>	<u>1,366,963</u>

**Capital risk management**

The Group manages its capital to maintain a balance between continuity of funding and the flexibility through the use of bank borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of debts, which includes the borrowings, bank balances and equity attributable to equity shareholders of the Companies, comprising issued capital, reserves and retained profits.

The management of the Group review the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure.

**Fair value**

The fair value of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

**7. TURNOVER AND SEGMENTAL INFORMATION**

Turnover represents revenue arising from sale of semiconductor products, net of discounts and sales related taxes, during the Relevant Periods.

**Business segment**

No business segment information is presented for the Relevant Periods as the Group was engaged solely in the semiconductor business during the Relevant Periods.

**Geographical segment**

More than 90% of the Group's turnover, profit before taxation, assets and liabilities were derived from and located in the PRC and therefore no geographical segments are presented.



## 8. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Included in other income are:					
Interest on bank deposit	2,568	1,433	2,193	1,278	798
Imputed interest on non-interest bearing amount due from CRL	—	—	1,000	—	17,000
Government grants ( <i>Note 35</i> )	12,147	2,956	6,339	3,083	9,509
Write back of accrued interest expenses	13,307	23,797	—	—	—
Rental income from investment properties	9,289	10,936	10,935	8,377	9,974
Rental income from machinery and equipment	454	1,367	—	—	—
Value-added tax refund	1,938	2,873	—	—	—
Gain on disposal of property, plant and equipment	—	10,191	3,085	—	1,755
Write back of provisions	—	19,662	—	—	26,221
Write back of creditors and accrued charges	—	7,764	—	—	—
Write back of other loans	—	—	14,735	14,517	—

## 9. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest on bank and other loans wholly repayable within five years	5,086	9,450	17,986	11,540	30,377

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

The remuneration of directors of the Companies were borne by CRL and China Resources Microelectronics (Holdings) Company Limited ("CRM"), immediate holding company of the Group, which amounted to HK\$3,033,000, HK\$4,274,000, HK\$4,240,000, HK\$3,460,000 and HK\$2,552,000 for the three years ended 31 December 2006 and nine months ended 30 September 2006 and 30 September 2007 but not charged to the combined income statements of the Group.

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**(b) Employees' emoluments**

The emoluments of the five highest paid individuals were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and other benefits	2,944	2,906	4,458	3,266	3,964
Contributions to retirement benefits scheme	<u>152</u>	<u>150</u>	<u>237</u>	<u>183</u>	<u>215</u>
	<u>3,096</u>	<u>3,056</u>	<u>4,695</u>	<u>3,449</u>	<u>4,179</u>

Their emoluments were within the following bands:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	Number of employee	Number of employee	Number of employee	Number of employee	Number of employee
Nil to HK\$1,000,000	5	5	3	5	4
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>1</u>

## 11. TAXATION

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
The tax charge comprises:					
Current taxation					
Hong Kong	170	50	—	—	—
PRC Enterprise Income Tax	<u>3,271</u>	<u>2,291</u>	<u>14,879</u>	<u>13,039</u>	<u>12,903</u>
	3,441	2,341	14,879	13,039	12,903
Under(over)provision in respect of prior years/period	<u>—</u>	<u>101</u>	<u>—</u>	<u>—</u>	<u>(6,373)</u>
	3,441	2,442	14,879	13,039	6,530
Deferred taxation	<u>—</u>	<u>(101)</u>	<u>102</u>	<u>—</u>	<u>1,800</u>
	<u>3,441</u>	<u>2,341</u>	<u>14,981</u>	<u>13,039</u>	<u>8,330</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the year ended 31 December 2004 and 31 December 2005. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2006 and nine months ended 30 September 2006 and 30 September 2007 as the Group did not generate any assessable profit arising in Hong Kong during the years/periods.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits. Certain subsidiaries operating in the PRC are exempted from income tax applicable in the PRC for two years starting from the first profit making year after utilisation of the tax losses brought forward and were granted a 50% relief for the following three years. Certain subsidiaries operating in the PRC which are regarded as advanced technology enterprises have also been granted tax concessions by the local tax bureau and are entitled to PRC income tax at concessionary rate of 15%.

Details of the deferred taxation are set out in note 31.

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The tax charge for the Relevant Periods can be reconciled to the profit before taxation per the combined income statement as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2006 HK\$'000 (unaudited)	2007 HK\$'000
Profit before taxation	<u>149,181</u>	<u>148,995</u>	<u>176,683</u>	<u>145,550</u>	<u>109,764</u>
Tax at the applicable tax rate of 15% for the subsidiaries regarded as advanced technology enterprises by local tax bureau	22,377	22,349	26,502	21,832	16,464
Tax effect of expenses not deductible for tax purpose	506	1,314	3,298	2,770	5,304
Tax effect of income not taxable for tax purpose	(10,087)	(10,067)	(3,477)	(2,530)	(7,440)
Tax effect of tax losses not recognised	121	4,662	10,598	7,695	8,557
Under/(over) provision in respect of prior year	—	101	—	—	(6,373)
Tax effect of other deductible temporary difference not recognised	3,393	5,057	7,492	5,934	8,254
Utilisation of other deductible temporary differences not recognised	(1,329)	(1,613)	(3,616)	(3,563)	(4,517)
Effect of tax exemptions granted to subsidiaries in PRC	—	(2,044)	(5,779)	—	(2,964)
Effect of income taxed at concessionary rate	(11,634)	(15,788)	(19,544)	(17,654)	(8,116)
Effect of different tax rates of subsidiaries operating in other jurisdictions	602	44	339	212	(28)
Others	<u>(508)</u>	<u>(1,674)</u>	<u>(832)</u>	<u>(1,657)</u>	<u>(811)</u>
Tax charge for the year/period	<u>3,441</u>	<u>2,341</u>	<u>14,981</u>	<u>13,039</u>	<u>8,330</u>

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**12. PROFIT FOR THE YEAR/PERIOD**

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Profit for the year/period has been arrived at after charging:					
Auditors' remuneration	1,150	1,200	1,200	900	900
Depreciation of property, plant and equipment	149,547	187,972	130,137	85,300	129,611
Depreciation of investment properties	2,317	2,339	2,425	1,754	1,873
Amortisation of prepaid lease payments	3,430	3,424	3,436	2,453	2,579
Amortisation of technical know-how	—	—	179	—	552
Staff costs					
Directors' emoluments	—	—	—	—	—
Other staff					
— Salaries and other benefits	148,800	160,166	205,209	153,907	171,046
— Retirement benefits scheme contribution	22,681	33,839	27,991	20,993	31,714
	<u>171,481</u>	<u>194,005</u>	<u>233,200</u>	<u>174,900</u>	<u>202,760</u>
Loss on disposal of property, plant and equipment	15,595	—	—	1,619	—
Impairment loss recognised on debtors	4,659	3,085	6,114	4,586	7,650
Write down of inventories to net realisable value	13,101	7,568	9,736	5,188	13,033
Exchange loss, net	758	1,572	3,610	2,612	4,532
and after crediting:					
Rental income from investment properties	9,289	10,936	10,935	8,377	9,974
Less: Outgoings	<u>(1,564)</u>	<u>(1,864)</u>	<u>(980)</u>	<u>(398)</u>	<u>(830)</u>
	<u><u>7,725</u></u>	<u><u>9,072</u></u>	<u><u>9,955</u></u>	<u><u>7,979</u></u>	<u><u>9,144</u></u>

**13. EARNINGS PER SHARE**

Earnings per share of the Group are not presented herein as such information is not considered meaningful in the context of this report.

**14. DIVIDENDS**

During the year ended 31 December 2005, dividends of HK\$50,852,000 were declared and paid by the Companies.

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**15. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold properties <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2004</b>						
AT COST						
At 1 January 2004	189,322	8,332	629,856	14,027	92,688	934,225
Exchange realignments	233	11	874	20	129	1,267
Additions	—	1,659	8,317	3,531	511,993	525,500
Disposals	(1,436)	—	(58,906)	(23)	—	(60,365)
Transfer to investment properties (Note 16)	(7,942)	—	—	—	—	(7,942)
Transfers between categories	<u>7,305</u>	<u>787</u>	<u>165,957</u>	<u>9,096</u>	<u>(183,145)</u>	<u>—</u>
At 31 December 2004	<u>187,482</u>	<u>10,789</u>	<u>746,098</u>	<u>26,651</u>	<u>421,665</u>	<u>1,392,685</u>
DEPRECIATION						
At 1 January 2004	11,430	1,954	114,733	4,536	—	132,653
Exchange realignments	13	3	160	7	—	183
Provided for the year	10,061	2,607	130,856	6,023	—	149,547
Eliminated on disposals	(190)	—	(39,673)	(12)	—	(39,875)
Transfer to investment properties (Note 16)	(3,347)	—	—	—	—	(3,347)
Transfers between categories	<u>-</u>	<u>—</u>	<u>193</u>	<u>(193)</u>	<u>—</u>	<u>—</u>
At 31 December 2004	<u>17,967</u>	<u>4,564</u>	<u>206,269</u>	<u>10,361</u>	<u>—</u>	<u>239,161</u>
CARRYING VALUES						
At 31 December 2004	<u><u>169,515</u></u>	<u><u>6,225</u></u>	<u><u>539,829</u></u>	<u><u>16,290</u></u>	<u><u>421,665</u></u>	<u><u>1,153,524</u></u>
<b>2005</b>						
AT COST						
At 1 January 2005	187,482	10,789	746,098	26,651	421,665	1,392,685
Exchange adjustments	3,953	2,375	24,170	1,908	10,193	42,599
Additions	—	3,236	9,343	2,621	292,540	307,740
Disposals	(9,904)	(1,643)	(2,116)	(737)	—	(14,400)
Transfers between categories	<u>92,518</u>	<u>26,778</u>	<u>279,083</u>	<u>6,240</u>	<u>(404,619)</u>	<u>—</u>
At 31 December 2005	<u>274,049</u>	<u>41,535</u>	<u>1,056,578</u>	<u>36,683</u>	<u>319,779</u>	<u>1,728,624</u>

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	<b>Leasehold properties</b>	<b>Furniture and fixtures</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>DEPRECIATION</b>						
At 1 January 2005	17,967	4,564	206,269	10,361	—	239,161
Exchange adjustments	416	2,245	11,737	1,528	—	15,926
Provided for the year	11,717	4,751	162,720	8,784	—	187,972
Eliminated on disposals	(1,820)	(1,420)	(460)	(516)	—	(4,216)
Transfers between categories	(115)	7,682	(7,181)	(386)	—	—
At 31 December 2005	<u>28,165</u>	<u>17,822</u>	<u>373,085</u>	<u>19,771</u>	—	<u>438,843</u>
<b>CARRYING VALUES</b>						
At 31 December 2005	<u><u>245,884</u></u>	<u><u>23,713</u></u>	<u><u>683,493</u></u>	<u><u>16,912</u></u>	<u><u>319,779</u></u>	<u><u>1,289,781</u></u>
<b>2006</b>						
<b>AT COST</b>						
At 1 January 2006	274,049	41,535	1,056,578	36,683	319,779	1,728,624
Exchange adjustments	10,200	1,352	48,222	1,309	12,521	73,604
Additions	—	6,451	14,340	834	366,592	388,217
Disposals	(2,128)	(1,174)	(29,398)	(1,507)	—	(34,207)
Transfers between categories	6,926	11,734	342,295	2,501	(363,456)	—
At 31 December 2006	<u>289,047</u>	<u>59,898</u>	<u>1,432,037</u>	<u>39,820</u>	<u>335,436</u>	<u>2,156,238</u>
<b>DEPRECIATION</b>						
At 1 January 2006	28,165	17,822	373,085	19,771	—	438,843
Exchange adjustments	1,431	580	23,054	692	—	25,757
Provided for the year	11,678	9,354	105,029	4,076	—	130,137
Eliminated on disposals	(473)	(896)	(24,584)	(954)	—	(26,907)
At 31 December 2006	<u>40,801</u>	<u>26,860</u>	<u>476,584</u>	<u>23,585</u>	—	<u>567,830</u>
<b>CARRYING VALUES</b>						
At 31 December 2006	<u><u>248,246</u></u>	<u><u>33,038</u></u>	<u><u>955,453</u></u>	<u><u>16,235</u></u>	<u><u>335,436</u></u>	<u><u>1,588,408</u></u>

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	Leasehold properties <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2007</b>						
<b>AT COST</b>						
At 1 January 2007	289,047	59,898	1,432,037	39,820	335,436	2,156,238
Exchange adjustments	8,818	1,745	50,803	1,169	12,002	74,537
Additions	—	784	14,065	1,687	379,293	395,829
Disposals	(4,018)	—	(1,290)	(2,331)	—	(7,639)
Transfers between categories	<u>3,006</u>	<u>7,552</u>	<u>237,505</u>	<u>3,156</u>	<u>(251,219)</u>	<u>—</u>
At 30 September 2007	<u>296,853</u>	<u>69,979</u>	<u>1,733,120</u>	<u>43,501</u>	<u>475,512</u>	<u>2,618,965</u>
<b>DEPRECIATION</b>						
At 1 January 2007	40,801	26,860	476,584	23,585	—	567,830
Exchange adjustments	1,547	769	21,896	669	—	24,881
Provided for the period	8,869	7,817	109,400	3,525	—	129,611
Eliminated on disposals	<u>(750)</u>	<u>—</u>	<u>(363)</u>	<u>(2,150)</u>	<u>—</u>	<u>(3,263)</u>
At 30 September 2007	<u>50,467</u>	<u>35,446</u>	<u>607,517</u>	<u>25,629</u>	<u>—</u>	<u>719,059</u>
<b>CARRYING VALUES</b>						
At 30 September 2007	<u>246,386</u>	<u>34,533</u>	<u>1,125,603</u>	<u>17,872</u>	<u>475,512</u>	<u>1,899,906</u>

The Group's leasehold properties are situated:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outside Hong Kong on medium-term lease	156,665	241,418	245,512	244,133
In Hong Kong on medium-term lease	<u>12,850</u>	<u>4,466</u>	<u>2,734</u>	<u>2,253</u>
	<u>169,515</u>	<u>245,884</u>	<u>248,246</u>	<u>246,386</u>



## 16. INVESTMENT PROPERTIES

	Year ended 31 December			Nine months ended
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007 HK\$'000
<b>COST</b>				
At beginning of the year/period	49,445	57,455	58,782	60,947
Exchange adjustments	68	1,327	2,165	1,829
Transfer from property, plant and equipment	7,942	—	—	—
At end of the year/period	<u>57,455</u>	<u>58,782</u>	<u>60,947</u>	<u>62,776</u>
<b>DEPRECIATION</b>				
At beginning of the year/period	—	5,664	8,133	10,857
Exchange adjustments	—	130	299	327
Transfer from property, plant and equipment	3,347	—	—	—
Provided for the year/period	<u>2,317</u>	<u>2,339</u>	<u>2,425</u>	<u>1,873</u>
At end of the year/period	<u>5,664</u>	<u>8,133</u>	<u>10,857</u>	<u>13,057</u>
<b>CARRYING VALUES</b>				
At end of the year/period	<u>51,791</u>	<u>50,649</u>	<u>50,090</u>	<u>49,719</u>

The Group's investment properties are all situated in the PRC held under medium-term lease.

The investment properties include wafer fabrication premises with supporting facilities such as gas and distilled water pipelines, electricity and environmental protection installations. It is located at No. 14 Liang Xi Lu, Bin Hu District, Wuxi City, Jiangsu Province, the PRC. The properties form the backbone of the operations of a subsidiary of CSMC. The Group also provides utilities and other related services to CSMC.

Due to the unique nature of the operation of semiconductor industry, the said premises cannot be readily leased to any party other than the subsidiary of CSMC. As there is no comparable market rental transaction to provide a fair value assessment of the properties, accordingly, the fair value of the properties cannot be determined.

## 17. GOODWILL

	<i>HK\$'000</i>
COST	
At 1 January 2004 and 31 December 2004	16,652
Elimination of accumulated amortisation upon application of HKFRS 3	<u>(2,744)</u>
At 1 January 2005, 31 December 2005, 31 December 2006 and 30 September 2007	<u>13,908</u>
AMORTISATION	
At 1 January 2004	1,882
Charge for the year	<u>862</u>
At 31 December 2004	2,744
Eliminated upon application of HKFRS 3 (see note 2 for details)	<u>(2,744)</u>
At 1 January 2005, 31 December 2005, 31 December 2006 and 30 September 2007	<u>—</u>
CARRYING VALUE	
At 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007	<u><u>13,908</u></u>

The goodwill was arisen on acquisition of subsidiaries engaged in semiconductor business in 2002. The Group determined that the goodwill allocated to the one single cash generating unit ("CGU") was not impaired by comparing the carrying amount of the CGU including the goodwill, with its recoverable amount.

The recoverable amount of the relevant CGU has been determined on the basis of value in use calculation. The value in use calculation use cash flow projections which are based on approved financial budgets covering a 5-year period, and the discount rate of approximately 9%. Zero growth is projected for cash flows beyond the 5-year period. This projected growth rate does not exceed the average long-term growth rate for relevant markets. Other key assumptions for the value in use calculation included the budgeted sales and gross margins, such estimations are based on past performance and management's expectations for the markets development.

## 18. NEGATIVE GOODWILL

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	<u>174,051</u>
RELEASED TO INCOME	
At 1 January 2004	36,636
Released in the year	<u>33,938</u>
At 31 December 2004	<u><u>70,574</u></u>
CARRYING VALUE	
At 31 December 2004	103,477
Derecognised upon application of HKFRS 3	<u>(103,477)</u>
At 1 January 2005	<u><u>—</u></u>

*Note:* All negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

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	<i>HK\$'000</i>
<b>COST</b>	
At 1 January 2004, 31 December 2004 and 31 December 2005	—
Additions	<u>3,038</u>
At 31 December 2006	3,038
Exchange adjustments	<u>91</u>
At 30 September 2007	<u>3,129</u>
<b>AMORTISATION</b>	
At 1 January 2004, 31 December 2004 and 31 December 2005	—
Provided for the year	<u>179</u>
At 31 December 2006	179
Exchange adjustments	6
Provided for the period	<u>552</u>
At 30 September 2007	<u>737</u>
<b>CARRYING VALUE</b>	
At 31 December 2004 and 31 December 2005	<u>—</u>
At 31 December 2006	<u>2,859</u>
At 30 September 2007	<u>2,392</u>

**20. INVESTMENT SECURITIES/AVAILABLE-FOR-SALE INVESTMENTS**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments	<u>975</u>	<u>998</u>	<u>770</u>	<u>571</u>

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The unlisted equity investments in private companies established in PRC are carried at cost less any impairment loss. Such investments are not carried at fair value because they do not have a quoted market price in an active market and the management is of the opinion that their fair value cannot be reliably measured.

During the nine months ended 30 September 2007, the Group disposed of certain unlisted equity investments with a carrying amount of HK\$222,000 (Year ended 31 December 2006: HK\$264,000) and received sale proceeds of HK\$2,146,000 (Year ended 31 December 2006: HK\$264,000), resulting a gain on disposal of HK\$1,924,000 (Year ended 31 December 2006: nil) recognised in combined income statement for the period.

**21. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments comprise of land situated:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outside Hong Kong on medium-term lease	140,664	140,603	145,334	147,257
In Hong Kong on medium-term lease	<u>13,949</u>	<u>4,971</u>	<u>3,125</u>	<u>2,632</u>
	<u>154,613</u>	<u>145,574</u>	<u>148,459</u>	<u>149,889</u>
Analysed for reporting purposes as:				
Non-current assets	151,091	142,162	144,822	146,322
Current assets	<u>3,522</u>	<u>3,412</u>	<u>3,637</u>	<u>3,567</u>
	<u>154,613</u>	<u>145,574</u>	<u>148,459</u>	<u>149,889</u>

**22. INVENTORIES**

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	37,678	46,108	88,656	150,186
Work in progress	111,389	134,571	174,877	247,821
Finished goods	<u>79,871</u>	<u>76,047</u>	<u>157,421</u>	<u>160,552</u>
	<u>228,938</u>	<u>256,726</u>	<u>420,954</u>	<u>558,559</u>

**23. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, any may be extended to 120 days for selected customers depending on their trade volume and settlement with the Group. The aged analysis of trade debtors, including notes receivable, net of allowance for doubtful debts, is as follows:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
0 - 60 days	236,450	299,769	355,901	493,247
61 - 90 days	56,482	93,835	101,801	110,819
91 - 180 days	116,852	142,072	134,302	128,018
Over 180 days	5,099	6,793	7,275	6,669
	<u>414,883</u>	<u>542,469</u>	<u>599,279</u>	<u>738,753</u>

Included in the Group's trade debtors are debtors with a carrying amount of HK\$28,891,000, HK\$36,648,000, HK\$36,910,000 and HK\$40,383,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

**Aging of debtors past due but not impaired**

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
61 - 90 days	2,346	9,651	7,418	8,898
91 - 180 days	21,446	20,204	22,217	24,816
Over 180 days	5,099	6,793	7,275	6,669
	<u>28,891</u>	<u>36,648</u>	<u>36,910</u>	<u>40,383</u>

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base with a large number of customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$8,828,000, HK\$11,913,000, HK\$14,760,000 and HK\$22,410,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively which have either been placed under liquidation or have been long outstanding without settlement nor business relationship with Group. The Group does not hold any collateral over these balances.

## Movement in the allowance for doubtful debts

	Year ended 31 December			Nine months ended
	2004	2005	2006	30 September 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of the year	4,169	8,828	11,913	14,760
Amounts written off during the year	—	—	(3,267)	—
Increase in allowance recognised in profit or loss	4,659	3,085	6,114	7,650
	<u>8,828</u>	<u>11,913</u>	<u>14,760</u>	<u>22,410</u>

## 24. AMOUNTS DUE FROM SUBSIDIARIES OF CSMC/CRL AND ITS SUBSIDIARIES

The amounts due from subsidiaries of CSMC are unsecured, interest free and repayable on demand.

The amounts due from CRL and its subsidiaries are unsecured, interest free and repayable on demand to the extent of HK\$29,349,000, HK\$40,002,000, HK\$43,188,000 and HK\$45,349,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively. The remaining balance of HK\$269,683,000 as at 31 December 2006 is unsecured, interest free and has no fixed repayment term. The effective interest adopted for measurement of fair value at initial recognition of the amount due from CRL is 4.7%.

## 25. BANK BALANCES

Bank balances at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 carry interest at market rates ranging from 0.01% to 0.72%, 0.72% to 2.22%, 0.72% to 2.27% and 0.81% respectively.

## 26. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors which are included in creditors and accrued charges is as follows:

	As at 31 December			As at
	2004	2005	2006	30 September 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 - 60 days	189,840	247,368	367,176	476,028
61 - 90 days	53,642	87,092	118,360	130,901
91 - 180 days	94,750	143,098	192,022	216,811
Over 180 days	10,443	7,134	1,698	6,517
	<u>348,675</u>	<u>484,692</u>	<u>679,256</u>	<u>830,257</u>

## 27. AMOUNTS DUE TO SUBSIDIARIES OF CSMC/CRL AND ITS SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

## 28. PROVISIONS

	Provision for staff housing benefits <i>HK\$'000</i> <i>(Note a)</i>	Restructuring provision <i>HK\$'000</i> <i>(Note b)</i>	Total <i>HK\$'000</i>
At 1 January 2004	80,769	59,632	140,401
Utilisation of provisions	<u>—</u>	<u>(8,940)</u>	<u>(8,940)</u>
At 31 December 2004	80,769	50,692	131,461
Exchange adjustments	—	1,010	1,010
Utilisation of provisions	(11,681)	(7,796)	(19,477)
Write back of provisions	<u>(18,135)</u>	<u>(1,527)</u>	<u>(19,662)</u>
At 31 December 2005	50,953	42,379	93,332
Exchange adjustments	—	1,359	1,359
Utilisation of provisions	<u>(13,072)</u>	<u>(4,508)</u>	<u>(17,580)</u>
At 31 December 2006	37,881	39,230	77,111
Exchange adjustments	—	1,013	1,013
Utilisation of provisions	(4,695)	(3,151)	(7,846)
Write back of provisions	<u>—</u>	<u>(26,221)</u>	<u>(26,221)</u>
At 30 September 2007	<u>33,186</u>	<u>10,871</u>	<u>44,057</u>

*Notes:*

- a. The provision for staff housing benefits represents management's best estimate of the liabilities of certain subsidiaries established in the PRC in respect of housing allowances available to staff for the purchase of residential units, based on the amount of claims for such allowances experienced in the past.
- b. The amount represents provisions for restructuring activities of subsidiaries acquired by the Group through the acquisition of the entire equity interest of Wuxi China Resources Microelectronics Co., Ltd. in December 2002. The provisions are to be utilised in accordance with the restructuring plans adopted when such subsidiaries were acquired.

During the nine months period ended 30 September 2007, the Group reconsidered the restructuring plan of certain subsidiaries which was contemplated when those subsidiaries were acquired in 2002 through the acquisition of the entire interest of Wuxi China Resources Microelectronics Co., Ltd. Consequently, management considered that the provision for the restructuring plan to the extent of HK\$26,221,000 previously made is no longer required and has written back such amount in the combined income statement for the period.



## 29. BORROWINGS

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Unsecured borrowings included:				
Bank loans ( <i>notes a and b</i> )	197,942	341,214	543,872	250,772
Other loans ( <i>notes c and d</i> )	<u>126,062</u>	<u>14,517</u>	<u>—</u>	<u>—</u>
	<u>324,004</u>	<u>355,731</u>	<u>543,872</u>	<u>250,772</u>
Repayable within a period of				
— On demand or within one year	163,294	51,005	543,872	78,931
— More than 1 year, but not exceeding 2 years	—	304,000	—	—
— More than 2 years, but not exceeding 5 years	<u>160,710</u>	<u>726</u>	<u>—</u>	<u>171,841</u>
	324,004	355,731	543,872	250,772
Less: Amount due within one year shown under current liabilities	<u>(163,294)</u>	<u>(51,005)</u>	<u>(543,872)</u>	<u>(78,931)</u>
Amount due after one year shown as non-current liabilities	<u>160,710</u>	<u>304,726</u>	<u>—</u>	<u>171,841</u>

*Notes:*

## Bank loans included:

- (a) The bank loans include Hong Kong dollar revolving credit and term loan facilities of HK\$160,000,000, HK\$304,000,000, HK\$500,000,000 and HK\$100,000,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively with an average interest rate of 2.2%, 3.8%, 4.9% and 5.39%. Such floating rate bank loans of HK\$160,000,000, HK\$304,000,000, HK\$500,000,000 respectively at 31 December 2004, 31 December 2005 and 31 December 2006 are repayable in 2007 and the balance of HK\$100,000,000 at 30 September is repayable in 2012. Under the terms of the loan facilities agreements, CRL is required to provide guarantee to the facilities and China Resources (Holdings) Company Limited, the controlling shareholder of the Companies, is required to remain as a majority beneficial owner of the issued share capital of CRL and shall maintain its management control over CRL.
- (b) The remaining balance at 30 September 2007 included bank loans of RMB70,000,000 (equivalent to HK\$71,841,000) and repayable in 2010.

## Other loans included:

- (c) An outstanding balance of RMB120,000,000 (equivalent to HK\$112,716,000) at 31 December 2004 payable to China Cinda Asset Management Corporation 中國信達資產管理公司, which was unsecured and interest free was repaid in full in 2005.

- (d) The remaining balance denominated in Renminbi and repayable on demand. The loan is arranged at fixed interest rate of 14.4%.

### 30. COMBINED SHARE CAPITAL

The combined capital is the aggregate of the share capital of the Companies.

### 31. DEFERRED TAXATION

The following is the deferred tax asset recognised and movements thereon during the Relevant Periods:

	<b>Provision for staff housing benefits</b> <i>HK\$'000</i>
At 1 January 2004 and 31 December 2004	4,355
Credited to income for the year	<u>101</u>
At 31 December 2005	4,456
Exchange adjustments	1
Charged to income for the year	<u>(102)</u>
At 31 December 2006	4,355
Charged to income for the period	<u>(1,800)</u>
At 30 September 2007	<u><u>2,555</u></u>

At balance sheet date, the Group had unused tax losses of HK\$805,000, HK\$31,883,000, HK\$102,539,000 and HK\$159,584,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to unpredictability of future profit streams.

At balance sheet date, the Group also had other deductible temporary differences of approximately HK\$67,294,000, HK\$90,256,000, HK\$116,096,000 and HK\$133,367,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

### 32. SHARE OPTIONS OF CRL GRANTED TO EMPLOYEES OF THE GROUP

Pursuant to the share option schemes of CRL, share options may be granted to employees or directors' of each member of CRL. These share options generally either become fully vested and exercisable within a period of 10 years immediately after the date of granted or become vested over a period of time up to maximum of three years after the acceptance of a grant.

Share-based payment in relation to share options granted after 7 November 2002 but not yet vested on 1 January 2005 has not been charged to the Group's combined income statements as in the opinion of the management of the Companies, such amounts are insignificant.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE CR LOGIC  
SEMICONDUCTOR GROUP**

A summary of the movements of share options granted to certain employees of the Group is as follows:

**2004**

Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options				Outstanding at 31 December 2004
			Outstanding at 1 January 2004	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	
25 April 2001	0.547	Note a	7,300,000	—	(4,000,000)	—	3,300,000
2 October 2002	0.570	Note b	14,402,000	—	(3,776,000)	(500,000)	10,126,000
9 April 2003	0.479	Note c	21,300,000	—	(2,290,000)	(200,000)	18,810,000
3 November 2003	0.800	Note d	500,000	—	—	—	500,000
13 January 2004	0.906	Note e	—	13,300,000	—	(160,000)	13,140,000
7 December 2004	0.910	Note f	—	800,000	—	—	800,000
			<u>43,502,000</u>	<u>14,100,000</u>	<u>(10,066,000)</u>	<u>(860,000)</u>	<u>46,676,000</u>

**2005**

Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options			Outstanding at 31 December 2005
			Outstanding at 1 January 2005	Exercised during the year	Cancelled/ lapsed during the year	
25 April 2001	0.547	Note a	3,300,000	(200,000)	—	3,100,000
2 October 2002	0.570	Note b	10,126,000	(3,985,000)	—	6,141,000
9 April 2003	0.479	Note c	18,810,000	(10,490,000)	(150,000)	8,170,000
3 November 2003	0.800	Note d	500,000	—	—	500,000
13 January 2004	0.906	Note e	13,140,000	—	(270,000)	12,870,000
7 December 2004	0.910	Note f	800,000	—	(800,000)	—
			<u>46,676,000</u>	<u>(14,675,000)</u>	<u>(1,220,000)</u>	<u>30,781,000</u>

## 2006

Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options				Outstanding at 31 December 2006
			Outstanding at 1 January 2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	
25 April 2001	0.547	Note a	3,100,000	—	—	—	3,100,000
2 October 2002	0.570	Note b	6,141,000	—	(2,718,000)	(80,000)	3,343,000
9 April 2003	0.479	Note c	8,170,000	—	(4,240,000)	(50,000)	3,880,000
3 November 2003	0.800	Note d	500,000	—	—	—	500,000
13 January 2004	0.906	Note e	12,870,000	—	—	(300,000)	12,570,000
19 April 2006	0.940	Note g	—	1,000,000	—	—	1,000,000
			<u>30,781,000</u>	<u>1,000,000</u>	<u>(6,958,000)</u>	<u>(430,000)</u>	<u>24,393,000</u>

## 2007

Date of grant	Exercise price HK\$	Exercisable period	Number of share options			Outstanding at 30 September 2007
			Outstanding at 1 January 2007	Exercised during the period	Cancelled/ lapsed during the period	
25 April 2001	0.547	Note a	3,100,000	(1,200,000)	—	1,900,000
2 October 2002	0.570	Note b	3,343,000	(1,568,000)	—	1,775,000
9 April 2003	0.479	Note c	3,880,000	(1,550,000)	—	2,330,000
3 November 2003	0.800	Note d	500,000	—	—	500,000
13 January 2004	0.906	Note e	12,570,000	(2,170,000)	(300,000)	10,100,000
19 April 2006	0.940	Note g	1,000,000	(700,000)	(300,000)	—
			<u>24,393,000</u>	<u>(7,188,000)</u>	<u>(600,000)</u>	<u>16,605,000</u>

## Note:

- a. The share options granted are vested into 3 tranches and exercisable from 25 April 2002, 25 April 2003 and 25 April 2004 to 24 April 2011.
- b. The share options are vested in 3 tranches and exercisable on 2 October 2003, 2 October 2004 and 2 October 2005 to 1 October 2012.
- c. The share options are vested in 3 tranches and exercisable on 9 April 2005 and 9 April 2006 to 8 April 2013.
- d. The share options are vested in 3 tranches and exercisable on 3 November 2004, 3 November 2005 and 3 November 2006 to 2 November 2013.

- e. The share options are vested in 3 tranches and exercisable on 13 January 2005, 13 January 2006 and 13 January 2007 to 12 January 2014.
- f. The share options are vested in 3 tranches and exercisable on 7 December 2005, 7 December 2006 and 7 December 2007 to 6 December 2014.
- g. The share options are vested in 3 tranches and exercisable on 5 December 2006, 5 December 2007 and 5 December 2008 to 4 December 2015.

### 33. RETIREMENT BENEFIT SCHEMES

#### Mainland China

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

#### Hong Kong

The Group participates a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme established under the Mandatory Provident Fund Ordinance.

The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

At the balance sheet date, there was no significant amount of forfeited contributions to reduce the contributions payable in the future years.

### 34. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary, Shenzhen Kope Microelectronics Co., Ltd. during the year ended 31 December 2005, which did not result in any significant financial impact to the Group.

The net assets of the above subsidiary at the date of disposal were as follows:

	<i>HK\$'000</i>
Bank balances and cash	4,379
Minority interests	<u>(4,379)</u>
	<u>—</u>
Net cash outflow arising on disposal:	
Cash consideration	—
Bank balances and cash disposed of	<u>(4,379)</u>
	<u><u>(4,379)</u></u>

**35. GOVERNMENT GRANTS**

Included in creditors and accrued charges are deferred income in relation to government grants of HK\$18,820,000, HK\$20,594,000, HK\$53,003,000 and HK\$83,873,000 at 31 December 2004, 31 December 2005, 31 December 2006 and 30 September 2007 respectively which are provided by the relevant government authorities for the purpose of financing the purchases of machinery and equipment and relevant expenses for new products. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to combined income statements of HK\$12,147,000, HK\$2,956,000, HK\$6,339,000, HK\$3,083,000 and HK\$9,509,000 for the three years ended 31 December 2006 and the nine months ended 30 September 2006 and 2007 respectively.

**36. CAPITAL COMMITMENTS**

As at the balance sheet date, the Group had the following commitments:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment				
Authorised but not contracted for	34,066	50,523	101,146	202,842
Contracted for but not provided ( <i>note</i> )	<u>113,238</u>	<u>66,234</u>	<u>279,924</u>	<u>282,159</u>

*Note:* During the year ended 31 December 2006, the Group entered into an agreement with a minority shareholder of a subsidiary (the "Vendor") for the acquisition of certain tools, equipment and spare parts for a consideration of US\$35,000,000 (equivalent to HK\$273,000,000), of which US\$12,000,000 (equivalent to HK\$93,600,000) had been paid up to 30 September 2007. The Group received the machinery amounting to HK\$29,576,000 and HK\$103,216,000 at 31 December 2006 and nine months ended 30 September 2007. The amount disclosed above includes the balance of the consideration of US\$23,000,000 (equivalent to HK\$179,400,000) which is payable by four instalments on a yearly basis from 2007 to 2010. Pursuant to another agreement entered into with the Vendor, the Group has undertaken to make incentive payment of US\$5,000,000 to a subsidiary of the Vendor in the event that the cumulative revenue from assembly and testing services provided by the Group arising from orders placed by customers of the Vendor for the years 2007 to 2010 exceeds an agreed amount. However, no fair value was ascribed to the undertaking as at the balance sheet date, which has been accounted for as a derivative, as the directors consider that the equipment is still under installation and it is uncertain the agreed amount could be achieved based on the Group's assessment.

## 37. OPERATING LEASES

**The Group as lessee:**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Within one year	270	154	720	185
In the second to fifth year inclusive	<u>151</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>421</u>	<u>154</u>	<u>720</u>	<u>185</u>

Operating lease payments represent rentals payable by the Group for certain office and factory premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

**The Group as lessor:**

Rental income earned from investment properties of HK\$9,289,000, HK\$10,936,000, HK\$10,935,000, HK\$8,377,000 and HK\$9,974,000 and machinery and equipment of HK\$454,000, HK\$1,367,000, nil, nil and nil for the three years ended 31 December 2006 and nine months ended 30 September 2006 and 2007 respectively. These assets have committed leases for terms ranging from one year to over five years.

At the respective balance sheet dates, the Group had contracted with lessees for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2004	2005	2006	30 September
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Within one year	11,336	13,189	11,007	10,514
In the second to fifth year inclusive	40,167	45,894	38,631	40,355
After five years	<u>7,691</u>	<u>7,283</u>	<u>6,797</u>	<u>6,682</u>
	<u>59,194</u>	<u>66,366</u>	<u>56,435</u>	<u>57,551</u>

## 38. RELATED PARTY TRANSACTIONS

## (a) Transactions with related parties

In addition to the related parties transactions set out in other notes, during the Relevant Periods, the Group entered into the following transactions with related parties:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Sales to a fellow subsidiary	188	2,142	2,352	1,760	1,889
Rented expenses paid to a fellow subsidiary	—	2,235	2,165	1,620	1,809
Rental income received from					
a fellow subsidiary	700	565	565	506	595
Rental income received from an associate					
of a fellow subsidiary	8,589	10,371	10,652	7,871	9,921
Sales to an associate of a fellow subsidiary	71,390	90,623	96,959	71,437	73,694
Subcontracting income from					
a subsidiary of CRL	6,916	12,195	18,829	15,133	9,758
Service fee received from					
a fellow subsidiary	951	—	—	—	—
Sales to a subsidiary of CRL	55,733	17,808	21,191	18,398	7,601
Purchases from a subsidiary of CRL	8,261	14,203	26,681	17,787	16,586
Rental income from a subsidiary of CRL	645	306	109	—	54
Wafer fabrication service charges paid to					
an associate of a fellow subsidiary	111,855	93,799	107,625	84,586	96,357
Storage and transportation charges received					
from an associate of a fellow subsidiary	—	—	2,141	1,605	—
Expenses related to semiconductor					
business of the Group borne by CRL					
and CRM ( <i>Note</i> )	<u>8,459</u>	<u>20,655</u>	<u>22,449</u>	<u>18,220</u>	<u>18,000</u>

*Note:* The amount of expenses, of which directors' emoluments of CRL and CRM were included as disclosed in note 10, borne by CRL and CRM were determined by the directors of CRL on a reasonable allocation basis.

The remuneration of key management personnel for the Relevant Periods were borne by CRL and CRM as set out in note 10(a).



**(b) Transactions/balances with other stated-controlled entities in the PRC**

The Group itself is a part of a larger group of companies under China Resources National Corp. (“CRNC”), a company established in the PRC and the ultimate holding company of the Group which is controlled by the government of the PRC. Apart from the transactions with parent company and its subsidiaries, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business. The management considers those entities other than CRNC group are independent third parties as far as the Group’s business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The management is of the opinion that that it has provided, at the best of its knowledge, adequate and appropriate disclosure of related party transactions as summarised above.

**B. ULTIMATE HOLDING COMPANY**

The directors of the Companies consider that CRNC is the ultimate holding company of the Group throughout the Relevant Periods.

**C. SUBSEQUENT EVENTS**

No significant events took place subsequent to 30 September 2007.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group have been prepared in respect of any period subsequent to 30 September 2007.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**II. INDEBTEDNESS****Borrowings**

The borrowings of the CR Logic Semiconductor group as at 30th November, 2007 are as follows:

	<i>(HK\$'000)</i>
Short-term unsecured bank borrowings	1,205,700
Bills receivables discounted with recourse	<u>64,469</u>
Total bank borrowings	<u>1,270,169</u>
Amounts due to the remaining CR Logic group	<u>246,091</u>
	<u>1,516,260</u>
Borrowings repayable:	
On demand or within one year	342,270
More than two years, but not exceeding five years	<u>1,173,990</u>
	<u>1,516,260</u>

Save as disclosed above, the CR Logic Semiconductor group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings of the CR Logic Semiconductor group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30th November, 2007.

**III. WORKING CAPITAL**

Taking into account the financial resources of the CR Logic Semiconductor group, including internally generated funds and the banking facilities presently available, the directors of CSMC, after due and careful consideration, are of the opinion that the CR Logic Semiconductor group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this composite circular.

**IV. MATERIAL ADVERSE CHANGE**

The directors of CSMC confirm that they have performed sufficient due diligence to ensure that, up to the Latest Practicable Date, there has not been any material adverse change in the financial or trading position or prospects of the CR Logic Semiconductor group since 30th September, 2007, and that there is no event since 30th September, 2007 which would materially affect the information shown in the Accountants' Report of the CR Logic Semiconductor group in this appendix.

**V. MANAGEMENT DISCUSSION AND ANALYSIS OF CR LOGIC SEMICONDUCTOR GROUP**

The following is the management discussion and analysis of the CR Logic Semiconductor group for the three years ended 31st December, 2006 and nine months ended 30th September, 2007.

**Year ended 31st December, 2004***Business and Financial Review*

The turnover of the CR Logic Semiconductor group increased to HK\$1,238 million for the year ended 31 December, 2004 from the HK\$996 million recorded in previous year, an increase of approximately 24%. The gross profit margin for the year was some 24% (2003: 24%). The CR Logic Semiconductor group achieved an operating profit of approximately HK\$154 million for the year ended 31 December, 2004, (2003: HK\$158 million), a decrease of approximately 3%.

*Cash Flow*

The net cash inflow from operations of the CR Logic Semiconductor group during the year amounted to HK\$276 million.

Capital expenditure of HK\$526 million was made during the year which was used to fund the expansion and upgrading of existing production facilities. The above funding requirement was financed by the operating cash flow, bank borrowings and cash on hand. As at year end the group's free cash on hand was HK\$213 million representing a decrease of HK\$43 million or 17% against that at last year.

*Liquidity and Financial Resources and Capital Structure*

As at the end of the year, the CR Logic Semiconductor group had total borrowings of HK\$324 million which represented a decrease of 18% over that of last year. About 50% of the borrowings were current liabilities and repayable within one year, the remaining were repayable in five years. A bank loan of HK\$160 million was guaranteed by CR Logic.

The net borrowings of the CR Logic Semiconductor group was HK\$111 million as at the year end. The gearing ratio, calculated as net borrowings over total equity, was 13%, compared to 20% as of last year end. The current ratio was maintained at the level of 0.8. On the whole, the financial position and liquidity of the group was healthy and stable.

*Charge against Assets*

As at 31st December, 2004, the CR Logic Semiconductor group had no charge against any assets. (2003: Nil)

*Contingent Liability*

As at 31st December, 2004, the CR Logic Semiconductor group had no material contingent liabilities. (2003: Nil)

*Significant investments, acquisitions and disposals*

The CR Logic group entered into an agreement to purchase a used 6 inch wafer fabrication line for a consideration of US\$19 million, (equivalent to about HK\$148 million), on 18th March, 2004. The purchase is part of the expansion plan of the CR Logic Semiconductor group in the PRC.

CR Logic group's shareholding in CSMC was reduced to 23.81% as at 13th August, 2004 as a result of an initial public offering and listing of the shares in CSMC on the Stock Exchange on 13th August, 2004. The profit arose from this deemed disposal was HK\$25.8 million.

*Employee and remuneration policy*

During the year ended 31st December, 2004, the CR Logic Semiconductor group had 3,930 employees and staff costs of approximately HK\$171 million were incurred. The CR Logic group values human resources and recognises the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees based on individual performance. The CR Logic group believes this will assist the CR Logic group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

**Year ended 31st December, 2005**

*Business and Financial Review*

The turnover of the CR Logic Semiconductor group increased to approximately HK\$1,389 million for the year ended 31st December, 2005 from approximately HK\$1,238 million recorded in previous year, an increase of 12%. The gross profit margin for the year was about 22% (2004: 24%). The CR Logic Semiconductor group achieved an operating profit of approximately HK\$158 million for the year ended 31st December, 2005, (2004: HK\$154 million), an increase of approximately 3%.

*Cash Flow*

The net cash inflow from operations of the CR Logic Semiconductor group during the year amounted to approximately HK\$268 million which was 3% lower than that of the previous year.

Capital expenditure of approximately HK\$308 million was made during the year which was used to fund the expansion and upgrading of existing production facilities of the group. The above funding requirement was financed by operating cash flow, bank borrowings and cash on hand. As at year end the group's free cash on hand was HK\$116 million representing a decrease of HK\$97 million or 45% against that at the end of previous year.

*Liquidity and Financial Resources and Capital Structure*

As at the end of the year, the CR Logic Semiconductor group had total borrowings of HK\$356 million which represented an increase of 10% over that at the previous year end. About 14% of the borrowings were current liabilities and repayable within one year, the remaining were repayable within five years. A bank loan of HK\$304 million was guaranteed by CR Logic.

The net borrowings of the CR Logic Semiconductor group were HK\$240 million as at the year end. The gearing ratio of the group at the end of the year, calculated as net borrowings over total equity, was 22%, compared to 13% as at the previous year end. The current ratio, being ratio of current assets to current liabilities was maintained at the level of 0.9. On the whole, the financial position and liquidity of the group was healthy and stable.

*Charge against Assets*

As at 31st December, 2005, the CR Logic Semiconductor group had no charge against any asset. (2004: Nil)

*Contingent Liabilities*

As at 31st December, 2005, the CR Logic Semiconductor group had no material contingent liabilities. (2004: Nil)

*Significant investments, acquisitions and disposals*

The CR Logic Semiconductor group did not make any significant investments, acquisitions or disposals during the year ended 31st December, 2005.

*Employee and remuneration policy*

During the year ended 31st December, 2005, the CR Logic Semiconductor group had 4,232 employees and staff costs of approximately HK\$194 million were incurred. The CR Logic group values human resources and recognises the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees based on individual performance. The CR Logic group believes this will assist the CR Logic group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

**Year ended 31st December, 2006***Business and Financial Review*

The turnover of the CR Logic Semiconductor group increased to HK\$1,684 million for the year ended 31st December, 2006 from approximately HK\$1,389 million recorded in previous year, an increase of 21%. The gross profit margin for the year was some 25% (2005: 22%). The CR Logic Semiconductor group achieved an operating profit of HK\$195 million for the year ended 31st December, 2006, (2005: HK\$158 million), an increase of approximately 23%.

*Cash Flow*

The net cash inflow from operations of the CR Logic Semiconductor group during the year amounted to HK\$264 million which was 1% lower than that of the previous year.

Capital expenditure of HK\$451 million was made during the year which was used for the expansion and upgrading of existing production facilities. The above funding requirement was financed by the operating cash flow, bank borrowings and cash on hand. As at year end the group's free cash on hand was HK\$135 million representing an increase of HK\$19 million or 16% against that of the previous year.

*Liquidity and Financial Resources and Capital Structure*

As at the end of the year, the CR Logic Semiconductor group had total borrowings of HK\$544 million which represented an increase of 53% over that at the previous year end. The entire borrowings were accounted for as current liabilities and repayable within one year. A bank loan of HK\$500 million was guaranteed by CR Logic. All borrowings were interest bearing bank loans.

The net borrowings of the CR Logic Semiconductor group were approximately HK\$409 million as at the year end. The gearing ratio at the end of the year, calculated as net borrowings over total equity, was approximately 22%, same as that of the previous year. The current ratio was maintained at the level of 1.0. On the whole, the financial position and liquidity of the group was healthy and stable.

*Charge against Assets*

As at 31st December, 2006, the CR Logic Semiconductor group had no charge against any asset. (2005: Nil)

*Contingent Liabilities*

As at 31st December, 2006, the CR Logic Semiconductor group had no material contingent liabilities. (2005: Nil)

*Significant investments, acquisitions and disposals*

The CR Logic group has made a voluntary conditional offer (the “Offer”) to acquire all the issued shares in the share capital of CSMC on 15th May, 2006. The Offer became unconditional on 28th June, 2006 as the CR Logic group had by then obtained valid acceptances representing about 29.8% of the issued share capital of CSMC. The Offer remained open for acceptance up to 12th July, 2006 after which it became unconditional on 28th June, 2006. Up to and including 12th July, 2006, the CR Logic group’s shareholding amounted to about 72.9% of the entire issued share capital of CSMC including the shareholding it held before the Offer. The acceptances were satisfied by cash of some HK\$452 million and the issue of 93,631,354 new shares in CR Logic.

The semiconductor market, globally and particularly in the PRC, continued to grow due to the increase in demand for consumer electronic products. Both the CR Logic Semiconductor group and CSMC benefited from this growth with their common strategy of using mature technology with its lower capital expenditure and costs to service competitively the country’s rapidly growing IC market. The consolidation of the CR Logic Semiconductor group and CSMC has enabled both entities to capture the opportunities offered by this rapidly growing business segment and further increase their competitiveness. The CR Logic Semiconductor group continues to believe that CSMC will make substantial contribution to the CR Logic Semiconductor group’s turnover and profit in the future. The acquisition was an important strategic step in the CR Logic Semiconductor group’s future development and in its objective to become a leading player in the PRC semiconductor industry.

CR Logic and its subsidiary, Wuxi CR Micro-Assemb Tech. Ltd. (“ANST”), entered into an asset sale and purchase agreement with STATS ChipPAC group (“SCL”) on 22nd June, 2006, for the purchase of certain assets (the “Assets”) so as to enable ANST to increase its production capacity and expand its range of products and services. The consideration was US\$35 million with an initial payment of US\$12 million. The balance of the consideration is payable by four instalments on the last business day of each year from 2007 to 2010. The initial payment of US\$12 million was wholly financed by borrowed funds. The balance of US\$23 million will be satisfied partly by internal resources and partly by revenue derived from customers introduced by SCL to ANST.

CR Logic and its wholly owned subsidiary, Wuxi China Resources Microelectronics (Holdings) Limited (“Wuxi CRM”), established a joint venture with SCL on 22nd June, 2006. Before the joint venture, Wuxi CRM wholly-owned Micro Assembly Technologies Limited (“MAT”), which, in turn, wholly-owned ANST. After the establishment of the joint venture, Wuxi CRM holds 75% of the shareholdings in MAT whilst SCL holds 25%. ANST remains wholly-owned by MAT.

The total investment made by CR Logic group and SCL was US\$30 million and US\$10 million respectively and was used to subscribe for shares in MAT. The investment by the CR Logic Semiconductor group and SCL in MAT was used to increase the registered capital of ANST from RMB 100 million to the RMB equivalent of US\$40 million.

#### *Employee and remuneration policy*

During the year ended 31st December, 2006, the CR Logic Semiconductor group had 5,323 employees and staff costs of approximately HK\$233 million were incurred. The CR Logic group values human resources and recognises the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees based on individual performance. The CR Logic group believes this will assist the CR Logic group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

#### **For the nine months ended 30th September, 2007**

#### *Business and Financial Review*

The turnover of the CR Logic Semiconductor group increased to approximately HK\$1,500 million for the period ended 30th September, 2007 from the HK\$1,209 million recorded in previous corresponding period, an increase of 24%. The gross profit margin for the period was 22% (nine months ended 30th September, 2006: 26%). The CR Logic Semiconductor group achieved an operating profit of HK\$140 million for the period ended 30 September, 2007, (nine months ended 30th September, 2006: HK\$157 million), a decrease of 11% partly due to an one-off stock provision on MP3 products of HK\$8 million.

#### *Cash Flow*

The net cash inflow from operations of the CR Logic Semiconductor group during the period amounted to HK\$94 million which was 49% lower than that of the previous corresponding period.

Capital expenditure of HK\$293 million has been made during the period which was used for the expansion and upgrading of existing production facilities. The above funding requirement was financed by the operating cash flow, bank borrowings and cash on hand. As at the end of the period under review, the group’s free cash on hand was HK\$114 million representing a decrease of HK\$21 million or 16% against that at last year end.



*Liquidity and Financial Resources and Capital Structure*

As at the end of the period under review, the CR Logic Semiconductor group had total borrowings of HK\$251 million which represented a substantial decrease of 54% over that of last year end. 31% of the borrowings were current liabilities and repayable within one year. The remaining were repayable within five years. A bank loan of HK\$100 million was guaranteed by CR Logic. All borrowings were interest bearing bank loans.

The net borrowings of the CR Logic Semiconductor group were HK\$137 million as at the end of the period under review. The gearing ratio at the end of the period, calculated as net borrowings over total equity, was 7%, compared to 22% for the comparable period in the previous year. The current ratio was maintained at the level of 1.1. On the whole, the financial position and liquidity of the group was healthy and stable.

*Charge against Assets*

As at 30th September, 2007, the CR Logic Semiconductor group had no charge against any asset. (2006: Nil)

*Contingent Liabilities*

As at 30th September, 2007, the CR Logic Semiconductor group had no material contingent liabilities. (2006: Nil)

*Significant investments, acquisitions and disposals*

The CR Logic Semiconductor group did not make any significant investments, acquisitions and disposals during the period ended 30th September, 2007.

*Employee and remuneration policy*

During the period ended 30th September, 2007, the CR Logic Semiconductor group had 5,472 employees and staff costs of approximately HK\$203 million were incurred. The CR Logic group values human resources and recognises the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees based on individual performance. The CR Logic group believes this will assist the CR Logic group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

*Reconciliation of appraised property value with net carrying value*

The reconciliation of the appraised values as at 31st October, 2007 of the properties held by the CR Logic Semiconductor group prepared by Vigers Appraisal & Consulting Limited with their net carrying values as at 30th September, 2007 as reflected in the accountants' report of the CR Logic Semiconductor group are as follow:

	<b>Leasehold Properties</b>	<b>Land &amp; Building Prepaid lease payments</b>	<b>Investment Properties</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Net book value as at 30th September, 2007	246,386,211	149,888,941	49,719,281	445,994,433
Additions	—	—	—	—
Depreciation charge for October, 2007	<u>(984,123)</u>	<u>(285,963)</u>	<u>(208,155)</u>	<u>(1,478,241)</u>
Net book value as at 31st October, 2007	245,402,088	149,602,978	49,511,126	444,516,192
Revaluation surplus				<u>76,633,808</u>
Total amount per valuation as at 31st October, 2007				<u><u>521,150,000</u></u>
Valuation as at 31st October, 2007				
- CSMC group				101,600,000
- CR Logic Semiconductor group				<u>521,150,000</u>
				<u><u>622,750,000</u></u>

**VI. WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES**

Under Rule 4.06 of the Listing Rules, CSMC is required to include an accountants' report covering the results of the CR Logic Semiconductor group for each of the three financial years immediately preceding the issue of the composite circular. As the composite circular is to be despatched in early January, 2008, it is considered unduly burdensome for the CR Logic Semiconductor group to prepare an accountants' report within a short period of time after the fiscal year end date of 31st December, 2007. CSMC has applied to, and the Stock Exchange has granted, a waiver from strict compliance of Rule 4.06 of the Listing Rules with the conditions that (i) this composite circular is despatched on or before 16th January, 2008 and the extraordinary general meeting of CSMC will be held by no later than 13th February, 2008; and (ii) the directors of CSMC confirm that they have performed sufficient due diligence to ensure that, up to the Latest Practicable Date, there is no material adverse change in the financial position or prospects of the CR Logic Semiconductor group as set out in this appendix. All such conditions have been fulfilled by CSMC.

## I. ACCOUNTANTS' REPORT

**Deloitte.**  
**德勤**

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香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

16 January 2008

The Directors  
China Resources Logic Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of China Resources Logic Limited (the “Company”) and its subsidiaries (together hereinafter refer to as the “Group”) set out in Sections A to D below, for inclusion in the composite circular of the Company dated 16 January 2008 (the “Circular”) in connection with the proposed disposal of the entire interests in Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited, Well-Known Property Limited (the “CR Logic Semiconductor Group”) to CSMC Technologies Corporation (“CSMC”), the proposed dividend in specie by way of distribution by the Company of all of its shares in CSMC and the proposed acquisition of the entire interest in Redland Concrete Limited. The Financial Information comprises the consolidated balance sheets of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in Bermuda as an exempted company with limited liability. As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries as set out in note 43 of Section B below. Other than CSMC, which is a company listed on The Hong Kong Stock Exchange Limited, all of these companies are private companies.

The consolidated financial statements of the Group for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 (the “Underlying Financial Statements”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which were audited by Deloitte Touche Tohmatsu in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared based on the Underlying Financial Statements, after making adjustments as are appropriate.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of Circular in which the report is included.

Our responsibility is to compile the Financial Information from the Underlying Financial Statements, to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the Group’s results and cash flows for the Relevant Periods.

## (A) FINANCIAL INFORMATION

## CONSOLIDATED INCOME STATEMENT

	Note	YEAR ENDED 31 DECEMBER		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover	7			
Continuing operations		2,487,207	2,863,232	3,450,659
Discontinued operation	11	<u>185,636</u>	<u>201,215</u>	<u>—</u>
		2,672,843	3,064,447	3,450,659
Cost of sales		<u>(1,934,905)</u>	<u>(2,248,895)</u>	<u>(2,602,462)</u>
Gross profit		737,938	815,552	848,197
Other income	8	80,574	138,583	104,199
Distribution and selling expenses		(103,234)	(130,410)	(129,972)
Administrative expenses		(274,270)	(260,976)	(301,962)
Other expenses		(97,883)	(134,065)	(161,255)
Amortization of goodwill		(9,496)	—	—
Release of negative goodwill		<u>56,988</u>	<u>—</u>	<u>—</u>
Profit from operations	7	390,617	428,684	359,207
Finance costs	9	(23,965)	(51,038)	(89,601)
Share of results of an associate		21,045	(12,541)	1,103
Gain (loss) on deemed disposal of an associate		27,991	(2,826)	1,590
Gain on disposal of discontinued operation	11&36	—	74,295	—
Discount on acquisition of subsidiaries	35	<u>—</u>	<u>—</u>	<u>41,296</u>
Profit before taxation				
Continuing operations		392,126	341,637	313,595
Discontinued operation		<u>23,562</u>	<u>94,937</u>	<u>—</u>
		<u>415,688</u>	<u>436,574</u>	<u>313,595</u>
Taxation	10			
Continuing operations		(27,421)	(30,371)	(33,199)
Discontinued operation	11	<u>(3,235)</u>	<u>(2,104)</u>	<u>—</u>
		<u>(30,656)</u>	<u>(32,475)</u>	<u>(33,199)</u>
Profit for the year	12			
Continuing operations		364,705	311,266	280,396
Discontinued operation		<u>20,327</u>	<u>92,833</u>	<u>—</u>
		<u>385,032</u>	<u>404,099</u>	<u>280,396</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

	<i>Note</i>	<b>YEAR ENDED 31 DECEMBER</b>		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:				
Equity holders of the Company				
Continuing operations		289,593	223,948	232,417
Discontinued operation	11	<u>20,327</u>	<u>92,833</u>	<u>—</u>
		309,920	316,781	232,417
Minority interests		<u>75,112</u>	<u>87,318</u>	<u>47,979</u>
		<u>385,032</u>	<u>404,099</u>	<u>280,396</u>
		<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
<b>Dividend per share</b>	14			
Interim dividend paid		—	1.00	1.00
Final dividend proposed		<u>2.50</u>	<u>2.00</u>	<u>1.00</u>
		<u>2.50</u>	<u>3.00</u>	<u>2.00</u>
<b>Earnings per share</b>	15			
<b>From continuing and discontinued operations</b>				
Basic		<u>11.75</u>	<u>11.90</u>	<u>8.57</u>
Diluted		<u>11.55</u>	<u>11.78</u>	<u>8.49</u>
<b>From continuing operations</b>				
Basic		<u>10.97</u>	<u>8.41</u>	<u>8.57</u>
Diluted		<u>10.79</u>	<u>8.33</u>	<u>8.49</u>

## CONSOLIDATED BALANCE SHEET

		AT 31 DECEMBER		
		2004	2005	2006
		HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Property, plant and equipment	16	2,138,601	2,489,740	4,217,639
Prepaid lease payments	17	178,412	161,125	172,559
Investment properties	18	51,791	50,649	—
Interest in an associate	19	297,916	289,380	—
Investments securities/Available-for-sale investments	20	975	998	10,105
Goodwill	21	152,777	152,777	152,777
Negative goodwill	22	(151,811)	—	—
Technical know-how	23	21,334	19,235	53,663
Deferred tax assets	31	10,762	11,691	16,416
Deposit for acquisition of property, plant and equipment		—	—	63,205
		<u>2,700,757</u>	<u>3,175,595</u>	<u>4,686,364</u>
<b>Current Assets</b>				
Inventories	24	744,657	739,697	1,068,568
Debtors, deposits and prepayments	25	872,289	1,163,649	1,622,459
Prepaid lease payments	17	4,675	4,366	4,625
Amount due from an associate		7,843	10,236	—
Amounts due from minority shareholders		6,700	5,188	2,164
Tax recoverable		—	—	10,057
Pledged bank deposits	26	6,824	2,695	7,642
Bank balances and cash	26	<u>555,706</u>	<u>470,009</u>	<u>521,250</u>
		<u>2,198,694</u>	<u>2,395,840</u>	<u>3,236,765</u>
<b>Total Assets</b>		<u><u>4,899,451</u></u>	<u><u>5,571,435</u></u>	<u><u>7,923,129</u></u>

## CONSOLIDATED BALANCE SHEET

	NOTE	AT 31 DECEMBER		
		2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	32	264,748	266,491	276,580
Share premium and reserves		<u>1,682,904</u>	<u>2,130,178</u>	<u>2,478,511</u>
Equity attributable to equity holders of the Company		1,947,652	2,396,669	2,755,091
Share option reserve of a listed subsidiary		—	—	5,805
Minority interests		<u>535,511</u>	<u>627,119</u>	<u>1,048,727</u>
<b>Total Equity</b>		<u>2,483,163</u>	<u>3,023,788</u>	<u>3,809,623</u>
<b>Non-current Liabilities</b>				
Borrowings	28	860,710	843,166	522,306
Long-term payables	30	—	—	66,025
Deferred tax liabilities	31	<u>6,714</u>	<u>—</u>	<u>—</u>
		<u>867,424</u>	<u>843,166</u>	<u>588,331</u>
<b>Current Liabilities</b>				
Creditors and accrued charges	27	844,052	984,551	1,648,101
Amount due to an associate		26,486	38,558	—
Amounts due to minority shareholders		31,249	61,547	85,213
Borrowings	28	510,779	523,630	1,706,617
Provisions	29	131,461	93,332	77,111
Taxation		<u>4,837</u>	<u>2,863</u>	<u>8,133</u>
		<u>1,548,864</u>	<u>1,704,481</u>	<u>3,525,175</u>
<b>Total Liabilities</b>		<u>2,416,288</u>	<u>2,547,647</u>	<u>4,113,506</u>
<b>Total Equity and Liabilities</b>		<u>4,899,451</u>	<u>5,571,435</u>	<u>7,923,129</u>
<b>Net Current Assets (Liabilities)</b>		<u>649,830</u>	<u>691,359</u>	<u>(288,410)</u>
<b>Total Assets less Current Liabilities</b>		<u>3,350,587</u>	<u>3,866,954</u>	<u>4,397,954</u>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Goodwill reserve	Translation reserve	Share option reserve	Other reserves	Retained profits	Total	Share option reserve of a listed subsidiary	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	262,335	903,505	57,910	(4,155)	1,504	27,850	405,978	1,654,927	—	396,901	2,051,828
Exchange differences (Note a)	—	—	—	239	—	—	—	239	—	94	333
Profit for the year	—	—	—	—	—	—	309,920	309,920	—	75,112	385,032
Total recognised income for the year	—	—	—	239	—	—	309,920	310,159	—	75,206	385,365
Shares repurchased and cancelled	(5)	(28)	—	—	—	—	—	(33)	—	—	(33)
Shares issued at premium upon exercise of share options	2,418	11,301	—	—	—	—	—	13,719	—	—	13,719
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(1,793)	(1,793)
Capital contribution by minority interests	—	—	—	—	—	—	—	—	—	84,599	84,599
Recognition of equity-settled share-based payment	—	—	—	—	8,444	—	—	8,444	—	—	8,444
Transfers between categories	—	—	—	—	—	18,798	(18,798)	—	—	—	—
Dividends recognised as distribution during the year (Note 14)	—	—	—	—	—	—	(39,564)	(39,564)	—	—	(39,564)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	(19,402)	(19,402)
At 31st December 2004	264,748	914,778	57,910	(3,916)	9,948	46,648	657,536	1,947,652	—	535,511	2,483,163
Opening balance adjustments arising from changes in accounting policies (Note 2)	—	—	(57,910)	—	—	—	209,721	151,811	—	—	151,811
At 1st January 2005, as restated	264,748	914,778	—	(3,916)	9,948	46,648	867,257	2,099,463	—	535,511	2,634,974

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

Attributable to equity holders of the Company											
	Share capital	Share premium	Goodwill reserve	Translation reserve	Share option reserve	Other reserves	Retained profits	Total	Share option reserve of a listed subsidiary	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note b)										
Exchange differences (Note a)	—	—	—	69,634	—	—	—	69,634	—	14,488	84,122
Profit for the year	—	—	—	—	—	—	316,781	316,781	—	87,318	404,099
Total recognised income for the year	—	—	—	69,634	—	—	316,781	386,415	—	101,806	488,221
Shares repurchased and cancelled	(450)	(3,217)	—	—	—	—	—	(3,667)	—	—	(3,667)
Shares issued at premium upon exercise of share options	2,193	9,386	—	—	—	—	—	11,579	—	—	11,579
Disposal of subsidiaries (Note 36)	—	—	—	(6,191)	—	(1,955)	1,955	(6,191)	—	(4,379)	(10,570)
Capital contribution by minority interests	—	—	—	—	—	—	—	—	—	56,362	56,362
Recognition of equity-settled share-based payment	—	—	—	—	2,149	—	—	2,149	—	—	2,149
Transfers between categories	—	—	—	—	—	29,971	(29,971)	—	—	—	—
Dividends recognised as distribution during the year (Note 14)	—	—	—	—	—	—	(93,079)	(93,079)	—	—	(93,079)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	(62,181)	(62,181)
At 31st December 2005	266,491	920,947	—	59,527	12,097	74,664	1,062,943	2,396,669	—	627,119	3,023,788
Exchange differences (Note a)	—	—	—	129,520	—	—	—	129,520	—	30,719	160,239
Profit for the year	—	—	—	—	—	—	232,417	232,417	—	47,979	280,396
Total recognised income for the year	—	—	—	129,520	—	—	232,417	361,937	—	78,698	440,635



## CONSOLIDATED CASH FLOW STATEMENT

	YEAR ENDED 31 DECEMBER		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation	415,688	436,574	313,595
Adjustments for:			
Finance costs	23,965	51,038	89,601
Interest income	(5,408)	(4,862)	(6,072)
Share of results of an associate	(21,045)	12,541	(1,103)
(Gain) loss on deemed disposal of an associate	(27,991)	2,826	(1,590)
Gain on additional investment in an associate	—	—	(3,641)
Gain on disposal of discontinued operation	—	(74,295)	—
Discount on acquisition of subsidiaries	—	—	(41,296)
Depreciation of property, plant and equipment	249,055	298,248	326,170
Depreciation of investment properties	2,317	2,339	1,367
Impairment loss recognised on property, plant and equipment	10,126	2,357	9,271
Amortisation of technical know-how	2,985	3,101	4,886
Amortisation of prepaid lease payments	4,597	4,682	4,615
Amortisation of goodwill	9,496	—	—
Release of negative goodwill	(56,988)	—	—
Share-based payment expense	8,444	2,149	8,401
Loss (gain) on disposal of property, plant and equipment	17,738	(7,514)	(6,337)
Write back of accrued interest expenses	(13,307)	(23,797)	—
Write back of other loans	—	—	(14,735)
Write back of provisions	—	(19,662)	—
Operating cash flows before movements in working capital	619,672	685,725	683,132
Increase in inventories	(98,025)	(13,881)	(178,171)
Increase in debtors, deposits and prepayments	(143,991)	(338,365)	(302,592)
(Increase) decrease in amount due from an associate	(2,380)	(2,393)	10,236
(Increase) decrease in amounts due from minority shareholders	(4,478)	1,512	3,024
Increase in creditors and accrued charges	59,488	203,326	464,178
Increase (decrease) in amount due to an associate	17,502	12,072	(38,558)
Increase in amounts due to minority shareholders	7,711	30,298	23,666
Utilisation of provisions	(8,940)	(19,477)	(17,580)
Cash generated from operations	446,559	558,817	647,335
Profits tax paid	(33,690)	(37,031)	(40,159)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>412,869</u>	<u>521,786</u>	<u>607,176</u>

## CONSOLIDATED CASH FLOW STATEMENT

	YEAR ENDED 31 DECEMBER		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
<b>INVESTING ACTIVITIES</b>			
Payments and deposits for acquisition of property, plant and equipment	(789,960)	(629,471)	(703,116)
Acquisition of subsidiaries ( <i>Note 35</i> )	—	—	(224,291)
Acquisition of additional interest in a subsidiary	(1,793)	—	—
Additional investment in an associate	(18,867)	(3,950)	(23,178)
Purchases of technical know-how	—	(509)	(2,200)
Purchases of prepaid lease payments	(7,928)	—	(2,818)
Disposal of subsidiaries ( <i>Note 36</i> )	—	87,758	—
Proceeds on disposal of property, plant and equipment	6,372	34,015	16,546
Interest received	5,408	4,862	6,072
Decrease in pledged bank deposits	30,478	4,129	14,325
Dividend received from an associate	18,786	3,114	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(757,504)</b>	<b>(500,052)</b>	<b>(918,660)</b>
<b>FINANCING ACTIVITIES</b>			
Repayments of borrowings	(504,463)	(480,202)	(1,511,617)
Dividends paid	(39,564)	(93,079)	(81,073)
Dividends paid to minority shareholders of subsidiaries	(9,709)	(71,874)	(74,732)
Interest paid on borrowings	(23,965)	(51,038)	(89,601)
Repurchase of shares	(33)	(3,667)	(2,124)
New bank loans raised	931,445	491,938	2,004,814
Capital contribution from minority shareholders of a subsidiary	84,599	56,362	77,786
Exercise of share options	13,719	11,579	6,221
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>452,029</b>	<b>(139,981)</b>	<b>329,674</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>107,394</b>	<b>(118,247)</b>	<b>18,190</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>449,656</b>	<b>555,706</b>	<b>470,009</b>
Effect of foreign exchange rate changes	(1,344)	32,550	33,051
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash</b>	<b>555,706</b>	<b>470,009</b>	<b>521,250</b>

**(B) NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION****1. GENERAL**

The Company is a listed public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s parent company is China Resources (Holdings) Company Limited (“CRH”), a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. (“CRNC”), a company established in the People’s Republic of China.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 43.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The accounting policies of the Group have been consistently applied during the Relevant Periods except for Hong Kong Financial Reporting Standards (“HKFRS”) 3 “Business Combinations”, Hong Kong Accounting Standards (“HKAS”) 39 “Financial Instruments: Recognition and Measurement”, HKFRS 2 “Share-based Payment” and HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, which were adopted by the Group for the Group’s accounting period beginning on or after 1 January 2005.

**Goodwill**

The Group has applied the relevant transitional provisions in HKFRS 3 Business Combinations. Goodwill previously recognised in goodwill reserve of HK\$7,271,000 has been transferred to the Group’s retained profits as at 1 January, 2005. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group has eliminated the carrying amount of the related accumulated amortisation of HK\$36,562,000 with a corresponding decrease in the cost of goodwill as at 1 January 2005 (see Note 21). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the year ended 31 December 2005. Comparative figures for 2004 have not been restated.

For the year ended 31 December 2005, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisition on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

**Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously know as “negative goodwill”)**

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the year in which the acquisition takes place. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 (of which negative goodwill of HK\$65,181,000 was previously recorded in goodwill reserve and of HK\$151,811,000, which was previously presented as a deduction from assets), with a corresponding increase of HK\$216,992,000 to the Group’s retained profits (see Note 22). As a result of this change in accounting policy, no negative goodwill is released to income in the year ended 31 December 2005. Comparative figures for 2004 have not been restated.

### Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in equity securities are classified as “investment securities” and are carried at cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities (including financial assets and liabilities previously outside the scope of the SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities under HKAS 39 are classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (“other financial liabilities”)”. As a result of the adoption of HKAS 39, the Group has redesignated “investment securities” recorded on the consolidated balance sheet at 1 January 2005 amounting to HK\$975,000 as “available-for-sale investments”.

### Non-Current Assets Held for Sale and Discontinued Operations

The Group applied HKFRS 5 prospectively for the accounting period beginning on 1 January 2005.

### Share-based Payment

For the year 31 December 2005, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 that had varied before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and fully vested before 1 January 2005. The change in policy has resulted in a decrease of HK\$2,149,000 in profit for year ended 31 December 2005 (2004: HK\$8,444,000).

At the date of this report, the Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instrument Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>7</sup>

HK(IFRIC)-Int 12	Service Concession Arrangements <sup>8</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>9</sup>
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>9</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties, which are measured at revalued amounts, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.



**Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**Acquisition of additional interest subsidiaries**

On acquisition of an additional interest in a subsidiary, the difference between the consideration paid and the carrying amounts of the underlying assets and liabilities attributable to the additional interest in the subsidiary acquired is recognised as goodwill.

**Goodwill***Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

*Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised directly in the consolidated income statement and is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses.

Certain of the Group's leasehold properties were revalued at 31 March 1994. The Group has adopted the transitional relief provided by paragraph 80A of HKAS 16 *Property, Plant and Equipment* from the requirement to make regular revaluations of the Group's leasehold properties and, accordingly, no further revaluation of these leasehold properties will be carried out. The surplus arising on revaluation of these leasehold properties was credited to other reserve. Any future impairment losses recognised in respect of these leasehold properties will be charged to the consolidated income statement to the extent that it exceeds the surplus, if any, held in other reserve relating to previous revaluations of the particular property. On subsequent disposal of such leasehold properties, the corresponding revaluation surplus remaining in the other properties revaluation reserve is transferred to retained profits.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, ranging from zero to 10%, using the straight-line method, as follows:

Leasehold properties	25 to 40 years or over the relevant lease terms, if shorter
Furniture and fixtures	5 to 13 years
Machinery and equipment	5 to 13 years
Motor vehicles	3½ to 6 years

During the year ended 31 December 2006, there were changes in the estimated useful lives and residual values of certain machinery and equipment, details of such changes and their financial impact are outlined in Note 4 to the consolidated financial statements.

Construction in progress represents property, plant and equipment in the course of construction for production or for own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

#### **Prepaid lease payments**

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease terms and the entity which incurred such payment.

#### **Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the remaining terms of the leases.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Transfer between investment properties and owner-occupied property when there is a change in use evidenced by commencement/end of owner-occupation.

#### **Investments in associates**

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the entity which is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

#### **Technical know-how**

Technical know-how comprises the acquired rights to use certain technologies for the manufacture of air-conditioner compressors and wafer products.

Costs incurred in the acquisition of technical know-how are capitalised and carried at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over their estimated useful lives of ten to twelve years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes (Note 34) are charged as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes consolidated income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The costs of finished goods and work in progress comprise raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

### **Financial Instruments**

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### *Financial assets*

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's financial assets comprise loans and receivables and available-for-sale financial assets, the accounting policies are set out below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, amounts due from an associate and minority shareholders, and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value, except for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value

cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Changes in fair value are recognised in equity, until the financial assets is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Prior to 1 January 2005, investment securities are measured at cost, as reduced by impairment loss that is other than temporary.

#### Financial liabilities

The Group's financial liabilities (including borrowings, creditors and accrued charges, amounts due to an associate and minority shareholders, and long-term payables) are measured at amortised cost, using the effective interest method subsequent to initial recognition.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issued costs.

Considerations paid to repurchase the Company's own equity instruments are deducted from equity. No gain or loss is recognised in the consolidated income statement.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is the lessor, rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the relevant lease term.

Where the Group is the lessee, rental expense under operating leases is charged to the consolidated income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition prior to 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of acquisition.

#### **Equity-settled share-based payment transactions**

##### *Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005*

For share options granted to eligible participants of the Group, the fair value of services received are determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve). When the share options granted vest immediately, the fair value of the share options granted is expensed in full at the grant date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

*Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005*

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the shares options, the resulting shares issued are recorded as additional shares capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise are deleted from the register of outstanding options.

**Impairment losses of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. An impairment loss is 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.

**4. CHANGES OF ACCOUNTING ESTIMATES**

Prior to 1 January 2006, the costs of mechanical based semiconductor machinery and equipment were depreciated over their estimated useful lives of 5 years with nil residual value. Management reviewed the useful lives and the residual values of such machinery and equipment, and determined that with effect from 1 January 2006, the carrying amounts of such machinery and equipment less their estimated residual value of 10% are to be depreciated over their estimated useful lives of 8 years. The changes reflect the current best estimates based on the Group's previous experiences of these machinery and equipment after taking account of commercial and technological environment as well as normal wear and tear to better reflect the estimated periods in which such assets will remain in service. The changes in accounting estimates, which have been applied prospectively, have resulted in a decrease in the depreciation charges for the year ended 31 December 2006 of approximately HK\$126,238,000. Such change in accounting estimates will have an effect on the depreciation charges of the future years, however, it is impracticable to estimate with certainty the amount of that effect.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimation of useful lives of property, plant and equipment**

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.



**Impairment of property, plant and equipment**

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted.

**Impairment of goodwill**

In accordance with HKAS 36 Impairment of Assets, the Group completed its annual impairment test for goodwill by comparing the recoverable amounts of the cash generating units (“CGUs”) to which goodwill has been allocated on a value in use basis to the carrying amounts of the CGUs including the goodwill. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and an appropriate discount rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the impairment test for goodwill are disclosed in Note 21.

**Allowance for doubtful debts**

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors as to whether there is any objective evidence that the balances may not be collectible. The Group makes judgment in assessing the collectability based on observable data including creditworthiness and payment history of the customers. When objective evidence for allowance exists, the amount of allowance is the difference between the carrying value of the debts and the present value of estimated future cash flows, discounted at the effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debts expenses in the periods in which such estimate has been changed.

**Allowance for inventories**

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

**6. FINANCIAL INSTRUMENTS****Financial risk management objectives and policies**

The Group’s major financial instruments include trade debtors, bank balances and cash, trade creditors and borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Currency risk*

The Group operates in the Mainland China and Hong Kong. Most of the Group’s financial assets and liabilities are denominated in Hong Kong dollars and Renminbi with certain items denominated in Japanese Yen and US dollars. The Group has not entered into any derivative contracts to hedge against currency risk. Although significant exposure to foreign exchange fluctuations is not currently anticipated, management will consider hedging foreign currency exposure in future should the need arise.

*Interest rate risk*

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Group's interest rate risk relates primarily to the Group's floating rate borrowings. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers that the credit risk is significantly reduced.

Credit risk of the compressor business is concentrated on a limited number of customers due to the characteristic of the industry. However, management, having considered the strong financial background and good creditability of the customers, believes that there is no significant credit risk.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

*Fair Value*

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

**7. BUSINESS AND GEOGRAPHICAL SEGMENTS****Business segments**

For management purposes, two operating divisions —semiconductor and compressor, are the bases on which the Group reports its primary segment information.

The activities of these divisions are as follows:-

Semiconductor — design, fabrication and packaging of integrated circuits and discrete devices

Compressor — manufacture of compressor for air-conditioners

Prior to 30 December 2005, the Group was also involved in the manufacture and distribution of office furniture. The operation was discontinued on 30 December 2005 (Note 11).

**APPENDIX II****FINANCIAL INFORMATION ON CR LOGIC***Results for the year ended 31 December 2006*

	<b>Semiconductor</b>	<b>Compressor</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Turnover</i>			
External sales	<u>2,086,396</u>	<u>1,364,263</u>	<u>3,450,659</u>
<i>Result</i>			
Segment results	<u>249,703</u>	<u>113,909</u>	363,612
Unallocated expenses			(25,212)
Unallocated income			<u>20,807</u>
Profit from operations			359,207
Finance costs			(89,601)
Share of results of an associate	1,103	—	1,103
Gain on deemed disposal of an associate	1,590	—	1,590
Discount on acquisition of subsidiaries	41,296	—	<u>41,296</u>
Profit before taxation			313,595
Taxation			<u>(33,199)</u>
Profit for the year			<u>280,396</u>

*At 31 December 2006**Consolidated assets and liabilities*

	<b>Semiconductor</b>	<b>Compressor</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	5,246,602	2,638,219	7,884,821
Unallocated corporate assets			<u>38,308</u>
Consolidated total assets			<u>7,923,129</u>
<b>LIABILITIES</b>			
Segment liabilities	1,242,073	620,217	1,862,290
Unallocated corporate liabilities			<u>2,251,216</u>
Consolidated total liabilities			<u>4,113,506</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

For the year ended 31 December 2006

Other information

	Semiconductor <i>HK\$'000</i>	Compressor <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	609,453	68,180	73	677,706
Depreciation and amortisation	205,525	126,630	268	332,423
Write down of inventories	<u>32,906</u>	<u>4,415</u>	<u>—</u>	<u>37,321</u>

Results for the year ended 31 December 2005

	<u>Continuing operations</u>			<u>Discontinued operation</u>	Consolidated <i>HK\$'000</i>
	Semiconductor <i>HK\$'000</i>	Compressor <i>HK\$'000</i>	Total <i>HK\$'000</i>	Office furniture <i>HK\$'000</i>	
<i>Turnover</i>					
External sales	<u>1,430,147</u>	<u>1,433,085</u>	<u>2,863,232</u>	<u>201,215</u>	<u>3,064,447</u>
<i>Result</i>					
Segment results	<u>153,277</u>	<u>276,890</u>	430,167	19,709	449,876
Unallocated expenses			(26,054)	—	(26,054)
Unallocated income			<u>3,929</u>	<u>933</u>	<u>4,862</u>
Profit from operations			408,042	20,642	428,684
Finance costs			(51,038)	—	(51,038)
Share of results of an associate	(12,541)	—	(12,541)	—	(12,541)
Loss on deemed disposal of an associate	(2,826)	—	(2,826)	—	(2,826)
Gain on disposal of discontinued operation			<u>—</u>	<u>74,295</u>	<u>74,295</u>
Profit before taxation			341,637	94,937	436,574
Taxation			<u>(30,371)</u>	<u>(2,104)</u>	<u>(32,475)</u>
Profit for the year			<u>311,266</u>	<u>92,833</u>	<u>404,099</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

At 31 December 2005

Consolidated assets and liabilities

	Semiconductor <i>HK\$'000</i>	Compressor <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	2,647,124	2,430,446	5,077,570
Interest in an associate	289,380	—	289,380
Unallocated corporate assets			<u>204,485</u>
Consolidated total assets			<u><u>5,571,435</u></u>
<b>LIABILITIES</b>			
Segment liabilities	741,320	423,670	1,164,990
Unallocated corporate liabilities			<u>1,382,657</u>
Consolidated total liabilities			<u><u>2,547,647</u></u>

For the year ended 31 December 2005

Other information

	Continuing operations			Total	Discontinued operation	Consolidated
	Semiconductor <i>HK\$'000</i>	Compressor <i>HK\$'000</i>	Others <i>HK\$'000</i>		Office furniture <i>HK\$'000</i>	
Capital expenditure	333,848	293,252	220	627,320	2,660	629,980
Depreciation and amortisation	196,560	101,951	918	299,429	4,259	303,688
Write down of inventories	<u>14,213</u>	<u>17,111</u>	<u>—</u>	<u>31,324</u>	<u>—</u>	<u>31,324</u>

**APPENDIX II****FINANCIAL INFORMATION ON CR LOGIC***Results for the year ended 31 December 2004*

	<u>Continuing operations</u>			<u>Discontinued</u>	<u>Consolidated</u>
	<u>Semiconductor</u>	<u>Compressor</u>	<u>Total</u>	<u>Office</u>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>furniture</i>	<i>HK\$'000</i>
<i>Turnover</i>					
External sales	<u>1,295,331</u>	<u>1,191,876</u>	<u>2,487,207</u>	<u>185,636</u>	<u>2,672,843</u>
<i>Result</i>					
Segment results	<u>166,818</u>	<u>229,988</u>	396,806	22,606	419,412
Unallocated corporate (expenses) income			<u>(29,751)</u>	<u>956</u>	<u>(28,795)</u>
Profit from operations			367,055	23,562	390,617
Finance costs			(23,965)	—	(23,965)
Share of result of an associate	21,045	—	21,045	—	21,045
Gain on deemed disposal of an associate	27,991	—	<u>27,991</u>	<u>—</u>	<u>27,991</u>
Profit before taxation			392,126	23,562	415,688
Taxation			<u>(27,421)</u>	<u>(3,235)</u>	<u>(30,656)</u>
Profit for the year			<u>364,705</u>	<u>20,327</u>	<u>385,032</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

At 31 December 2004

Balance sheet

	Continuing operations			Discontinued operation	Consolidated HK\$'000
	Semiconductor	Compressor	Total	Office furniture	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>ASSETS</b>					
Segment assets	2,302,740	2,122,258	4,424,998	143,621	4,568,619
Interest in an associate	297,916	—	297,916	—	297,916
Unallocated corporate assets					32,916
Consolidated total assets					<u>4,899,451</u>
<b>LIABILITIES</b>					
Segment liabilities	643,787	343,358	987,145	40,276	1,027,421
Unallocated corporate liabilities					<u>1,388,867</u>
Consolidated total liabilities					<u>2,416,288</u>

For the year ended 31 December 2004

Other information

	Continuing operations			Discontinued operation	Consolidated HK\$'000
	Semiconductor	Compressor	Others	Office furniture	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Capital expenditure	534,122	253,290	73	2,475	789,960
Depreciation and amortisation	158,958	88,836	1,145	5,418	254,357
Amortisation of goodwill	1,493	8,003	—	—	9,496
Release of negative goodwill	<u>56,988</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>56,988</u>

*Geographical segments*

The activities of the Semiconductor division are carried out in Hong Kong and other regions in the People's Republic of China (the "Mainland China"), while those of the Compressor division were carried out in the Mainland China.

The following table provides an analysis of the Group's sales from continuing operations by geographical market:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	2,105,522	2,483,576	2,994,482
Hong Kong	190,221	181,682	166,163
Others	<u>191,464</u>	<u>197,974</u>	<u>290,014</u>
	<u>2,487,207</u>	<u>2,863,232</u>	<u>3,450,659</u>

Turnover from the Group's discontinued office furniture operation was derived principally from the Mainland China (2005: HK\$201,215,000; 2004: HK\$185,636,000).

The following is an analysis of the carrying amounts of segment assets, and additions to property, plant and equipment and technical know-how, analysed by the geographical areas in which the assets are located:

	<b>Carrying amounts of segment assets</b>			<b>Additions to property, plant and equipment and technical know-how</b>		
	<b>At 31 December</b>			<b>For the year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	4,333,247	4,710,775	7,677,257	781,265	602,093	662,537
Hong Kong	<u>235,372</u>	<u>366,795</u>	<u>207,564</u>	<u>8,695</u>	<u>27,887</u>	<u>15,169</u>
	<u>4,568,619</u>	<u>5,077,570</u>	<u>7,884,821</u>	<u>789,960</u>	<u>629,980</u>	<u>677,706</u>



## 8. OTHER INCOME

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in other income are:			
Rental income from investment properties	9,289	10,936	5,609
Interest on bank deposits	5,408	4,862	6,072
Government grants (Note 42)	12,417	2,956	6,339
Gain on disposal of property, plant and equipment	—	7,514	6,337
Tax refund for re-investment of profit distributed by subsidiaries	1,928	—	19,932
Write back of other loans	—	—	14,735
Write back of accrued interest expenses	13,307	23,797	—
Write back of provisions	—	19,662	—
Write back of creditors and accrued charges	1,006	7,764	—
Reversal of allowance for doubtful debts	—	16,028	—
Rental income from lease of machinery and equipment	454	1,367	—
Value-added tax refund	1,938	2,872	—
	<u>          </u>	<u>          </u>	<u>          </u>

## 9. FINANCE COSTS

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:			
Bank and other loans wholly repayable within five years	23,965	51,038	85,492
Long-term payables	—	—	4,109
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>23,965</u>	<u>51,038</u>	<u>89,601</u>

## 10. TAXATION

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The tax charge (credit) comprises:			
Current tax			
Mainland China	31,420	36,282	35,753
Hong Kong	170	(622)	—
	<u>          </u>	<u>          </u>	<u>          </u>
	31,590	35,660	35,753
Deferred tax (Note 31)	(934)	(3,185)	(2,554)
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>30,656</u>	<u>32,475</u>	<u>33,199</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year.

In 2005, Hong Kong profits tax was calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

Profits tax arising in the Mainland China is calculated based on the applicable tax rates on assessable profits.

Certain subsidiaries operating in the Mainland China are exempted from income tax applicable in the Mainland China for two years starting from the first profit making year after utilisation of the tax losses brought forward and were granted a 50% relief for the following three years. Certain subsidiaries operating in the Mainland China which are regarded as advance technology enterprises have also been granted tax concessions by the local tax bureau.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>415,688</u>	<u>436,574</u>	<u>313,595</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	72,745	76,400	54,879
Tax effect of share of results of an associate	(3,683)	2,195	(193)
Tax effect of expenses not deductible for tax purpose	7,644	3,715	17,720
Tax effect of income not taxable for tax purpose	(22,015)	(25,041)	(15,165)
Overprovision in respect of prior year	—	(2,628)	—
Tax effect of tax losses not recognised	9,009	12,827	22,923
Tax effect of other deductible temporary differences not recognised	1,539	—	—
Utilisation of tax losses previously not recognised	(1,376)	—	(1,854)
Utilisation of deductible temporary differences previously not recognised	(490)	—	(2,509)
Effect of tax exemptions granted to subsidiaries in the Mainland China	(12,644)	(10,575)	(3,017)
Income tax on concessionary rate	(24,579)	(25,087)	(41,607)
Effect of different tax rates of subsidiaries operating in the Mainland China	4,383	894	661
Others	<u>123</u>	<u>(225)</u>	<u>1,361</u>
Tax charge for the year	<u><u>30,656</u></u>	<u><u>32,475</u></u>	<u><u>33,199</u></u>

## 11. DISCONTINUED OPERATION

On 8 November 2005, the Group entered into a sale agreement with Emax Capital Limited (“Emax”), a wholly-owned subsidiary of CRH, to dispose of its entire interest in Palazzo Inc., a wholly-owned subsidiary of the Company, to Emax for a consideration of HK\$183,000,000. Palazzo Inc. was a holding company and was engaged in office furniture business, including the manufacture and supply of office furniture in the Mainland China, through its subsidiaries. By disposing of the office furniture operation, the Group can focus its resources on its other core businesses. The disposal was completed on 30 December 2005.

**APPENDIX II****FINANCIAL INFORMATION ON CR LOGIC**

The profit from the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	<b>2004</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit of office furniture operation	20,327	18,538
Gain on disposal of office furniture operation (Note 36)	<u>—</u>	<u>74,295</u>
	<u><u>20,327</u></u>	<u><u>92,833</u></u>

The results of office furniture operation for the period from 1st January, 2005 to 30th December, 2005, which have been included in the consolidated income statement, were as follows:

	<b>Year ended</b>	<b>Period ended</b>
	<b>31.12.2004</b>	<b>30.12.2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	185,636	201,215
Cost of sales	(116,798)	(130,001)
Other operating income	2,985	2,371
Distribution costs	(21,212)	(22,345)
Administrative expenses	(26,737)	(29,953)
Other operating expenses	<u>(312)</u>	<u>(645)</u>
Profit before taxation	23,562	20,642
Taxation	<u>(3,235)</u>	<u>(2,104)</u>
Profit of office furniture operation	<u><u>20,327</u></u>	<u><u>18,538</u></u>

*Note:* No tax charge or credit arose on gain on discontinuance of the office furniture operation.

**APPENDIX II****FINANCIAL INFORMATION ON CR LOGIC**

The net assets of the discontinued operation at 30th December, 2005 (date of disposal) and at 31st December, 2004 were as follows:

	<b>31.12.2004</b>	<b>30.12.2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	12,669	8,965
Prepaid lease payments on land use rights	7,799	7,912
Inventories	18,077	18,841
Debtors, deposits and prepayments	41,651	47,005
Bank balances and cash	71,312	90,863
Creditors and accrued charges	(44,133)	(53,134)
Taxation	(1,529)	(1,098)
Deferred tax liabilities	(4,458)	(4,458)
	<u>101,388</u>	<u>114,896</u>

The net cash flows of the discontinued operation for the period from 1st January, 2005 to 30th December, 2005, were as follows:

	<b>Year ended</b>	<b>Period ended</b>
	<b>31.12.2004</b>	<b>30.12.2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	15,101	30,878
Net cash used in investing activities	(9,414)	(1,545)
Net cash used in financing activities	(12,267)	(11,943)
Effect of foreign exchange rate changes	169	2,161
	<u>(6,411)</u>	<u>19,551</u>

## 12. PROFIT FOR THE YEAR

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):			
Staff costs			
Directors' emoluments (Note 13)	6,883	9,031	7,263
Other staff			
— Salaries and other benefits	281,508	293,287	400,723
— Retirement benefits schemes contribution	24,646	35,992	35,095
Share-based payment expense	<u>8,444</u>	<u>2,149</u>	<u>8,401</u>
Total staff costs	<u>321,481</u>	<u>340,459</u>	<u>451,482</u>
Auditors' remuneration	2,300	2,400	4,690
Depreciation of property, plant and equipment	249,055	298,248	326,170
Depreciation of investment properties	2,317	2,339	1,367
Amortisation of technical know-how	2,985	3,101	4,886
Amortisation of prepaid lease payments	4,597	4,682	4,615
Write down of inventories to net realisable value	13,946	31,324	37,321
Impairment loss recognised on property, plant and equipment	10,126	2,357	9,271
Operating lease rentals paid in respect of rented premises	7,716	7,958	4,850
Exchange loss, net	459	1,819	1,129
Share of tax (written back) of an associate (included in share of results of an associate)	<u>3,196</u>	<u>(666)</u>	<u>551</u>
Rental income from investment properties	(9,289)	(10,936)	(5,609)
Less: Direct expenses from investment properties that generated rental income	<u>1,564</u>	<u>1,864</u>	<u>981</u>
	<u>(7,725)</u>	<u>(9,072)</u>	<u>(4,628)</u>

## 13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

## Directors

The emoluments paid or payable to each of the sixteen (2005: eleven, 2004: twelve) directors are as follows:

Name of Director	Notes	2004	2005	2006				
		HK\$'000	HK\$'000	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SONG LIN	a	—	—	—	—	—	—	—
ZHU JINKUN		1,464	1,715	10	1,288	620	90	2,008
WANG GUOPING		888	1,077	10	596	474	22	1,102
ONG THIAM KIN, KEN		1,880	2,085	30	1,530	380	170	2,110
CHEN CHENG-YU, PETER	b	—	—	21	542	52	—	615
DAI ZHENHUA	c	704	1,884	—	—	—	—	—
YU YU	a	1,153	1,320	30	521	469	48	1,068
YU MIN	a	554	650	—	—	—	—	—
JIANG WEI	d	—	—	—	—	—	—	—
LIU YANJIE	d	—	—	—	—	—	—	—
LI FUZUO	d	—	—	—	—	—	—	—
CHEN LANG	a	—	—	—	—	—	—	—
WONG TAK SING	e	80	100	120	—	—	—	120
LUK CHI CHEONG	e	80	100	120	—	—	—	120
KO PING KEUNG	e	80	100	120	—	—	—	120
YANG CHONGHE, HOWARD	f	—	—	—	—	—	—	—
		<u>6,883</u>	<u>9,031</u>	<u>461</u>	<u>4,477</u>	<u>1,995</u>	<u>330</u>	<u>7,263</u>

In addition to the above, share-based payment expense recognised for the three years ended 31 December 2006, which was based on the fair value of the share options granted to directors estimated at the date of grant, was HK\$1,538,000, HK\$389,000 and HK\$162,000 respectively.

## Note:

- (a) Mr. Song Lin and Mr. Yu Min resigned on 28 February 2006. Mr. Chen Lang and Mr. Yu Yu resigned on 11 April 2006 and 22 August 2006 respectively.
- (b) Mr. Chen Cheng-yu, Peter was appointed as an executive director on 22 August 2006.
- (c) Mr. Dai Zhenhua passed away on 22 March 2005.
- (d) Mr. Jiang Wei, Mr. Liu Yanjie and Mr. Li Fuzuo were appointed as non-executive directors on 22 August 2006.

- (e) Being members of the Audit Committee and independent non-executive directors.
- (f) Mr. Yang Chonghe, Howard was appointed as an independent non-executive director on 22 August 2006.
- (g) Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

### Employees

The five highest paid individuals of the Group included two (2005: four, 2004: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2005: one, 2004: two) highest paid employees (including one director resigned in 2006) of the Group are as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,893	1,472	3,571
Performance related incentive payments	210	—	556
Retirement benefit scheme contributions	<u>74</u>	<u>12</u>	<u>98</u>
	<u><u>2,177</u></u>	<u><u>1,484</u></u>	<u><u>4,225</u></u>

The emoluments of the above employees were within the following bands:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>HK\$</i>	<i>Number of employees</i>	<i>Number of employees</i>	<i>Number of employees</i>
1,000,001 to 1,500,000	<u><u>2</u></u>	<u><u>1</u></u>	<u><u>3</u></u>

### 14. DIVIDENDS

On 8 June, 2004, a dividend of 1.5 HK cents per share, totalling HK\$39,564,000, was paid to the shareholders as first and final dividend for the year ended 31st December, 2003.

On 8 June 2005, a dividend of 2.5 HK cents per share, totalling HK\$66,398,000, was paid to the shareholders as the first and final dividend for the year ended 31 December 2004.

On 3 October 2005, a dividend of 1.0 HK cent per share, totalling HK\$26,681,000, was paid to the shareholders as an interim dividend for the six months ended 30 June 2005.

On 12 June 2006, a dividend of 2.0 HK cents per share, totalling HK\$53,406,000, was paid to the shareholders as the final dividend for the year ended 31 December 2005.

On 10 October 2006, a dividend of 1.0 HK cent per share, totalling HK\$27,667,000, was paid to the shareholders as an interim dividend for the six months ended 30 June 2006.

On 5 June 2007, a dividend of 1.0 HK cent per share, totalling HK\$27,671,000, was paid to the shareholders as final dividend for the year ended 31 December 2006.

On 9 October 2007, a interim dividend of 1.0 HK cent per share, totalling HK\$27,937,000 was paid to the shareholders as an interim dividend for the six months ended 30 June 2007.

## 15. EARNINGS PER SHARE

### For both continuing and discontinued operations and continuing operations

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Earnings:</i>			
Earnings for the purposes of basic and diluted earnings per share			
Profit for the year attributable to equity holders of the Company	309,920	316,781	232,417
Less: Profit for the year from discontinued operation	<u>(20,327)</u>	<u>(92,833)</u>	<u>—</u>
Profit for the year from continuing operations	289,593	223,948	232,417
Effect of dilutive potential shares of subsidiaries on their earnings attributable to the Group	<u>—</u>	<u>—</u>	<u>(397)</u>
Earnings for the purposes of diluted earnings per share	<u>289,593</u>	<u>223,948</u>	<u>232,020</u>
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Number of shares:</i>			
Weighted average number of shares for the purpose of basic earnings per share	2,638,715,082	2,660,940,959	2,713,044,353
Effect of dilutive potential shares Share options	<u>45,534,111</u>	<u>28,766,615</u>	<u>18,630,526</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>2,684,249,193</u>	<u>2,689,707,574</u>	<u>2,731,674,879</u>

### For discontinued operation

For the years ended 31 December 2005 and 31 December 2004, the basic earnings per share for the discontinued operation is 3.49 HK cents per share (2004: 0.78 HK cents per share) and the diluted earnings per share for the discontinued operation is 3.45 HK cents per share (2004: 0.76 HK cents per share), based on the profit from the discontinued operation and the denominators detailed above.



## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST OR VALUATION						
At 1 January 2004	293,521	69,054	1,550,231	25,347	96,539	2,034,692
Exchange adjustments	414	84	2,344	38	129	3,009
Additions	—	1,874	12,298	4,083	771,705	789,960
Disposals	(1,436)	(1,308)	(64,515)	(900)	(58)	(68,217)
Transfer to investment properties (Note 18)	(7,942)	—	—	—	—	(7,942)
Transfer	7,305	787	176,322	9,096	(193,510)	—
At 31 December 2004	291,862	70,491	1,676,680	37,664	674,805	2,751,502
Comprising:						
At cost	291,262	70,491	1,676,680	37,664	674,805	2,750,902
At valuation - 1994	600	—	—	—	—	600
Exchange adjustments	6,215	1,444	47,622	932	16,006	72,219
Additions	216	6,789	13,629	4,816	604,021	629,471
Disposals	(10,040)	(6,519)	(32,271)	(2,183)	—	(51,013)
Disposal of subsidiaries	(15,357)	(9,915)	(27,949)	(5,181)	(341)	(58,743)
Transfers between categories	125,087	59,907	673,144	7,603	(865,741)	—
At 31 December 2005 - at cost	397,983	122,197	2,350,855	43,651	428,750	3,343,436
Exchange adjustments	9,753	5,160	120,038	1,781	31,558	168,290
Additions	2,521	10,049	22,800	2,035	602,506	639,911
Acquisition of subsidiaries	14,184	45,527	739,842	3,359	459,340	1,262,252
Disposals	(2,128)	(7,499)	(44,767)	(2,958)	—	(57,352)
Transfers between categories	15,652	16,866	565,748	3,209	(601,475)	—
Transfer from investment properties	60,947	—	—	—	—	60,947
At 31 December 2006 - at cost	498,912	192,300	3,754,516	51,077	920,679	5,417,484

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

	<b>Leasehold properties</b>	<b>Furniture and fixtures</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2004	29,267	24,003	338,471	9,823	—	401,564
Exchange adjustments	47	33	676	18	—	774
Provided for the year	15,844	7,642	217,689	7,880	—	249,055
Impairment loss recognised in consolidated income statement	—	—	10,126	—	—	10,126
Eliminated on disposals	(189)	(567)	(43,662)	(853)	—	(45,271)
Transfer to investment properties (Note 18)	(3,347)	—	—	—	—	(3,347)
Transfer	—	—	193	(193)	—	—
At 31 December 2004	<u>41,622</u>	<u>31,111</u>	<u>523,493</u>	<u>16,675</u>	<u>—</u>	<u>612,901</u>
Exchange adjustments	1,093	677	21,127	450	—	23,347
Provided for the year	18,570	10,558	258,623	10,497	—	298,248
Impairment loss recognised in consolidated income statement	—	—	2,357	—	—	2,357
Eliminated on disposals	(1,863)	(5,896)	(23,790)	(1,830)	—	(33,379)
Eliminated on disposal of subsidiaries	(11,569)	(7,733)	(27,466)	(3,010)	—	(49,778)
Transfers between categories	(115)	7,682	(7,181)	(386)	—	—
At 31 December 2005	47,738	36,399	747,163	22,396	—	853,696
Exchange adjustments	2,083	1,194	42,026	916	—	46,219
Provided for the year	20,991	19,539	279,959	5,681	—	326,170
Impairment loss recognised in consolidated income statement	—	—	9,271	—	—	9,271
Eliminated on disposals	(473)	(4,261)	(38,425)	(2,152)	—	(45,311)
Transfer from investment properties	9,800	—	—	—	—	9,800
At 31 December 2006	<u>80,139</u>	<u>52,871</u>	<u>1,039,994</u>	<u>26,841</u>	<u>—</u>	<u>1,199,845</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CR LOGIC**

	<b>Leasehold properties</b> <i>HK\$'000</i>	<b>Furniture and fixtures</b> <i>HK\$'000</i>	<b>Machinery and equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Construction in progress</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
NET BOOK VALUES						
At 31 December 2004	<u>250,240</u>	<u>39,380</u>	<u>1,153,187</u>	<u>20,989</u>	<u>674,805</u>	<u>2,138,601</u>
At 31 December 2005	<u>350,245</u>	<u>85,798</u>	<u>1,603,692</u>	<u>21,255</u>	<u>428,750</u>	<u>2,489,740</u>
At 31 December 2006	<u>418,773</u>	<u>139,429</u>	<u>2,714,522</u>	<u>24,236</u>	<u>920,679</u>	<u>4,217,639</u>

The Group's leasehold properties are situated:

	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Outside Hong Kong on			
— medium-term lease	176,539	287,218	359,252
— short lease	55,369	53,339	51,783
In Hong Kong on medium-term lease	<u>18,332</u>	<u>9,688</u>	<u>7,738</u>
	<u>250,240</u>	<u>350,245</u>	<u>418,773</u>

At 31 December 2004, leasehold properties included a property carried at valuation at HK\$600,000. Had this property been restated at cost less accumulated depreciation, the carrying value of this property as at 31 December 2004 would have been stated at HK\$566,000. This property was included in the net assets of the discontinued operation disposed of during 2005.

At 31 December 2006, machineries with an aggregate net book value of HK\$199,471,000 (2004 & 2005: Nil) are pledged to secure certain bank borrowings granted to the Group (Note 28).

## 17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated:

	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Outside Hong Kong on			
— long lease	7,799	—	—
— medium-term lease	150,248	149,795	163,648
— short lease	5,142	4,920	4,748
In Hong Kong on medium-term lease	<u>19,898</u>	<u>10,776</u>	<u>8,788</u>
	<u>183,087</u>	<u>165,491</u>	<u>177,184</u>
Analysed for reporting purposes as			
Non-current assets	178,412	161,125	172,559
Current assets	<u>4,675</u>	<u>4,366</u>	<u>4,625</u>
	<u>183,087</u>	<u>165,491</u>	<u>177,184</u>

At 31 December 2006, land use rights with an aggregate carrying amount of HK\$4,362,000 (2004 & 2005: Nil) are pledged to secure certain bank borrowings granted to the Group (Note 28).

## 18. INVESTMENT PROPERTIES

	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
COST			
At 1 January	49,445	57,455	58,782
Exchange adjustments	68	1,327	2,165
Transfer from (to) property, plant and equipment	<u>7,942</u>	<u>—</u>	<u>(60,947)</u>
At 31 December	<u>57,455</u>	<u>58,782</u>	<u>—</u>
DEPRECIATION			
At 1 January	—	5,664	8,133
Exchange adjustments	—	130	300
Provided for the year	2,317	2,339	1,367
Transfer from (to) property, plant and equipment	<u>3,347</u>	<u>—</u>	<u>(9,800)</u>
At 31 December	<u>5,664</u>	<u>8,133</u>	<u>—</u>
NET BOOK VALUE			
At 31 December	<u>51,791</u>	<u>50,649</u>	<u>—</u>

The Group's investment properties are all situated in the Mainland China and held under medium-term lease.

## 19. INTEREST IN AN ASSOCIATE

	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Group's share of net assets of a listed associate	<u>297,916</u>	<u>289,380</u>	<u>—</u>
Fair value of listed shares	<u><u>292,706</u></u>	<u><u>253,111</u></u>	<u><u>—</u></u>

Name of associate	Form of business structure	Place of registration	Class of share held	Proportion of nominal value of issued capital held by the Group			Nature of business
				2004	2005	2006	
CSMC Technologies Corporation ("CSMC")	incorporated	Cayman Islands	Ordinary	23.81%	23.63%	—	Manufacture and sales of integrated circuit and related products

On 15 June 2006, the Company and CSMC, a former associate in which the Group held a 25.7%, had issued a composite offer and response document in relation to the voluntary conditional offer to acquire all of the issued shares in the share capital of CSMC other than those owned by the Group. The offer price was HK\$0.42 in cash ("Basic Consideration") or 0.43 new share of the Company ("Share Alternative") per CSMC share.

On 12 July 2006, the Company received valid acceptances of a total of 1,293,530,058 CSMC shares, representing approximately 47.5% of the issued share capital of CSMC. Valid acceptances in respect of 1,075,782,722 and 217,747,336 CSMC shares have been received from CSMC shareholders who elected for the Basic Consideration and the Share Alternative respectively, which was subsequently satisfied by cash of HK\$451,829,000 and the issue of 93,631,354 new shares of the Company. As a result, the Group owned in aggregate of 1,984,967,848 CSMC shares, representing approximately 72.9% of the issued share capital of CSMC, and CSMC has become a subsidiary of the Group. The shares of CSMC are listed on the Stock Exchange. Details of which are set out in note 35.

## 20. INVESTMENTS SECURITIES/AVAILABLE-FOR-SALE INVESTMENTS

	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Unlisted equity investments	<u>975</u>	<u>998</u>	<u>10,105</u>

The unlisted equity investments in private companies established in PRC are carried at cost less any impairment loss. Such investments are not carried at fair value because they do not have a quoted market price in an active market and the management is of the opinion that their fair value cannot be reliably measured.

During the year ended 31 December 2006, the Group disposed of certain unlisted equity investments with a carrying amount of HK\$264,000 and received sale proceeds of HK\$264,000, resulting a no gain or loss on disposal recognised in consolidated income statement for the year.

## 21. GOODWILL

	<i>HK\$'000</i>
<b>COST</b>	
At 1st January, 2004 and at 31st December, 2004	189,339
Eliminated upon application of HKFRS 3 (Note 2)	<u>(36,562)</u>
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	<u>152,777</u>
<b>AMORTISATION</b>	
At 1st January, 2004	27,066
Charge for the year	<u>9,496</u>
At 31st December, 2004	36,562
Eliminated upon application of HKFRS 3 (Note 2)	<u>(36,562)</u>
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	<u>—</u>
<b>CARRYING VALUES</b>	
At 31st December, 2004, 31st December, 2005 and 31st December, 2006	<u><u>152,777</u></u>

Until 31 December 2004, goodwill had been amortised over its estimated life ranging from 9 to 20 years.

As explained in Note 7, the Group uses business segments as the primary segment for reporting segment information. For the purposes of impairment testing, the goodwill has been allocated, at acquisition, to the relevant individual CGUs that are expected to benefit from that business combination. The carrying amounts of goodwill as at 31 December 2006 allocated according to the business segments are as follows:

	<i>HK\$'000</i>
Semiconductor	24,060
Compressor	<u>128,717</u>
	<u><u>152,777</u></u>

The Group determines that the goodwill allocated to the CGUs was not impaired by comparing the carrying amounts of the CGUs including the goodwill, with their recoverable amounts.

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period, and the discount rate of approximately 9%. Zero growth is projected for cash flows beyond the 5-year period. The growth rates projected do not exceed the average long-term growth rate for relevant markets. Other key assumptions for the value in use calculations included the budgeted sales and gross margins, such estimations are based on past performance and management's expectations for the market's development.

## 22. NEGATIVE GOODWILL

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1st January, 2004 and at 31st December, 2004	<u>347,835</u>
RELEASED TO INCOME	
At 1st January, 2004	114,962
Released on deemed disposal during the year	24,074
Released in the year	<u>56,988</u>
At 31st December, 2004	<u>196,024</u>
CARRYING VALUES	
At 31st December, 2004	151,811
Derecognised upon application of HKFRS 3 (Note 2)	<u>(151,811)</u>
At 1st January, 2005	<u><u>—</u></u>

*Note:* During the year ended 31st December, 2004, the Group participated in the private placement and further invested HK\$18,867,000 in CSMC-Tech pursuant to the pre-listing arrangement of CSMC-Tech in Hong Kong. Following the private placement and the subsequent listing of CSMC-Tech on the Stock Exchange, the Group's equity interest in CSMC-Tech was diluted from 34.21% to 23.81% at 31st December, 2004. The resulting gain on deemed disposal of HK\$27,991,000, after taking into account the effect of releasing the attributable negative goodwill of HK\$24,074,000, has been included in the consolidated income statement.

As explained in Note 2, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

## 23. TECHNICAL KNOW-HOW

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST			
At 1 January	29,807	29,848	31,047
Exchange adjustments	41	690	1,954
Additions	<u>—</u>	<u>509</u>	<u>37,795</u>
At 31 December	<u>29,848</u>	<u>31,047</u>	<u>70,796</u>
AMORTISATION			
At 1 January	5,522	8,514	11,812
Exchange adjustments	7	197	435
Provided for the year	<u>2,985</u>	<u>3,101</u>	<u>4,886</u>
At 31 December	<u>8,514</u>	<u>11,812</u>	<u>17,133</u>
NET BOOK VALUE			
At 31 December	<u><u>21,334</u></u>	<u><u>19,235</u></u>	<u><u>53,663</u></u>

The amortisation is included in administrative expenses in the consolidated income statement.

## 24. INVENTORIES

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	231,931	171,684	305,483
Work in progress	144,543	176,821	296,255
Finished goods	<u>368,183</u>	<u>391,192</u>	<u>466,830</u>
	<u><u>744,657</u></u>	<u><u>739,697</u></u>	<u><u>1,068,568</u></u>



**25. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers. The aged analysis of trade debtors, including notes receivable, net of impairment losses, is as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	383,556	588,912	802,195
61 - 90 days	96,553	188,976	176,328
Over 90 days	<u>277,590</u>	<u>281,253</u>	<u>516,516</u>
	<u>757,699</u>	<u>1,059,141</u>	<u>1,495,039</u>

Note: Included in debtors are trade and notes receivables of HK\$Nil, HK\$52,419,000 and HK\$109,156,000 at 31 December 2004, 31 December 2005 and 31 December 2006 respectively due from related companies arising from transactions carried out in the ordinary course of business of the Group. These amounts are unsecured, interest-free and are repayable within the credit periods similar to those offered by the Group to its major customers.

**26. BANK BALANCES/PLEDGED BANK DEPOSITS**

Bank balances carry interest at market rates ranging from 0.7% to 4.2% (2005: 0.7% to 3.8%, 2004: 0.01% to 0.7%). The pledged deposits carry interest at the market rate of 0.7% (2005: 0.7% to 1.4%, 2004: 0.7% to 1.71%).

Bank deposits of HK\$7,642,000 (2004 & 2005: Nil) are pledged to banks for letters of credit issued by those banks for the Group and for employees' mortgage loans. At 31 December 2005, bank deposits of HK\$2,695,000 were pledged to secure the general banking facilities granted to the Group.

**27. CREDITORS AND ACCRUED CHARGES**

The aged analysis of trade creditors which are included in creditors and accrued charges is as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	341,875	463,663	729,403
61 - 90 days	96,078	138,500	207,704
Over 90 days	<u>190,182</u>	<u>189,514</u>	<u>415,860</u>
	<u>628,135</u>	<u>791,677</u>	<u>1,352,967</u>

## 28. BORROWINGS

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Bank loans	1,245,427	1,352,279	2,228,923
Other loans	<u>126,062</u>	<u>14,517</u>	<u>—</u>
	<u>1,371,489</u>	<u>1,366,796</u>	<u>2,228,923</u>
Secured	—	—	119,057
Unsecured	<u>1,371,489</u>	<u>1,366,796</u>	<u>2,109,866</u>
	<u>1,371,489</u>	<u>1,366,796</u>	<u>2,228,923</u>
Borrowings repayable;			
On demand or within one year	510,779	523,630	1,706,617
More than one year, but not exceeding two years	200,000	804,000	94,306
More than two years, but not exceeding five years	<u>660,710</u>	<u>39,166</u>	<u>428,000</u>
	1,371,489	1,366,796	2,228,923
Less: Amount due within one year shown under current liabilities	<u>(510,779)</u>	<u>(523,630)</u>	<u>(1,706,617)</u>
Amount due after one year shown as non-current liabilities	<u>860,710</u>	<u>843,166</u>	<u>522,306</u>

*Note:*

- (a) The bank loans include Hong Kong dollar revolving credit and term loan facilities of HK\$960,000,000, HK\$1,004,000,000 and HK\$1,428,000,000 at 31 December 2004, 31 December 2005 and 31 December 2006 respectively with an average interest rate of 1.6%, 3.9 % and 4.7%. Such floating rate bank loans to the extent of HK\$960,000,000, HK\$1,004,000,000 and HK\$1,000,000,000 respectively at 31 December 2004, 31 December 2005 and 31 December 2006 are repayable in 2007 and the remaining balance is repayable in 2011. Under the terms of the loan facilities agreements, CRH, the controlling shareholder of the Company, is required to remain as a majority beneficial owner of the issued share capital of the Company and shall maintain its management control over the Company.
- (b) The remaining balance of the bank loans comprises several floating rate bank loans with an average interest rate of 3.8%, 4.3% and 5.4% for year ended 31 December 2004, 31 December 2005 and 31 December 2006 respectively.
- (c) Subsequent to 31 December 2006, the Group has obtained a Hong Kong dollar revolving credit and term loan facility of HK\$1,500,000,000 to be utilised as additional working capital and the refinancing of the existing Hong Kong dollar revolving credit and term loan of HK\$1,000,000,000 repayable in 2007. Further details of these facilities are set out in Section C.

Other loans included:

- (a) An outstanding balance of RMB120,000,000 (equivalent to HK\$112,716,000) at 31st December, 2004 payable to China Cinda Asset Management Corporation 中國信達資產管理公司, which was unsecured and interest free was repaid in full in 2005.
- (b) The remaining balance denominated in Renminbi and repayable on demand. The loan is arranged at fixed interest rate of 14.4%.

## 29. PROVISIONS

	Provision for staff housing benefits	Restructuring provision	Total
	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i>
At 1st January, 2004	80,769	59,632	140,401
Utilisation of provisions	—	<u>(8,940)</u>	<u>(8,940)</u>
At 31st December, 2004	<u>80,769</u>	<u>50,692</u>	<u>131,461</u>
Exchange realignments	—	1,010	1,010
Utilisation of provisions	(11,681)	(7,796)	(19,477)
Write back of provisions	<u>(18,135)</u>	<u>(1,527)</u>	<u>(19,662)</u>
At 31st December, 2005	<u>50,953</u>	<u>42,379</u>	<u>93,332</u>
Exchange adjustments	—	1,359	1,359
Utilisation of provisions	<u>(13,072)</u>	<u>(4,508)</u>	<u>(17,580)</u>
At 31 December 2006	<u><u>37,881</u></u>	<u><u>39,230</u></u>	<u><u>77,111</u></u>

Note:

- (a) The provision for staff housing benefits represents management's best estimate of the liabilities of certain subsidiaries established in the Mainland China in respect of housing allowances available to staff for the purchase of residential properties, based on the amount of claims for such allowances experienced in the past.
- (b) The amount represents provisions for employee termination benefit in relation to restructuring activities of subsidiaries acquired by the Group through the acquisition of the entire equity interest of Wuxi China Resources Microelectronics Co., Ltd. in December 2002. The provisions are to be utilised in accordance with the restructuring plans adopted when such subsidiaries were acquired.

**30. LONG-TERM PAYABLES**

The Group has entered into an agreement to acquire certain machinery and equipment and technical know-how related to the manufacturing of wafers. At the balance sheet date, the amounts payable are as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	—	—	5,009
More than one year, but not exceeding five years	—	—	23,452
More than five years	—	—	42,573
	<u>—</u>	<u>—</u>	<u>71,034</u>
Less: Amount due within one year included in creditors and accrued charges shown under current liabilities	—	—	(5,009)
	<u>—</u>	<u>—</u>	<u>66,025</u>
Amount due after one year shown as non-current liabilities	<u>—</u>	<u>—</u>	<u>66,025</u>

The present values are based on cash flows discounted using a rate based on the borrowings rate of 5.85% at initial recognition.

**31. DEFERRED TAXATION**

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	<b>Accelerated tax depreciation</b>	<b>Technology know-how</b>	<b>Provisions on assets</b>	<b>Other temporary differences</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2004	(2,984)	3,764	(3,724)	6,058	3,114
Credit (charge) to consolidated income statement for the year	1,767	(1,068)	235	—	934
At 31 December 2004	(1,217)	2,696	(3,489)	6,058	4,048
Credit (charge) to consolidated income statement for the year	2,883	(844)	3,382	(2,236)	3,185
Disposal of subsidiaries	659	—	3,799	—	4,458
At 31 December 2005	2,325	1,852	3,692	3,822	11,691
Exchange adjustments	1	—	8	—	9
Acquisition of subsidiaries	—	—	2,162	—	2,162
(Charge) credit to consolidated income statement for the year	(807)	(771)	5,112	(980)	2,554
At 31 December 2006	<u>1,519</u>	<u>1,081</u>	<u>10,974</u>	<u>2,842</u>	<u>16,416</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	10,762	11,691	16,416
Deferred tax liabilities	<u>(6,714)</u>	<u>—</u>	<u>—</u>
	<u>4,048</u>	<u>11,691</u>	<u>16,416</u>

The Group has unused tax losses of HK\$434,617,000, HK\$107,680,000, HK\$234,181,000 at 31 December 2004, 31 December 2005 and 31 December 2006 respectively available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

The Group also has deductible temporary differences of HK\$77,942,000, HK\$58,567,000, HK\$44,228,000 at 31 December 2004, 31 December 2005 and 31 December 2006 respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

### 32. SHARE CAPITAL OF THE COMPANY

	Number of shares			Nominal value of shares		
	2004	2005	2006	2004	2005	2006
				<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Shares of HK\$0.10 each						
Authorised:						
At beginning and end of the year	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:						
At beginning of the year	2,623,351,071	2,647,483,071	2,664,916,071	262,335	264,748	266,491
Shares repurchased and cancelled	(50,000)	(4,500,000)	(3,070,000)	(5)	(450)	(307)
Shares issued upon exercise of share options	24,182,000	21,933,000	10,322,000	2,418	2,193	1,033
Shares issued upon acquisition of subsidiaries (Note 35)	<u>—</u>	<u>—</u>	<u>93,631,354</u>	<u>—</u>	<u>—</u>	<u>9,363</u>
At end of the year	<u>2,647,483,071</u>	<u>2,664,916,071</u>	<u>2,765,799,425</u>	<u>264,748</u>	<u>266,491</u>	<u>276,580</u>

The new shares issued during the year rank pari passu in all respects with the existing shares.

**33. SHARE-BASED PAYMENT TRANSACTIONS****(i) The Company's equity-settled share option schemes**

On 26 November 2001, the Company terminated the share option scheme adopted on 15 October 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme"). On 21 February, 2002, upon approval of the Company's shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme.

The purpose of the Old Share Option Scheme was to promote commitment by its participants and to encourage its participants to perform their best for the Company. The participants are the employees of the Company (including executive directors) or any of its subsidiaries. As the Old Share Option Scheme has been terminated, no more option can be issued under the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in force. The maximum entitlement of each participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Old Share Option Scheme. The period within which the shares must be taken up under an option shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. An amount of HK\$1 is payable on acceptance of the option within 28 days from its date of grant. The subscription price is the higher of (i) the nominal value of a share and (ii) 80% of the average of the closing prices of the share on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

The purpose of the New Share Option Scheme is to promote dedication by its participants and to encourage its participants to perform their best in achieving the goals of the Group. The participants are any director (or any persons proposed to be appointed as such) and employee of each member of the Group; any discretionary object of a discretionary trust established by any employee or director of each member of the Group; any executive or employee of any business consultant, business partner, professional and other advisers to each member of the Group (or any persons proposed to be appointed as such); any substantial shareholder of the member of the Group; any associates of director or substantial shareholder of the Company; and any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies, as absolutely determined by the Board.

The period within which the shares must be taken up under an option of the New Share Option Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. An amount of HK\$1 is payable on acceptance of the option within 28 days from its date of grant. The subscription price is the highest of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, (ii) a price being the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheet on the five business days immediately preceding the date of grant and (iii) the nominal value of a share. The New Share Option Scheme is valid for 10 years from 26 November 2001. No further options may be granted pursuant to the New Share Option Scheme after 25 November 2011.

Share options generally either become fully vested and exercisable within a period of 10 years immediately after the date of grant or become vested over a period of time up to a maximum of three years after the acceptance of a grant.

Options granted to a grantee become lapsed if the grantee ceased to be an eligible participant before the options become vested.

Details of the movements of share options granted under the Company's share option schemes are as follows:

2004

Date of grant	Exercise price HK\$	Number of share options				Outstanding at 31.12.2004
		Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	
<b>Old Share Option Scheme</b>						
21.9.2000	0.590	14,600,000	—	(4,800,000)	—	9,800,000
25.4.2001	0.547	28,050,000	—	(7,650,000)	(3,000,000)	17,400,000
		<u>42,650,000</u>	<u>—</u>	<u>(12,450,000)</u>	<u>(3,000,000)</u>	<u>27,200,000</u>
<b>New Share Option Scheme</b>						
4.12.2001	0.790	14,760,000	—	(240,000)	—	14,520,000
9.4.2002	0.820	29,040,000	—	(1,406,000)	(18,000)	27,616,000
22.5.2002	0.920	2,600,000	—	—	—	2,600,000
2.10.2002	0.570	23,002,000	—	(5,816,000)	(500,000)	16,686,000
9.4.2003	0.479	40,700,000	—	(4,270,000)	(250,000)	36,180,000
3.11.2003	0.800	500,000	—	—	—	500,000
13.1.2004	0.906	—	30,200,000	—	(360,000)	29,840,000
7.12.2004	0.910	—	800,000	—	—	800,000
		<u>110,602,000</u>	<u>31,000,000</u>	<u>(11,732,000)</u>	<u>(1,128,000)</u>	<u>128,742,000</u>
		<u>153,252,000</u>	<u>31,000,000</u>	<u>(24,182,000)</u>	<u>(4,128,000)</u>	<u>155,942,000</u>
Exercisable at the end of the year						<u>94,318,000</u>
Weighted average exercise price (HK\$)		<u>0.62</u>	<u>0.91</u>	<u>0.57</u>	<u>0.58</u>	<u>0.69</u>

2005

Date of grant	Exercise price HK\$	Number of share options				Outstanding at 31.12.2005
		Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Lapsed during the year	
<b>Old Share Option Scheme</b>						
21.9.2000	0.590	9,800,000	—	(1,550,000)	—	8,250,000
25.4.2001	0.547	17,400,000	—	(200,000)	—	17,200,000
		<u>27,200,000</u>	<u>—</u>	<u>(1,750,000)</u>	<u>—</u>	<u>25,450,000</u>
<b>New Share Option Scheme</b>						
4.12.2001	0.790	14,520,000	—	—	—	14,520,000
9.4.2002	0.820	27,616,000	—	(888,000)	(660,000)	26,068,000
22.5.2002	0.920	2,600,000	—	—	(300,000)	2,300,000
2.10.2002	0.570	16,686,000	—	(6,425,000)	(60,000)	10,201,000
9.4.2003	0.479	36,180,000	—	(12,870,000)	(750,000)	22,560,000
3.11.2003	0.800	500,000	—	—	—	500,000
13.1.2004	0.906	29,840,000	—	—	(870,000)	28,970,000
7.12.2004	0.910	800,000	—	—	(800,000)	—
9.6.2005	0.910	—	500,000	—	—	500,000
		<u>128,742,000</u>	<u>500,000</u>	<u>(20,183,000)</u>	<u>(3,440,000)</u>	<u>105,619,000</u>
		<u>155,942,000</u>	<u>500,000</u>	<u>(21,933,000)</u>	<u>(3,440,000)</u>	<u>131,069,000</u>
Exercisable at the end of the year						<u>110,999,000</u>
Weighted average exercise price (HK\$)		<u>0.69</u>	<u>0.91</u>	<u>0.53</u>	<u>0.79</u>	<u>0.71</u>



2006

Date of grant	Exercise price HK\$	Number of share options				Outstanding at 31.12.2006
		Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	
<b>Old Share Option Scheme</b>						
21.9.2000	0.590	8,250,000	—	—	—	8,250,000
25.4.2001	0.547	17,200,000	—	—	—	17,200,000
		<u>25,450,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,450,000</u>
<b>New Share Option Scheme</b>						
4.12.2001	0.790	14,520,000	—	—	—	14,520,000
9.4.2002	0.820	26,068,000	—	(2,964,000)	(30,000)	23,074,000
22.5.2002	0.920	2,300,000	—	—	—	2,300,000
2.10.2002	0.570	10,201,000	—	(2,918,000)	(80,000)	7,203,000
9.4.2003	0.479	22,560,000	—	(4,440,000)	(150,000)	17,970,000
3.11.2003	0.800	500,000	—	—	—	500,000
13.1.2004	0.906	28,970,000	—	—	(500,000)	28,470,000
9.6.2005	0.910	500,000	—	—	—	500,000
19.4.2006	0.940	—	1,000,000	—	—	1,000,000
		<u>105,619,000</u>	<u>1,000,000</u>	<u>(10,322,000)</u>	<u>(760,000)</u>	<u>95,537,000</u>
		<u>131,069,000</u>	<u>1,000,000</u>	<u>(10,322,000)</u>	<u>(760,000)</u>	<u>120,987,000</u>
Exercisable at the end of the year						<u>117,277,000</u>
Weighted average exercise price (HK\$)		<u>0.71</u>	<u>0.94</u>	<u>0.60</u>	<u>0.78</u>	<u>0.72</u>

In respect of the share options exercised for the year ended 31 December 2006, the weighted average share price at the date of exercise is HK\$0.87 (2005: HK\$0.90, 2004: HK\$1.07). The options outstanding at the end of the year have a weighted average remaining contractual life of 5.4 years (2005: 6.6 years, 2004: 5.3 years).

The estimated fair values of the share options on the date of grant were calculated using The Black-Scholes pricing model. The inputs into the model are as follows:

Date of grant	Exercise price HK\$	Weighted average share price HK\$	Expected volatility %	Expected life	Risk-free rate %	Expected dividend yield %	Estimated fair value HK\$
2006							
19 April 2006	<u>0.940</u>	<u>0.96</u>	<u>24.41</u>	<u>5 years</u>	<u>4.44</u>	<u>3.13</u>	<u>0.21</u>
2005							
9 June 2005	<u>0.910</u>	<u>0.92</u>	<u>29.80</u>	<u>5 years</u>	<u>3.22</u>	<u>2.72</u>	<u>0.22</u>
2004							
13 January 2004	0.906	0.90	44.90	5 years	2.63	1.11	0.35
7 December 2004	<u>0.910</u>	<u>0.92</u>	<u>47.98</u>	<u>5 years</u>	<u>2.63</u>	<u>1.63</u>	<u>0.36</u>

Expected volatility was determined by using the historical volatility of the Company for the weekly closing share price for the period of 52 weeks before the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

For the year ended 31 December 2006, the Group recognised the total expense of HK\$429,000 (2005: HK\$2,149,000, 2004: HK\$8,444,000) relating to equity-settled share-based payment transactions in respect of the share options granted by the Company.

The total consideration received during the year from employees, including directors, for taking up the share options granted amounted to HK\$1 (2005: HK\$3, 2004: HK\$162).

(ii) **CSMC equity incentive scheme**

A subsidiary of the Company, CSMC, operates an "Equity Incentive Plan" (the "Plan") for the purpose to share the pride of ownership among its participants and to reward their performance and contribution. The Plan was approved by its shareholders and adopted on 8 May 2004. The eligible participants are any directors and full time employees of CSMC or any of its subsidiaries. The Plan is valid for 10 years from the date of adoption.

The CSMC's shares granted under the Plan will vest in equal portions over a period of four years commencing from the date of grant to the participants. CSMC's shares granted will only be issued once they vest and formal applications from the respective participants are received.

Details of the movements of the shares under the Plan are as follows:

	<b>2006</b>
<i>Number of CSMC's share ('000)</i>	
At acquisition date of CSMC	48,215
Granted during the period	1,150
Exercised during the period	(2,092)
Lapsed during the period	<u>(1,390)</u>
Outstanding as at 31 December	<u>45,883</u>

The estimated fair values of the shares on the date of grant were calculated using The Binomial model. The inputs into the model were as follows:

<b>Date of grant</b>	<b>Exercise price</b> <i>HK\$</i>	<b>Weighted average share price</b> <i>HK\$</i>	<b>Expected volatility</b> %	<b>Risk-free rate</b> %	<b>Expected dividend paid out</b> %	<b>Estimated fair value</b> <i>HK\$</i>
2 January 2006	0.078	0.38	27.7	1.08-1.99	0	0.30
16 May 2006	<u>0.078</u>	<u>0.41</u>	<u>27.7</u>	<u>1.08-1.99</u>	<u>0</u>	<u>0.33</u>

(iii) **CSMC share option scheme**

A subsidiary of the Company, CSMC, operates a “Share Option Scheme” (the “Scheme”) for the purpose to provide the participants with the opportunity to acquire proprietary interests in CSMC and to encourage the participants to work towards enhancing the value of CSMC and its shares for the benefit of CSMC and its shareholders as a whole. The Scheme was approved by its shareholders and adopted on 27 May 2005. The directors of CSMC may grant CSMC’s options to eligible participants including any directors and employees of CSMC or any of its subsidiaries; and any advisors, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of CSMC or any of its subsidiaries. The Scheme is valid for 10 years from the date of adoption.

The period which the shares must be taken up under an option of the Scheme shall be notified by the board of CSMC and in any event shall not be later than 10 years from the date the option is granted. The subscription price is the highest of (i) the closing price of the share as stated in the Stock Exchange’s daily quotations sheet on the date of grant, (ii) a price being the average of the closing prices of the share as stated in the Stock Exchange’s daily quotations sheet on the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

Share options granted under the Scheme will vest in equal portions over a period of four years from the commencement of vesting date as approved by CSMC’s Remuneration Committee.

Details of the movements of the share options under the Scheme are as follows:

	<b>2006</b>
<i>Number of CSMC’s share options (‘000)</i>	
Granted during the period and as at 31 December	<u>21,291</u>

The estimated fair value of the share options on the date of grant were calculated using The Binomial model. The inputs into the model were as follows:

<b>Date of grant</b>	<b>Exercise price</b> <i>HK\$</i>	<b>Weighted average share price</b> <i>HK\$</i>	<b>Expected volatility</b> %	<b>Risk-free rate</b> %	<b>Expected dividend paid out</b> %	<b>Estimated fair value</b> <i>HK\$</i>
8 September 2006	<u>0.36</u>	<u>0.36</u>	<u>27.7</u>	<u>1.08-1.99</u>	<u>0</u>	<u>0.04</u>

Expected volatility was based on the volatility return on Hang Seng Index for the past ten years. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

For the year ended 31 December 2006, the Group recognised the total expense of HK\$7,972,000 (2004 & 2005: Nil) relating to equity-settled share-based payment transactions in respect of CSMC.

#### **34. RETIREMENT BENEFIT SCHEMES**

##### **Hong Kong**

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group based on a specified percentage of the employee’s basic salary, depending on the length of service with the Group. Where there are employees who leave the ORSO Scheme prior to vesting, the contributions payable by the Group are reduced by the amount of forfeited contributions. The amount of forfeited contributions utilised in this manner during the year 2004, 2005 and 2006 was HK\$Nil, HK\$29,991 and HK\$145,442 respectively.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

At the balance sheet date, there was no significant amount of forfeited contributions to reduce the contributions payable in the future years.

##### **Mainland China**

The employees of the Group in the Mainland China are members of state-managed retirement benefit schemes operated by the respective local government in the Mainland China. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

## 35. ACQUISITION OF SUBSIDIARIES

On 12 July 2006, the Group acquired an additional 47.5% of the issued share capital of CSMC and CSMC became a 72.9% owned subsidiary. The carrying value and fair value of net assets acquired in the transaction are as follows:

	<i>HK\$'000</i>
Net assets acquired:	
Property, plant and equipment	1,262,252
Prepaid lease payments	4,299
Deferred tax assets	2,162
Inventories	156,300
Debtors, deposits and prepayments	156,218
Tax recoverable	933
Pledged bank deposits	19,272
Bank balances and cash	243,173
Creditors and accrued charges	(188,870)
Borrowings	(374,904)
Other non-current liabilities	<u>(36,127)</u>
	1,244,708
Minority interests	(337,689)
Discount on acquisition accounted for in consolidated income statement	<u>(41,296)</u>
	<u>865,723</u>
Total consideration satisfied by:	
Cash	467,464
Shares issued (Note)	<u>73,032</u>
	540,496
Interest in an associate	<u>325,227</u>
	<u>865,723</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(467,464)
Bank balances and cash acquired	<u>243,173</u>
	<u>(224,291)</u>

*Note:*

As part of the consideration for the acquisition, a total of 93,631,354 shares of the Company with a par value of HK\$0.10 each were issued. The fair value of the shares issued, which was determined by reference to share prices quoted on the Stock Exchange at the date of acquisition, amounted to HK\$73,032,000.

The directors consider that the carrying amount of the net assets of CSMC approximates their fair values.

The acquiree contributed turnover of HK\$367,850,000 and profits of HK\$41,224,000 to the Group for the period from the date of acquisition to the balance sheet date.

If the acquisition had been completed on 1 January 2006, the Group's revenue and profit for the year ended 31 December 2006 would have been HK\$3,748,898,000 and HK\$281,770,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of actual results.

### 36. DISPOSAL OF SUBSIDIARIES

In addition to the disposal of Palazzo Inc. in 2005 as set out in Note 11, the Group also disposed of another subsidiary, Shenzhen Kope Microelectronics Co., Ltd. in 2005, which did not result in any significant financial impact to the Group.

Net assets of the subsidiaries disposed in 2005 are as follows:

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Property, plant and equipment	—	8,965	—
Prepaid lease payments on land use rights	—	7,912	—
Inventories	—	18,841	—
Debtors, deposits and prepayments	—	47,005	—
Bank balances and cash	—	95,242	—
Creditors and accrued charges	—	(53,134)	—
Taxation	—	(1,098)	—
Deferred tax liabilities	—	(4,458)	—
	—	119,275	—
Minority interests	—	(4,379)	—
Exchange reserve realised	—	(6,191)	—
	—	108,705	—
Gain on disposal	—	74,295	—
Total consideration	—	183,000	—
Satisfied by cash	—	183,000	—
Net cash inflow arising on disposal:			
Cash consideration	—	183,000	—
Bank balances and cash disposed of	—	(95,242)	—
	—	87,758	—

**37. MAJOR NON-CASH TRANSACTIONS**

Part of the consideration for the purchase of subsidiaries transacted during the year ended 31 December 2006 comprised of new shares of the Company. Further details of the acquisition are set out in Note 35 above.

**38. CONTINGENT LIABILITIES**

At 31 December 2006, the Group has issued guarantees of HK\$4,006,000 to a bank in respect of the mortgage loans borrowed by the employees of a subsidiary. Management anticipates that no material liabilities to the Group will arise from the guarantees.

**39. OPERATING LEASES****The Group as lessee:**

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,518	2,720	3,539
In the second to fifth year inclusive	323	142	4,494
After five years	<u>—</u>	<u>—</u>	<u>3,653</u>
	<u>2,841</u>	<u>2,412</u>	<u>11,686</u>

Operating lease payments represent rentals payable by the Group for certain office and factory premises. Leases are negotiated and rentals are fixed for an average term of one to ten years.

**The Group as lessor:**

Rental income earned from investment properties of HK\$9,289,000, HK\$10,936,000 and HK\$5,609,000 and machinery and equipment of HK\$454,000, HK\$1,367,000 and Nil in respect of 31 December 2004, 31 December 2005 and 31 December 2006 respectively. These assets have committed leases for terms ranging from one year to over five years.

No operating lease was contracted at the balance sheet dates. At the respective balance sheet dates, the Group had contracted with lessees for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	11,336	13,189	—
In the second to fifth year inclusive	40,167	45,894	—
After five years	<u>7,691</u>	<u>7,283</u>	<u>—</u>
	<u>59,194</u>	<u>66,366</u>	<u>—</u>

#### 40. CAPITAL COMMITMENTS

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment Authorised but not contracted for	<u>208,099</u>	<u>60,283</u>	<u>504,621</u>
Contracted for but not provided (Note)	<u>338,580</u>	<u>133,687</u>	<u>679,817</u>

*Note:*

During the year ended 31 December 2006, the Group entered into an agreement with a minority shareholder of a subsidiary (the "Vendor") for the acquisition of certain tools, equipment and spare parts for a consideration of US\$35,000,000, of which US\$12,000,000 had been paid up to 31 December 2006. The amount disclosed above includes the balance of the consideration of US\$23,000,000 which is payable by 4 instalments on a yearly basis from 2007 to 2010.

Pursuant to another agreement entered into with the Vendor, the Group has undertaken to make incentive payment of US\$5,000,000 to a subsidiary of the Vendor in the event that the cumulative revenue from assembly and testing services provided by the Group arising from orders placed by customers of the Vendor for the years 2007 to 2010 exceeds an agreed amount. However, no fair value was ascribed to the undertaking as at the balance sheet date, which has been accounted for as a derivative, as the directors consider that the equipment is still under installation and it is uncertain the agreed amount could be achieved based on the Group's assessment at the balance sheet date.



## 41. RELATED PARTY TRANSACTIONS

**Transactions with related parties**

In addition to the related parties transactions set out in other notes to the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to a fellow subsidiary	—	2,142	2,352
Rental expenses paid to a fellow subsidiary	1,991	2,289	2,165
Rental income received from a fellow subsidiary	700	565	565
Rental income received from an associate	8,589	10,371	5,044
Sales to an associate	71,390	90,623	47,532
Wafer fabrication service charges paid to an associate	111,855	93,799	62,118
Sales to subsidiaries of minority shareholders of subsidiaries	501	150,860	145,173
Sales to minority shareholders of subsidiaries	28,177	—	—
Purchases from minority shareholders of subsidiaries	8,873	—	—
Royalties paid to minority shareholders of subsidiaries, net	1,951	28,661	20,870
License fees paid to minority shareholders of subsidiaries, net	297	14,331	15,029
	<u>297</u>	<u>14,331</u>	<u>15,029</u>

The amounts due from/to minority shareholders and an associate as included in the consolidated balance sheet are unsecured, interest-free and repayable on demand.

**Transactions/balances with other state-controlled entities**

The Group itself is part of a larger group of companies under CRNC which is controlled by the government of the People's Republic of China ("PRC"). Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business. The directors consider those entities other than CRNC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, at the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

## Compensation of key management personnel of the Group

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	6,562	8,678	6,933
Post-employment benefits	321	353	330
Share-based payment	<u>1,538</u>	<u>389</u>	<u>162</u>
	<u>8,421</u>	<u>9,420</u>	<u>7,425</u>

The remunerations of the Group's key management personnel include the directors of the Company only, which are determined with reference to the terms of the remuneration committee, are disclosed in Note 13.

**42. GOVERNMENT GRANTS**

Included in creditors and accrued charges are deferred government grants of HK\$18,820,000, HK\$20,594,000 and HK\$53,003,000 at 31 December 2004, 31 December 2005 and 31 December 2006 respectively which are provided by the PRC governmental authorities for the purpose of financing the purchases of machinery and equipment and relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the current year's consolidated income statement of HK\$12,147,000, HK\$2,956,000 and HK\$6,339,000 for each of the three years ended 31 December 2006 respectively.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share / registered capital	Proportion ownership interest held by the Company %	Principal activities
<i>Semiconductor business</i>				
華潤微電子(控股)有限公司 China Resources Microelectronics (Holdings) Limited	British Virgin Islands	Ordinary US\$11	100	Investment holding
華潤半導體有限公司 China Resources Semiconductor Company Limited	Hong Kong	Ordinary HK\$3	100	Manufacture and sales of integrated circuit design and wafer packaging
Faithway Resources Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
# 深圳華潤矽科微電子有限公司	Mainland China	US\$1,800,000	100	Design of wafer
# 賽美科微電子(深圳)有限公司 Semicon Microelectronics (Shen Zhen) Co., Ltd.	Mainland China	US\$4,260,000	100	Testing and packaging of wafers
# 無錫華潤微電子有限公司 Wuxi China Resources Microelectronics Co., Ltd.	Mainland China	RMB570,000,000	100	Manufacture and sales of integrated circuit, packaging and testing of integrated circuit, investment holding
# 無錫華潤矽科微電子有限公司 Wuxi China Resources Semico Co., Ltd	Mainland China	RMB25,000,000	100	Design, testing and sale of integrated circuit products and chips
@ 無錫華潤華晶微電子有限公司 Wuxi China Resources Huajing Microelectronics Co., Ltd	Mainland China	RMB235,000,000	99.662	Manufacture and sale of integrated circuit
# 無錫華潤晶芯半導體有限公司 Wuxi CR Semiconductor Wafers & Chips Ltd.	Mainland China	RMB275,000,000	100	Manufacture and sales of integrated circuit
# 無錫華潤安盛科技有限公司 Wuxi CR Micro-Assemb Tech. Ltd.	Mainland China	RMB100,000,000	100	Testing and packaging of wafers

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share / registered capital	Proportion ownership interest held by the Company %	Principal activities
華潤上華科技有限公司 CSMC Technologies Corporation	Cayman Islands	Ordinary US\$34,947,000	72.82	Investment holding
#無錫華潤上華半導體有限公司 CSMC Technologies Fab 1 Co., Ltd	Mainland China	US\$76,668,580	72.82	Manufacture and sale of integrated circuit and related products
#無錫華潤上華科技有限公司 CSMC Technologies Fab 2 Co., Ltd	Mainland China	US\$50,000,000	72.82	Manufacture and sale of integrated circuit and related products
#北京華潤上華半導體有限公司 CSMC Technologies Fab 3 Co., Ltd	Mainland China	US\$9,500,000	72.82	Manufacture and sale of integrated circuit and related products (pre-operating as at 31 December 2006)
<i>Compressor business</i>				
華潤制冷科技有限公司 China Resources Cooling Technology Co., Ltd.	British Virgin Islands	Ordinary US\$66	100	Investment holding
@ 瀋陽華潤三洋壓縮機有限公司 China Resources (Shenyang) Sanyo Compressor Co., Ltd.	Mainland China	US\$159,980,000	63.75	Manufacture and sale of compressors for air-conditioners
@ 瀋陽盛潤三洋壓縮機有限公司 Shenyang Shengrun Sanyo Compressor Co. Ltd.	Mainland China	US\$20,000,000	63.75	Manufacture and sale of compressors for air-conditioners
<i>Others</i>				
CRT (BVI) Limited	British Virgin Islands	Ordinary US\$14	100	Investment holding

All the above subsidiaries, except for CRT (BVI) Limited which is directly held, are indirectly held by the Company and are operating principally in their place of incorporation/establishment.

None of the subsidiaries had any debt securities outstanding at 31 December 2004, 31 December 2005 and 31 December 2006 or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

@ Equity Joint Venture

# Wholly Foreign Owned enterprises

**(C) POST BALANCE SHEET EVENTS**

The following transactions took place subsequent to 31 December 2006:

- (a) On 14 March 2007, the Group entered into a loan facility agreement with certain banks pursuant to which a 5-year revolving credit/term loan facility of up to HK\$1,500,000,000 was made available for (a) the refinancing of loan facilities granted to the Group in 2002 and 2004; and (b) the Group's general corporate funding requirements. The loan facility is unsecured and interest bearing with any outstanding amounts to be repaid in full on the date falling sixty months after the date of the loan facility agreement. The loan facility was reduced to HK\$1,300,000,000 with effect from 14 September 2007.

The loan facility agreement contains a term which requires CRH, who is the controlling shareholder of the Company, to remain as the majority beneficial owner of the issued share capital of the Company and shall maintain management control over the Company.

- (b) On 21 June 2007, the Company and CRT (BVI) Limited, a wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with Gradison Limited, a wholly owned subsidiary of CRH, for the sale of the entire issued share capital of China Resources Cooling Technology Co. Ltd., the holding company of the Group's compressor business (the "Disposal"), for a consideration of HK\$1,170,000,000. The Disposal was completed in August 2007, and China Resources Cooling Technology Co. Ltd. and its subsidiaries have ceased to be subsidiaries of the Company. The Group is in the process of assessing the financial impacts of the Disposal.
- (c) On 4 December 2007, the Company entered into a conditional agreement with CSMC for the sale of the entire interests in Oriental Gate Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-known Property Limited to CSMC, for a consideration of approximately HK\$1,488,900,000 which will be satisfied by the issue of a minimum of 3,050,518,417 and a maximum of 3,210,167,717 shares in CSMC to the Company.

On 4 December 2007, the Company also entered into a conditional agreement with China Resources Concrete Limited for the purchases of the entire interest in Redland Concrete Limited for a cash consideration of HK\$217,757,665.

On 4 December 2007, the board of directors of the Company proposed to the fulfillment of certain conditions, including that a distribution in specie be made to the shareholders of the Company, being shares in CSMC on the basis of 180 shares in CSMC for every 100 shares held in the Company.

The above transactions have not been completed at the date of this report and are subject to the fulfilment of certain conditions, including the approval by the Company's shareholders at special general meeting.

**(D) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 31 December 2006 and up to the date of this report.

Yours faithfully  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**II. INDEBTEDNESS****Borrowings**

The borrowings of the CR Logic group as at 30th November, 2007 are as follows:

	<i>(HK\$'000)</i>
Short-term bank borrowings	
— Secured	76,342
— Unsecured	2,083,083
Bills receivables discounted with recourse	<u>78,644</u>
Total bank borrowings	<u>2,238,069</u>
<b>Other long-term payable</b>	<u>66,238</u>
<b>Contingent liabilities</b>	
— Guarantees for employee housing loans	<u>3,928</u>
<b>Pledge of assets</b>	
— Bank deposits	1,633
— Property, plant and equipment and land use rights	<u>21,162</u>
	<u>22,795</u>
Borrowings repayable:	
On demand or within one year	1,064,079
More than two years, but not exceeding five years	<u>1,173,990</u>
	<u>2,238,069</u>

Save as disclosed above, the CR Logic group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings of the CR Logic group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30th November, 2007.

Redland Concrete group did not have any debt securities, any outstanding loan capital, any borrowings or indebtedness in the nature of borrowings of Redland Concrete group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30th November, 2007.

**III. WORKING CAPITAL**

Taking into account the financial resources, including internally generated funds and the banking facilities, available to the remaining CR Logic group, being the CR Logic group remaining after completion of acquisition of Redland Concrete Limited and the payment of dividend in specie by way of distribution by CR Logic of all of its shares in CSMC, the directors of CR Logic, after due and careful consideration, are of the opinion that the remaining CR Logic group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this composite circular.

**IV. MATERIAL ADVERSE CHANGE**

The directors of CR Logic confirm that they have performed sufficient due diligence to ensure that, up to the Latest Practicable Date, there has been no material adverse change in the financial position or prospect of the CR Logic group since 30th September, 2007, and that there is no event since 30th September, 2007 which would materially affect the information shown in the Accountants' Report of the CR Logic group for the three years ended 31st December, 2006 and the pro forma statements of the enlarged CSMC group for the nine months ended 30th September, 2007.

**V. WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES**

Under Rule 14.68(2)(a)(i) of the Listing Rules, CR Logic is required to publish an accountants' report of CR Logic in accordance with Chapter 4 of the Listing Rules for a very substantial disposal. CR Logic has applied to the Stock Exchange for a waiver from strict compliance of Rule 14.68(2)(a)(i) as for the following reasons:

- the acquisition of semiconductor businesses from CR Logic is a very substantial acquisition to CSMC under the Listing Rules and an accountants' report of the semiconductor businesses of CR Logic in accordance with Chapter 4 of the Listing Rules are presented in Appendix I to this composite circular for the information of shareholders in both companies;
- pro forma statements of the enlarged CSMC group presented in Appendix V to this composite circular are prepared in accordance with Rule 14.69(4)(a)(ii) based on the information contained in Appendix I and unaudited financial statements of CSMC (being the income statement, balance sheet and cashflow statement) as at 30th September, 2007 as reviewed by the audit committee and auditor of CSMC. Such pro forma information are provided to the shareholders of both companies, from which they can assess their effective interest in CSMC after the proposal;
- Rule 14.68(2)(a)(i) requires the inclusion of Accountants' Report of the issuer for a very substantial disposal showing the original financial position of the company before such disposal. The special circumstances of the proposal, with the distribution in specie to the shareholders of CR Logic of the equity interest in CSMC, will result in CR Logic shareholders holding their original interests in the semiconductor businesses through distributed CSMC shares. The pro forma statements of the enlarged CSMC group set out in Appendix V would represent more helpful and comprehensive information for the shareholders of CR Logic;



- the effect of the proposal in substance does not result in the shareholders of CR Logic ceasing to be interested in the semiconductor businesses; they continue to retain their interest in the semiconductor business through CSMC after implementation of the proposal. The inclusion of an accountant's report of CR Logic under Rule 14.68(2)(a)(i) would in fact provide unnecessary and possibly confusing information to the shareholders of CR Logic and cause considerable additional costs and delay. The effect of the proposal would be more effectively presented by the pro forma statements of the enlarged CSMC group in Appendix V; and
- pro forma statements for the remaining CR Logic group will be presented to the shareholders of CR Logic in accordance with R14.68(2)(a)(ii) as set out in Appendix IV. The Taipo plant is in the process of either being sold or closed down and the financial impact to the shareholders of CR Logic is immaterial.

CR Logic has applied to, and the Stock Exchange has granted, a waiver from strict compliance of Rule 14.68(2)(a)(i) of the Listing Rules with the conditions that (i) financial information are duly presented in Appendices I to V to this composite circular; and (ii) CSMC are required to publish the unaudited financial statements, which include balance sheet, income statement and cashflow statement for the nine months ended 30th September, 2007 as reviewed by its audit committee and auditor on or before the despatch of this composite circular. All such conditions have been fulfilled by the CR Logic group.

Under Rules 4.06 and 4.06A of the Listing Rules, CR Logic is required to include an Accountants' Report covering the results of CR Logic for each of the three financial years immediately preceding the issue of the composite circular. As the composite circular is to be despatched in early January, 2008, it is considered unduly burdensome for CR Logic to prepare an accountants' report within a short period of time after the fiscal year end date of 31st December, 2007. CR Logic has applied to, and the Stock Exchange has granted, a waiver from strict compliance of Rules 4.06 and 4.06A of the Listing Rules with the conditions that (i) this composite circular is despatched on or before 16th January, 2008 and the special general meeting of CR Logic will be held by no later than 13th February, 2008; and (ii) the directors of CR Logic confirm that they have performed sufficient due diligence to ensure that, up to the Latest Practicable Date, there is no material adverse change in the financial position or prospects of the CR Logic group as set out in this appendix. All such conditions have been fulfilled by CR Logic.

## I. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the published consolidated financial results and the assets and liabilities of the CSMC group as extracted from the relevant annual reports and the unaudited consolidated management accounts of CSMC. The auditors of CSMC issued unqualified opinion on the CSMC group's financial statements for the three years ended 31 December 2004, 2005 and 2006. The unaudited consolidated results for the nine months ended 30 September 2007 and the consolidated balance sheets as of that date were reviewed by the auditor and the audit committee of CSMC.

## CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December			Nine months ended
	2006 US\$'000	2005 US\$'000	2004 US\$'000 (Restated)	30 September 2007 US\$'000 (unaudited)
Revenue	114,302	78,099	79,860	103,505
Cost of goods sold	(87,368)	(71,502)	(57,006)	(75,522)
<b>Gross profit</b>	26,934	6,597	22,854	27,983
Selling and marketing costs	(3,162)	(2,528)	(2,534)	(2,108)
Administrative expenses	(14,108)	(8,755)	(8,445)	(8,338)
Research and development expenses	(3,100)	(2,264)	(3,238)	(3,059)
Other gains — net	4,115	1,186	3,736	793
<b>Operating profit (loss)</b>	10,679	(5,764)	12,373	15,271
Finance income	339	172	185	161
Finance costs	(3,531)	(1,616)	(992)	(2,656)
Finance costs — net	(3,192)	(1,444)	(807)	(2,495)
<b>Profit (loss) before income tax</b>	7,487	(7,208)	11,566	12,776
Income tax (expense) recovery	(1,121)	366	(1,395)	(3,257)
<b>Profit (loss) for the year</b>	6,366	(6,842)	10,171	9,519
<b>Attributable to:</b>				
Equity holders of the Company	6,366	(6,842)	10,171	9,519
<b>Earnings (loss) per share for profit (loss) attributable to the equity holders of the Company during the year</b>				
— Basic	US cent 0.24	US cent (0.26)	US cent 0.50	US cent 0.35
— Diluted	US cent 0.23	N/A	US cent 0.47	US cent 0.34
<b>Dividends</b>	—	1,705	3,015	—

## CONSOLIDATED BALANCE SHEET

	As at 31 December			As at 30 September
	2006	2005	2004	2007
	US\$'000	US\$'000	US\$'000	US\$'000
			(Restated)	(Unaudited)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Land use rights	561	554	554	573
Property, plant and equipment	175,310	157,526	137,965	198,384
Intangible assets	6,976	2,391	837	7,041
Long-term prepaid expense	—	446	435	—
Deferred income tax assets	717	379	278	700
	<u>183,564</u>	<u>161,296</u>	<u>140,069</u>	<u>206,698</u>
<b>Current assets</b>				
Inventories	27,230	17,872	16,553	29,321
Trade and other receivables	20,403	18,003	18,094	27,229
Tax Recoverable	—	891	—	—
Restricted bank deposits	982	1,310	329	721
Cash and cash equivalents	21,101	24,778	24,463	18,277
	<u>69,716</u>	<u>62,854</u>	<u>59,439</u>	<u>75,548</u>
<b>Total assets</b>	<u>253,280</u>	<u>224,150</u>	<u>199,508</u>	<u>282,246</u>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Ordinary shares	34,947	34,327	33,540	35,081
Share premium	76,892	74,634	73,562	77,303
Other reserves	50,977	46,090	42,811	57,925
Retained earnings	8,319	1,953	10,500	17,838
	<u>171,135</u>	<u>157,004</u>	<u>160,413</u>	<u>188,147</u>
<b>Total equity</b>	<u>171,135</u>	<u>157,004</u>	<u>160,413</u>	<u>188,147</u>

	As at 31 December			Nine months ended
	2006	2005	2004	30 September
	US\$'000	US\$'000	US\$'000	2007
			(Restated)	(Unaudited)
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term payable	8,488	—	—	8,467
Borrowings	<u>7,000</u>	<u>9,230</u>	<u>—</u>	<u>7,000</u>
	<u>15,488</u>	<u>9,230</u>	<u>—</u>	<u>15,467</u>
<b>Current liabilities</b>				
Trade and other payables	30,229	24,832	20,633	38,046
Current income tax liabilities	643	162	962	1,332
Borrowings	<u>35,785</u>	<u>32,922</u>	<u>17,500</u>	<u>39,254</u>
	<u>66,657</u>	<u>57,916</u>	<u>39,095</u>	<u>78,632</u>
<b>Total liabilities</b>	<u>82,145</u>	<u>67,146</u>	<u>39,095</u>	<u>94,099</u>
<b>Total equity and liabilities</b>	<u>253,280</u>	<u>224,150</u>	<u>199,508</u>	<u>282,246</u>
<b>Net current assets (liabilities)</b>	<u>3,059</u>	<u>4,938</u>	<u>20,334</u>	<u>(3,084)</u>
<b>Total assets less current liabilities</b>	<u>186,623</u>	<u>166,234</u>	<u>160,413</u>	<u>203,614</u>

## II. FINANCIAL INFORMATION OF CSMC FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following financial information includes the financial statement of the CSMC group for the two years ended 31 December 2006 together with the notes thereto as extracted from the annual report of CSMC for the year ended 31 December 2006.

### CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>US\$'000</i>	<i>US\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	6	561	554
Property, plant and equipment	7	175,310	157,526
Intangible assets	8	6,976	2,391
Long-term prepaid expense		—	446
Deferred income tax assets	9	717	379
		<u>183,564</u>	<u>161,296</u>
<b>Current assets</b>			
Inventories	10	27,230	17,872
Trade and other receivables	11	20,403	18,003
Tax Recoverable		—	891
Restricted bank deposits	12	982	1,310
Cash and cash equivalents	13	21,101	24,778
		<u>69,716</u>	<u>62,854</u>
<b>Total assets</b>		<u><u>253,280</u></u>	<u><u>224,150</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Ordinary shares	14	34,947	34,327
Share premium	14	76,892	74,634
Other reserves	15	50,977	46,090
Retained earnings		8,319	1,953
<b>Total equity</b>		<u><u>171,135</u></u>	<u><u>157,004</u></u>

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>US\$'000</i>	<i>US\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term payable	16	8,488	—
Borrowings	17	<u>7,000</u>	<u>9,230</u>
		<u>15,488</u>	<u>9,230</u>
<b>Current liabilities</b>			
Trade and other payables	18	30,229	24,832
Current income tax liabilities		643	162
Borrowings	17	<u>35,785</u>	<u>32,922</u>
		<u>66,657</u>	<u>57,916</u>
<b>Total liabilities</b>		<u>82,145</u>	<u>67,146</u>
<b>Total equity and liabilities</b>		<u>253,280</u>	<u>224,150</u>
<b>Net current assets</b>		<u>3,059</u>	<u>4,938</u>
<b>Total assets less current liabilities</b>		<u>186,623</u>	<u>166,234</u>

## BALANCE SHEET

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>US\$'000</i>	<i>US\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	—	—
Investments in subsidiaries	19	<u>34,527</u>	<u>34,527</u>
		<u>34,527</u>	<u>34,527</u>
<b>Current assets</b>			
Other receivables	11	112,511	114,164
Cash and cash equivalents	13	<u>3,056</u>	<u>3,022</u>
		<u>115,567</u>	<u>117,186</u>
<b>Total assets</b>		<u><u>150,094</u></u>	<u><u>151,713</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity shareholders</b>			
Ordinary shares	14	34,947	34,327
Share premium	14	76,892	74,634
Other reserves	15	35,670	35,689
(Accumulated loss) Retained earnings		<u>(3,293)</u>	<u>455</u>
		<u><u>144,216</u></u>	<u><u>145,105</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	18	878	1,608
Borrowings	17	<u>5,000</u>	<u>5,000</u>
<b>Total liabilities</b>		<u><u>5,878</u></u>	<u><u>6,608</u></u>
<b>Total equity and liabilities</b>		<u><u>150,094</u></u>	<u><u>151,713</u></u>

## CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<b>For the year ended</b>	
		<b>31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>US\$'000</i>	<i>US\$'000</i>
Revenue	5	114,302	78,099
Cost of goods sold		<u>(87,368)</u>	<u>(71,502)</u>
<b>Gross profit</b>		26,934	6,597
Selling and marketing costs		(3,162)	(2,528)
Administrative expenses		(14,108)	(8,755)
Research and development expenses		(3,100)	(2,264)
Other gains — net	20	<u>4,115</u>	<u>1,186</u>
<b>Operating profit (loss)</b>		10,679	(5,764)
Finance income	23	339	172
Finance costs	23	<u>(3,531)</u>	<u>(1,616)</u>
Finance costs — net	23	<u>(3,192)</u>	<u>(1,444)</u>
<b>Profit (loss) before income tax</b>		7,487	(7,208)
Income tax (expense) recovery	24	<u>(1,121)</u>	<u>366</u>
<b>Profit (loss) for the year</b>		<u><u>6,366</u></u>	<u><u>(6,842)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company		<u><u>6,366</u></u>	<u><u>(6,842)</u></u>
<b>Earnings (loss) per share for profit (loss)</b> <b>attributable to the equity holders of the</b> <b>Company during the year</b>			
— Basic	26	<u><u>US cent 0.24</u></u>	<u><u>US cent (0.26)</u></u>
— Diluted	26	<u><u>US cent 0.23</u></u>	<u><u>N/A</u></u>
<b>Dividends</b>	27(a)	<u><u>—</u></u>	<u><u>1,705</u></u>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company				
	Ordinary shares US\$'000 (Note 14)	Share premium US\$'000 (Note 14)	Other reserves US\$'000 (Note 15)	Retained earnings US\$'000	Total US\$'000
<b>Balance as at 1 January 2005</b>	<u>33,540</u>	<u>73,562</u>	<u>42,811</u>	<u>10,500</u>	<u>160,413</u>
Repurchase of shares (Note 14)	(70)	(215)	—	—	(285)
Translation adjustments	<u>—</u>	<u>—</u>	<u>3,279</u>	<u>—</u>	<u>3,279</u>
Net income/(expense) recognised directly in equity	(70)	(215)	3,279	—	2,994
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,842)</u>	<u>(6,842)</u>
<b>Total recognised income and expense for 2005</b>	<u>(70)</u>	<u>(215)</u>	<u>3,279</u>	<u>(6,842)</u>	<u>(3,848)</u>
Effect of implementation of Equity Incentive Plan — vesting	—	—	1,453	—	1,453
Effect of implementation of Equity Incentive Plan — exercising	857	1,287	(1,453)	—	691
Dividends relating to 2004 (Note 27(a))	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,705)</u>	<u>(1,705)</u>
	<u>857</u>	<u>1,287</u>	<u>—</u>	<u>(1,705)</u>	<u>439</u>
<b>Balance as at 31 December 2005</b>	<u>34,327</u>	<u>74,634</u>	<u>46,090</u>	<u>1,953</u>	<u>157,004</u>
<b>Balance as at 1 January 2006</b>	<u>34,327</u>	<u>74,634</u>	<u>46,090</u>	<u>1,953</u>	<u>157,004</u>
Repurchase of shares (Note 14)	(47)	(137)	—	—	(184)
Translation adjustments	<u>—</u>	<u>—</u>	<u>4,906</u>	<u>—</u>	<u>4,906</u>
Net income/(expense) recognised directly in equity	(47)	(137)	4,906	—	4,722
Profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,366</u>	<u>6,366</u>

	Attributable to equity holders of the Company				
	Ordinary	Share	Other	Retained	Total
	shares	premium	reserves	earnings	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>(Note 14)</i>	<i>(Note 14)</i>	<i>(Note 15)</i>			
<b>Total recognised income and expense for 2006</b>	<u>(47)</u>	<u>(137)</u>	<u>4,906</u>	<u>6,366</u>	<u>11,088</u>
Effect of implementation of Equity Incentive Plan — vesting	—	—	2,463	—	2,463
Effect of implementation of Equity Incentive Plan — exercising	667	2,395	(2,507)	—	555
Effect of implementation of Share Options Scheme — vesting	<u>—</u>	<u>—</u>	<u>25</u>	<u>—</u>	<u>25</u>
	<u>667</u>	<u>2,395</u>	<u>(19)</u>	<u>—</u>	<u>3,043</u>
<b>Balance as at 31 December 2006</b>	<u>34,947</u>	<u>76,892</u>	<u>50,977</u>	<u>8,319</u>	<u>171,135</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	<b>For the year ended</b>	
		<b>31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>US\$'000</i>	<i>US\$'000</i>
<b>Cash flows generated from operating activities</b>	28(a)	31,993	20,921
Cash generated from operations			
Interest paid		(2,992)	(1,572)
Income tax paid		<u>(563)</u>	<u>(1,317)</u>
Net cash generated from operating activities		<u>28,438</u>	<u>18,032</u>
<b>Cash flows from investing activities</b>			
Interest received		339	172
Proceeds from disposal of property, plant and equipment		683	29
Purchase of property, plant and equipment	28(b)	(31,846)	(40,340)
Purchase of intangible assets	28(b)	<u>(560)</u>	<u>(522)</u>
Net cash used in investing activities		<u>(31,384)</u>	<u>(40,661)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		47,073	59,278
Repayments of borrowings		(46,953)	(34,379)
Dividends paid		—	(1,705)
Repurchase of shares		<u>(184)</u>	<u>(285)</u>
Net cash (used in) generated from financing activities		<u>(64)</u>	<u>22,909</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(3,010)	280
Exchange (loss) gain on cash and cash equivalents		(667)	35
<b>Cash and cash equivalents at beginning of year</b>		<u>24,778</u>	<u>24,463</u>
<b>Cash and cash equivalents at end of year</b>	13	<u><u>21,101</u></u>	<u><u>24,778</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

CSMC Technologies Corporation (the “Company”) and its subsidiaries (together, the “Group”) manufactures and sells integrated circuits and related products. The Group’s production facilities are located in the People’s Republic of China (the “PRC”).

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Scotia Centre, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of United States dollars (US\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified as stipulated in the accounting policies below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 to the financial statements.

(a) *Standards and amendments to standards effective in 2006*

- HKAS 39 and HKFRS 4 Amendment — Finance guarantee contracts. The Group has assessed the impact of this amendment on the corporate guarantees to a third party bank given as security for the loans of its employees and concluded that the impact is not significant.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group’s financial instruments.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

(c) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and
- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group does not have any embedded derivatives, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment — Actuarial gains and losses, group plans and disclosure
- HKAS 21 Amendment — Net Investment in a Foreign Operation;
- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment — The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards and HKFRS 6 Amendment — Exploration for and Evaluation of Mineral Resources;

- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

## 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

## 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segment by locations of its ultimate customers be presented as the primary and the only reporting format as the Group has only one business segment.

No segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

## 2.4 Foreign currency translation

### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollars, which is the Company's presentation currency.

### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Translation differences on non-monetary items, are reported as part of the fair value gain or loss.

### (iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

	<b>Expected useful lives</b>	<b>Estimated residual value</b>
Machinery	5 to 8 years	10%
Facility equipment	5 to 10 years	10%
Motors vehicles	6 years	10%
Furniture, fixtures and office equipment	5 years	0 to 10%
Leasehold improvement	Remaining period of the lease	0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. During the year, there was a change of estimated useful lives for certain machinery as a result of a review carried out by the Company, a detailed description of the change of estimated useful lives and its financial impact are set out in Note 4.3 to the financial statements.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statements.

## 2.6 Land use rights

Prepaid lease payments on land use rights are stated at cost less subsequent accumulated amortization and any accumulated impairment loss. The cost of prepaid lease payments on land use rights are amortised on a straight-line basis over the contractual period of the land use rights.

## 2.7 Intangible assets

### (i) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five to eight years.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

### (ii) Technology knowhow

Acquired technology knowhow is initially recognised at cost. Where payment is deferred beyond normal credit terms, its cost is the cash price equivalent. Technology knowhow has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of technology knowhow over their estimated useful lives of twelve years.



(iii) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### 2.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortization, but are at least tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.9 Financial assets — loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within administrative costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative costs in the income statement.

#### 2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

### 2.12 Share capital and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds from the issuance of the shares.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

Share premium mainly represents the difference between the subscription value and par value of the Company's ordinary shares at the date of issuance of the shares. The difference between the acquisition price and par value when the Company acquires its own shares from the market and the effect of implementation of Equity Incentive Plan and Share Options Scheme is also charged or credited to this account as appropriate.

### 2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are generally expensed as incurred.

### 2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2.16 Employee benefits

### (i) Pension obligations

The Group operates defined contribution plans in the PRC and Hong Kong. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The contributions are recognized as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Details of the Group's employee retirement benefit plans are set out in Note 33.

### (ii) Share-based compensation

The Group operates two equity-settled, share-based compensation plans, namely Equity Incentive Plan and Share Options Scheme. The fair value of the employee services received in exchange for the grant of the shares/options is recognized as an expense and credited to equity compensation reserve. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares/options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares/options that are expected to become exercisable/vest. At each balance sheet date, the entity revises its estimates of the number of shares/options that are expected to become exercisable/vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are issued/options are exercised under the plans.

Details of the Group's share-based compensation plans are set out in Note 32.

## 2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating revenue within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) *Sales of goods*

Sales of goods are recognized when a Group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

The Group's products are often sold with a right of return with a specified period of time as stated in the agreements. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(ii) *Rendering of services*

Revenues from the rendering of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(iv) *Dividend income*

Dividend income is recognized when the right to receive payment is established.

#### 2.19 **Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the income statement on a straight line basis over the expected lives of the related assets.

#### 2.20 **Leases (as the lessee for operating leases)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

### 2.21 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

### 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's Finance Department under policies approved by the Board of Directors. The Group's Finance Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and investing excess liquidity.

(i) *Market risk*

- (1) Foreign exchange risk

The Group principally operates in the PRC and is exposed to foreign exchange risk arising mainly from commercial transactions, recognised assets and liabilities primarily denominated in the United States dollars.

Currency exposure arising from the net assets of the Group's operations in the PRC is managed primarily through borrowings denominated in the relevant foreign currencies.

## (2) Price risk

The Group is not exposed to equity securities price risk or commodity price risk as it does not hold investments classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

## (ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. In addition, a predetermined maximum credit limit and term have been set for each customer.

Since the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral.

## (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses and future development, the Group's Finance Department aims to maintain flexibility in funding from internally generated cash inflow from operations, bank loans and credit lines available, etc.

The analysis of available banking credit facilities is set out in Note 30 to the financial statements.

## (iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The majority of the borrowings are issued at variable rates and re-priced on an interval basis. During 2006 and 2005, the Group's borrowings at variable rates were denominated in Chinese Renminbi and United States dollars.

**3.2 Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. The estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### 4.1 Income tax

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. The Group undertakes certain transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on management's interpretation of the local tax regulations. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### 4.2 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7(iii). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations which involve the use of discounted cash flows. These calculations require the use of estimates.

Had the pre-tax discount rate applied to arrive at the discounted cash flows used in the value-in-use calculations been different from management's estimate, the Group's estimation of goodwill impairment may be different.

#### 4.3 Useful lives of plant and machinery

The Group's management determines the estimated useful lives for its production plant and machinery. The estimate is based on the expected lifespan of those plant and machinery. It could change significantly as a result of technical innovation in response to industry cycles. Management will increase/decrease the depreciation expense where useful lives are less/more than previously estimated useful lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

In previous years, mechanical based semiconductor equipment was depreciated over their estimated useful lives of 5 years. The Group conducted a review of the estimated useful lives of this type of equipment and as a result, with effect from 1 July 2006, mechanical based semiconductor equipment is to be depreciated over estimated useful lives of 8 years. The changes reflect the current best estimates based on the Group's previous experience of these semiconductor equipment after taking account of commercial and technological obsolescence as well as normal wear and tear. The changed depreciation lives better reflect the estimated period during which such assets will remain in service. The changes have been applied prospectively. As a result of these changes in accounting estimates, the depreciation expenses for the year decreased by approximately US\$5.3 million.

#### 4.4 Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in the income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Allowance is only made for trade receivables that are unlikely to be collected.

#### 4.5 Estimation of fair value of shares and share options granted

The measurement of the fair value of shares and share options granted to employees is determined using the binomial model ("model"). The key inputs to the pricing model include share price at grant date, exercise price, volatility rate, expected dividend pay-out rate, annual risk-free rate and the vesting period.

The model uses actual or market observable data where practicable, however areas such as volatility rate, and expected dividend pay-out rate require management to make estimates. Changes in assumptions about these factors could affect the fair value of these shares and share options.

## 5 REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2006	2005
	US\$'000	US\$'000
Revenue		
6-inch wafer	107,524	73,720
Others	<u>6,778</u>	<u>4,379</u>
	<u>114,302</u>	<u>78,099</u>

## Primary reporting format — geographical segments

The Group's primary format for reporting segment information is geographical segment as determined by location of its ultimate customers. The Group is mainly operating in the PRC and significant assets, liabilities and capital expenditures are located in the PRC. Accounting policies for segmental reporting of the Group are set out in Note 2.3 to the financial statements.

The analysis by geographical segments by location of ultimate customers is as follows:

	2006	2005
	US\$'000	US\$'000
Revenue		
The PRC	77,413	52,982
Asia, other than the PRC	21,989	15,194
United States	10,852	5,637
Europe	<u>4,048</u>	<u>4,286</u>
	<u>114,302</u>	<u>78,099</u>

## 6 LAND USE RIGHTS — GROUP

	2006	2005
	US\$'000	US\$'000
Beginning of year	554	554
Amortization of prepaid operating lease payment ( <i>Note 21</i> )	(12)	(13)
Translation adjustments	<u>19</u>	<u>13</u>
End of year	<u>561</u>	<u>554</u>



**APPENDIX III**
**FINANCIAL INFORMATION ON CSMC**

The Group's interests in land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Outside Hong Kong:		
With remaining lease period of 45 (2005: 46) years	<u>561</u>	<u>554</u>

Certain bank borrowings are secured on land use rights with a net carrying value of US\$561,000 (2005: US\$554,000) (Note 17).

**7 PROPERTY, PLANT AND EQUIPMENT**
**GROUP**

	<b>Machinery</b>	<b>Facility equipment</b>	<b>Motor vehicles</b>	<b>Furniture, fixtures and office equipment</b>	<b>Leasehold Improvement</b>	<b>Construction- in-progress</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 1 January 2005</b>							
Cost	101,854	13,853	602	2,033	—	47,166	165,508
Accumulated depreciation and impairment	<u>(24,787)</u>	<u>(1,811)</u>	<u>(186)</u>	<u>(759)</u>	<u>—</u>	<u>—</u>	<u>(27,543)</u>
Net book amount	<u>77,067</u>	<u>12,042</u>	<u>416</u>	<u>1,274</u>	<u>—</u>	<u>47,166</u>	<u>137,965</u>
<b>Year ended 31 December 2005</b>							
Opening net book amount	77,067	12,042	416	1,274	—	47,166	137,965
Exchange differences	1,656	302	9	19	(1)	1,160	3,145
Additions	4,494	353	—	2,238	—	33,495	40,580
Transfers	31,681	—	—	—	1,951	(35,138)	(1,506)
Disposals	(3)	—	(13)	(35)	—	—	(51)
Depreciation ( <i>Note 21</i> )	(20,150)	(1,668)	(89)	(505)	(147)	—	(22,559)
Impairment charge ( <i>Note 21</i> )	<u>(48)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(48)</u>
Closing net book amount	<u>94,697</u>	<u>11,029</u>	<u>323</u>	<u>2,991</u>	<u>1,803</u>	<u>46,683</u>	<u>157,526</u>
<b>At 31 December 2005</b>							
Cost	140,495	14,553	598	4,371	1,951	46,683	208,651
Accumulated depreciation and impairment	<u>(45,798)</u>	<u>(3,524)</u>	<u>(275)</u>	<u>(1,380)</u>	<u>(148)</u>	<u>—</u>	<u>(51,125)</u>
Net book amount	<u>94,697</u>	<u>11,029</u>	<u>323</u>	<u>2,991</u>	<u>1,803</u>	<u>46,683</u>	<u>157,526</u>

	Machinery	Facility equipment	Motor vehicles	Furniture, and office fixtures equipment	Leasehold Improvement	Construction- in-progress	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Year ended 31</b>							
<b>December 2006</b>							
Opening net book amount	94,697	11,029	323	2,991	1,803	46,683	157,526
Exchange differences	2,897	371	9	93	51	2,460	5,881
Additions	841	54	173	884	—	34,558	36,510
Transfers	8,836	4,876	84	123	273	(14,192)	—
Disposals	(16)	—	(20)	(118)	—	—	(154)
Depreciation ( <i>Note 21</i> )	(19,696)	(1,731)	(98)	(660)	(448)	—	(22,633)
Impairment charge ( <i>Note 21</i> )	(1,820)	—	—	—	—	—	(1,820)
Closing net book amount	<u>85,739</u>	<u>14,599</u>	<u>471</u>	<u>3,313</u>	<u>1,679</u>	<u>69,509</u>	<u>175,310</u>
<b>At 31 December 2006</b>							
Cost	155,009	19,975	822	5,112	2,310	69,509	252,737
Accumulated depreciation and impairment	<u>(69,271)</u>	<u>(5,376)</u>	<u>(351)</u>	<u>(1,798)</u>	<u>(631)</u>	<u>—</u>	<u>(77,427)</u>
Net book amount	<u><u>85,738</u></u>	<u><u>14,599</u></u>	<u><u>471</u></u>	<u><u>3,314</u></u>	<u><u>1,679</u></u>	<u><u>69,509</u></u>	<u><u>175,310</u></u>

Depreciation expense of US\$21,644,000 (2005: US\$22,025,000) has been expensed in cost of goods sold, US\$26,000 (2005: US\$19,000) in selling and marketing costs, US\$711,000 (2005: US\$455,000) in administrative expenses and US\$252,000 (2005: US\$60,000) in research and development expenses.

Lease rentals amounting to US\$1,828,000 (2005: US\$1,474,000) relating to the lease of machinery and property under operating lease are included in the income statement.

Certain bank borrowings are secured on machineries with a net book value of approximately US\$25,644,000 (2005: US\$11,436,000) (Note 17).

Construction-in-progress mainly comprises building under construction and machinery and equipment pending installation.

## COMPANY

	<b>Construction in-progress</b> <i>US\$'000</i>
<b>At 1 January 2005</b>	
Cost and net book value	<u>8,433</u>
<b>Year ended 31 December 2005</b>	
Opening net book amount	8,433
Additions	245
Disposals	<u>(8,678)</u>
Closing net book amount	<u>—</u>
<b>At 31 December 2005</b>	
Cost and net book amount	<u>—</u>
<b>At 1 January 2006 and 31 December 2006</b>	
Cost and net book amount	<u>—</u>

## 8 INTANGIBLE ASSETS

	Goodwill <i>US\$'000</i>	Technology knowhow <i>US\$'000</i>	Computer software <i>US\$'000</i>	Total <i>US\$'000</i>
<b>At 1 January 2005</b>				
Cost	211	—	724	935
Accumulated amortization	<u>—</u>	<u>—</u>	<u>(98)</u>	<u>(98)</u>
Net book amount	<u><u>211</u></u>	<u><u>—</u></u>	<u><u>626</u></u>	<u><u>873</u></u>
<b>Year ended 31 December 2005</b>				
Opening net book amount	211	—	626	837
Exchange differences	—	—	14	14
Additions	—	—	2,028	2,028
Amortization ( <i>Note 21</i> )	—	—	(277)	(277)
Impairment charge ( <i>Note 21</i> )	<u>(211)</u>	<u>—</u>	<u>—</u>	<u>(211)</u>
Closing net book amount	<u>—</u>	<u>—</u>	<u>2,391</u>	<u>2,391</u>
<b>At 31 December 2005</b>				
Cost	211	—	2,770	2,981
Accumulated amortization and impairment	<u>(211)</u>	<u>—</u>	<u>(379)</u>	<u>(590)</u>
Net book amount	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>2,391</u></u>	<u><u>2,391</u></u>
<b>Year ended 31 December 2006</b>				
Opening net book amount	—	—	2,391	2,391
Exchange differences	—	105	82	187
Additions	—	4,468	560	5,028
Amortization ( <i>Note 21</i> )	<u>—</u>	<u>(187)</u>	<u>(443)</u>	<u>(630)</u>
Closing net book amount	<u>—</u>	<u>4,386</u>	<u>2,590</u>	<u>6,976</u>
<b>At 31 December 2006</b>				
Cost	211	4,577	3,436	8,013
Accumulated amortization and impairment	<u>(211)</u>	<u>(191)</u>	<u>(846)</u>	<u>(1,037)</u>
Net book amount	<u><u>—</u></u>	<u><u>4,386</u></u>	<u><u>2,590</u></u>	<u><u>6,976</u></u>

Technology knowhow comprises the acquired rights to use certain technologies for the manufacture of wafer products. The amortization period adopted for licensed technology knowhow is 12 years.

Amortization of US\$630,000 (2005: US\$277,000) is included in administrative expenses in the income statement.

## 9 DEFERRED INCOME TAX ASSETS — GROUP

The gross movement on the deferred income tax assets account is as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	379	278
Additions ( <i>Note 24</i> )	338	87
Translation adjustments	<u>—</u>	<u>14</u>
As at 31 December	<u><u>717</u></u>	<u><u>379</u></u>

The movement in deferred tax assets during the year is as follows:

	<b>Provisions on assets</b>		<b>Tax losses</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	291	278	88	—	379	278
Additions (reversals) ( <i>Note 24</i> )	426	(1)	(88)	88	338	87
Translation adjustments	<u>—</u>	<u>14</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>
As at 31 December	<u><u>717</u></u>	<u><u>291</u></u>	<u><u>—</u></u>	<u><u>88</u></u>	<u><u>717</u></u>	<u><u>379</u></u>

The amount shown in the balance sheet includes the following:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Deferred tax assets to be recovered after more than 12 months	<u><u>717</u></u>	<u><u>379</u></u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US\$1,315,000 (2005: US\$513,000) in respect of losses amounting to US\$5,378,000 (2005: US\$3,621,000) that can be carried forward against future taxable income. Within the total amount of tax losses that can be carried forward against future taxable income, losses amounting to US\$5,105,000 (2005: US\$2,354,000) will be expired in 2011 (2005: 2010).

## 10 INVENTORIES — GROUP

	2006	2005
	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	6,966	4,167
Work-in-progress	10,372	7,376
Finished goods	3,808	1,843
Spare parts	<u>6,084</u>	<u>4,486</u>
	<u>27,230</u>	<u>17,872</u>

The cost of inventories recognized as expense and included in cost of goods sold and in research and development expenses amounted to US\$88,042,000 (2005: US\$71,323,000) and US\$549,000 (2005: US\$344,000) respectively.

During the year, the Group has written down the value of inventories to net realizable value by US\$2,002,000 (2005: US\$525,000). The amount has been included in administrative expenses in the income statement (Note 21).

## 11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables				
— third parties	12,213	10,091	—	—
— related parties ( <i>Note 31</i> )	2,448	3,806	—	—
Notes receivables	<u>1,276</u>	<u>1,368</u>	—	—
	15,937	15,265	—	—
Less: provision for impairment of receivables	<u>(436)</u>	<u>(446)</u>	—	—
Trade receivables — net	15,501	14,819	—	—
Prepayment and other receivables	4,901	2,967	572	748
Receivables from related parties ( <i>Note 31</i> )	<u>1</u>	<u>217</u>	<u>111,939</u>	<u>113,416</u>
	<u>20,403</u>	<u>18,003</u>	<u>112,511</u>	<u>114,164</u>

The fair values of trade and other receivables approximate their carrying value as they are short-term in nature.

**APPENDIX III****FINANCIAL INFORMATION ON CSMC**

The Group would generally grant credit terms from 0 to 90 days to its customers. A certain portion of the Group's revenue are on letter of credit terms. As at 31 December 2006 and 2005, the ageing analysis of the trade receivables (including amounts due from related parties of trading in nature) were as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	8,477	7,349
31 to 90 days	6,809	6,889
91 to 180 days	217	753
181 to 360 days	<u>434</u>	<u>274</u>
	<u><u>15,937</u></u>	<u><u>15,265</u></u>

The carrying amounts of trade and other receivables are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Renminbi	12,556	9,854	—	—
US Dollars	<u>8,283</u>	<u>8,595</u>	<u>112,511</u>	<u>114,164</u>
	<u><u>20,839</u></u>	<u><u>18,449</u></u>	<u><u>112,511</u></u>	<u><u>114,164</u></u>

Movements on the provision for impairment of trade receivables are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 1 January</b>	446	663	—	—
Provision for receivable impairment	—	1,185		
Receivables written off during the year as uncollectible	—	(1,400)	—	—
Amount reversed	(10)	—	—	—
Translation adjustments	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>—</u>
<b>At 31 December</b>	<u><u>436</u></u>	<u><u>446</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

The creation and release of provision for impaired receivables have been included in administrative expense in the income statement (Note 21). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

**12 RESTRICTED BANK DEPOSITS**

Restricted bank deposits represent pledged deposits placed with banks as security for certain letters of credit issued by those banks on behalf of the Group (Note 30) and employee mortgage loans (Note 34).

**13 CASH AND CASH EQUIVALENTS**

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and bank deposits denominated in:				
Renminbi	12,298	11,545	—	—
US Dollars	7,337	12,371	2,263	2,758
Others	1,466	862	793	264
	<u>21,101</u>	<u>24,778</u>	<u>3,056</u>	<u>3,022</u>

Renminbi is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

The effective interest rate on short-term bank deposits was 0.72% (2005: 0.72%).

**14 SHARE CAPITAL**

	Number of shares '000	Ordinary shares US\$'000	Share premium US\$'000	Total US\$'000
<b>At 1 January 2005</b>	2,616,146	33,540	73,562	107,102
Effect of implementation of Equity				
Incentive Plan — exercising	66,812	857	1,287	2,144
Repurchase of shares	<u>(5,424)</u>	<u>(70)</u>	<u>(215)</u>	<u>(285)</u>
<b>At 31 December 2005</b>	2,677,534	34,327	74,634	108,961
Effect of implementation of Equity				
Incentive Plan — exercising	51,965	667	2,395	3,062
Repurchase of shares	<u>(3,655)</u>	<u>(47)</u>	<u>(137)</u>	<u>(184)</u>
<b>At 31 December 2006</b>	<u>2,725,844</u>	<u>34,947</u>	<u>76,892</u>	<u>111,839</u>

The total authorised number of ordinary shares is 10 billion shares (2005 : 10 billion shares) with a par value of HK\$0.1 per share (2005: HK\$0.1 per share). The issued and fully paid ordinary shares are 2,725,843,629 (2005: 2,677,533,729).



The Company acquired 3,655,000 (2005: 5,424,430) of its own shares through purchases on the Hong Kong Exchanges and Clearing Limited during the year. The total amount paid to acquire the shares for cancellation was US\$184,000 (2005: US\$285,000) and has been deducted from share capital for the par value and share premium for the difference between the acquisition cost and par value of the shares acquired.

Details of the Group's Equity Incentive Plan and Share Options Scheme are set out in Note 32.

## 15 OTHER RESERVES

### Group

	Merger reserve	Equity compensation	Contributed surplus	Reserve fund	Enterprise expansion fund	Translation	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance as at 1 January 2005</b>							
— As previously reported	34,518	—	2,035	2,536	2,536	15	41,640
— Opening adjustment on adoption of HKFRS 2	—	1,171	—	—	—	—	1,171
<b>Balance as at 1 January 2005, restated</b>	34,518	1,171	2,035	2,536	2,536	15	42,811
Effect of implementation of Equity Incentive Plan							
— vesting	—	1,453	—	—	—	—	1,453
Effect of implementation of Equity Incentive Plan							
— exercising	—	(1,453)	—	—	—	—	(1,453)
Translation adjustments	—	—	—	—	—	3,279	3,279
<b>Balance as at 31 December 2005</b>	34,518	1,171	2,035	2,536	2,536	3,294	46,090
Effect of implementation of Equity Incentive Plan							
— vesting	—	2,463	—	—	—	—	2,463
Effect of implementation of Equity Incentive Plan							
— exercising	—	(2,507)	—	—	—	—	(2,507)
Effect of implementation of Share Options Scheme							
— vesting	—	25	—	—	—	—	25
Translation adjustments	—	—	—	—	—	4,906	4,906
<b>Balance as at 31 December 2006</b>	<u>34,518</u>	<u>1,152</u>	<u>2,035</u>	<u>2,536</u>	<u>2,536</u>	<u>8,200</u>	<u>50,977</u>

## Company

	<b>Merger reserve</b>	<b>Equity compensation</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Balance as at 1 January 2005</b>			
— As previously reported	34,518	—	34,518
— Opening adjustment on adoption of HKFRS 2	<u>—</u>	<u>1,171</u>	<u>1,171</u>
Balance as at 1 January 2005, restated	34,518	1,171	35,689
Effect of implementation of Equity Incentive Plan			
— vesting	—	1,453	1,453
Effect of implementation of Equity Incentive Plan			
— exercising	<u>—</u>	<u>(1,453)</u>	<u>(1,453)</u>
<b>Balance as at 31 December 2005</b>	34,518	1,171	35,689
Effect of implementation of Equity Incentive Plan			
— vesting	—	2,463	2,463
Effect of implementation of Equity Incentive Plan			
— exercising	—	(2,507)	(2,507)
Effect of implementation of Share Options Scheme			
— vesting	<u>—</u>	<u>25</u>	<u>25</u>
Balance as at 31 December 2006	<u>34,518</u>	<u>1,152</u>	<u>35,670</u>

## 16 LONG-TERM PAYABLE

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Gross long-term payable — minimum payments:</b>		
No later than 1 year	967	—
Later than 1 year and no later than 5 years	4,777	—
Later than 5 years	<u>6,434</u>	<u>—</u>
	12,178	—
Future finance charges on long-term payable	<u>(3,046)</u>	<u>—</u>
Present value of long-term payable	<u>9,132</u>	<u>—</u>
<b>The present value of long-term payable is as follows:</b>		
No later than 1 year (disclosed as current liabilities in <i>Note 18</i> )	644	—
Later than 1 year and no later than 5 years	3,015	—
Later than 5 years	<u>5,473</u>	<u>—</u>
	<u>9,132</u>	<u>—</u>

The present values are based on cash flows discounted using a rate based on the borrowings rate of 5.85%.

## 17 BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non-current</b>				
Secured bank borrowings	<u>7,000</u>	<u>9,230</u>	<u>—</u>	<u>—</u>
<b>Current</b>				
Secured bank borrowings	8,306	3,000	—	—
Unsecured bank borrowings	<u>27,479</u>	<u>29,922</u>	<u>5,000</u>	<u>5,000</u>
	<u>35,785</u>	<u>32,922</u>	<u>5,000</u>	<u>5,000</u>
<b>Total borrowings</b>	<u><u>42,785</u></u>	<u><u>42,152</u></u>	<u><u>5,000</u></u>	<u><u>5,000</u></u>

As at 31 December 2006, the Group's long-term and short-term bank loans bore interest at rates ranging from 5.58% to 6.07% (2005: 5.58% to 5.62%) per annum and 5.85% to 6.40% (2005: 4.41% to 6.32%) per annum, respectively.

As at 31 December 2006, the Company's short-term bank loans bore interest at 5.57% (2005: 5.54%) per annum.

The exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
6 months or less	17,050	20,983	5,000	5,000
6 to 12 months	18,735	11,939	—	—
1 to 5 years	<u>7,000</u>	<u>9,230</u>	<u>—</u>	<u>—</u>
Wholly repayable within 5 years	42,785	42,152	5,000	5,000
Over 5 years	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total borrowings	<u><u>42,785</u></u>	<u><u>42,152</u></u>	<u><u>5,000</u></u>	<u><u>5,000</u></u>

The maturity of borrowings is as follows:

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Within 1 year	35,785	32,922	5,000	5,000
Between 1 to 2 years	7,000	2,230	—	—
Between 2 to 5 years	—	7,000	—	—
Total borrowings	<u>42,785</u>	<u>42,152</u>	<u>5,000</u>	<u>5,000</u>

The carrying amounts and fair value of the Group's non-current borrowings are as follows:

	Carrying amount		Fair values	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Long-term bank loans	<u>7,000</u>	<u>9,230</u>	<u>6,977</u>	<u>9,225</u>

The fair values of current borrowings equal their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowings rate of 5.83% (2005: 5.60%).

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
US Dollars	31,000	31,000	5,000	5,000
Renminbi	<u>11,785</u>	<u>11,152</u>	—	—
Total borrowings	<u>42,785</u>	<u>42,152</u>	<u>5,000</u>	<u>5,000</u>

Certain bank borrowings are secured by machineries with a net book value of approximately US\$25,644,000 (2005: US\$11,436,000) (Note 7).

## 18 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables				
— third parties	19,408	15,447	—	—
— related parties ( <i>Note 31</i> )	1,143	1,183	—	—
Notes payables	—	1,859	—	—
	<u>20,551</u>	<u>18,489</u>		
Advance from customers	2,816	1,721	—	—
Accruals and other payables	6,065	3,664	745	1,019
Current portion of long term payable ( <i>Note 16</i> )	644	—	—	—
Due to related parties ( <i>Note 31</i> )	153	958	133	589
	<u>30,229</u>	<u>24,832</u>	<u>878</u>	<u>1,608</u>

As at 31 December 2006 and 2005, the ageing analysis of the Group's trade payables (including amounts due to related parties of trading in nature) were as follows:

	2006	2005
	US\$'000	US\$'000
0 to 30 days	17,149	14,351
31 to 180 days	2,245	3,103
Over 180 days	1,157	1,035
	<u>20,551</u>	<u>18,489</u>

## 19 INVESTMENTS IN SUBSIDIARIES — COMPANY

Investments in subsidiaries of the Company comprised:

	2006	2005
	US\$'000	US\$'000
Unlisted shares, at cost	34,527	34,527
	<u>34,527</u>	<u>34,527</u>

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name	Country/place of incorporation/kind of legal entity	Issued share capital	Attributable equity interest		Principal activities and place of operations
			Directly held	Indirectly held	
CSMC Manufacturing Company Limited ("CSMC BVI")	British Virgin Islands ("BVI")/Limited liability company	US\$2	100%	—	Trading of integrated circuit and related products in Hong Kong
Advanced Microelectronics Limited ("AML")	BVI/Limited liability company	US\$1	100%	—	Investment holding in BVI
Qualibest Enterprises Limited ("QEL")	BVI/Limited liability company	US\$1	100%	—	Investment holding in BVI
Rightbest Limited ("Rightbest")	BVI/Limited liability company	US\$1	100%	—	Investment holding in BVI
CSMC Technologies Fab 1 Co., Ltd ("Fab 1")	The PRC/Wholly-owned foreign enterprise	US\$76,668,580	—	100%	Manufacture of integrated circuit and related products in the PRC
CSMC Technologies Fab 2 Co., Ltd ("Fab 2")	The PRC/Wholly-owned foreign enterprise	US\$50,000,000	—	100%	Manufacture of integrated circuit and related products in the PRC
CSMC Technologies Fab 3 Co., Ltd ("Fab 3")	The PRC/Wholly-owned foreign enterprise	US\$9,500,000	—	100%	Manufacture of integrated circuit and related products in the PRC (pre-operating as at 31 December 2006)

## 20 OTHER GAINS — NET

	2006	2005
	<i>US\$'000</i>	<i>US\$'000</i>
Subsidy income ( <i>Note (a)</i> )	2,227	749
Gain (loss) on disposal of property, plant and equipment	529	(22)
Net foreign exchange gain	1,011	762
Others, net	348	(303)
	<u>4,115</u>	<u>1,186</u>

*Note:*

- (a) The subsidy income for 2006 mainly represents a government incentive for re-investment in a subsidiary in the PRC and a subsidy granted for an environmental protection project amounting to US\$2,145,000 and US\$82,000 respectively. The subsidy income of US\$749,000 in the prior year represented refund of Value-Added Tax for Fab 1 for being a qualified manufacturer of micro-electronics products.

## 21 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses and research and development expenses are analyzed as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Changes in inventories of finished goods and work in progress	4,961	3,400
Raw materials and consumables used	33,849	19,188
Employee benefit expense ( <i>Note 22</i> )	15,024	10,858
Depreciation of property, plant and equipment ( <i>Note 7</i> )	22,633	22,559
Amortization of intangible assets ( <i>Note 8</i> )	630	277
Utilities expenses	13,240	11,498
Impairment charges for property, plant and equipment ( <i>Note 7</i> )	1,820	48
Impairment charges for goodwill ( <i>Note 8</i> )	—	211
Transportation expenses	1,150	679
Amortisation of prepaid operating lease payment ( <i>Note 6</i> )	12	13
Operating lease expenses on buildings and machinery	1,828	1,474
Provision on inventories to net realizable value ( <i>Note 10</i> )	2,002	525
(Reversal of provision) provision or doubtful receivables ( <i>Note 11</i> )	(10)	1,185
Auditors' remuneration	220	157
	<u>220</u>	<u>157</u>

## 22 EMPLOYEE BENEFIT EXPENSE

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Wages and salaries	11,226	8,277
Shares and options granted to directors and employees ( <i>Note 32</i> )	2,488	1,453
Pension costs — defined contribution plans ( <i>Note 33</i> )	1,310	1,128
	<u>15,024</u>	<u>10,858</u>
	<b>2006</b>	<b>2005</b>
Number of employees	<u>1,820</u>	<u>1,436</u>

## (a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2006 is set out below:

	Fees	Discretionary	Inducement	Other	Employer's	Compensation	Total
	US\$'000	bonuses	fees	benefits <sup>(1)</sup>	contribution	for loss of	
		US\$'000	US\$'000	US\$'000	US\$'000	office as	US\$'000
		US\$'000	US\$'000	US\$'000	US\$'000	director	US\$'000
<b>Executive:</b>							
Dr. Chen Cheng Yu, Peter	100	66	—	24	163	—	353
Mr. Lee Naii, Robert	69	136	—	31	122	—	358
Mr. Tsai Nein Nan <sup>(3)</sup>	6	113	—	24	138	—	281
<b>Non-executive:</b>							
Mr. ZHU Jinkun <sup>(2)</sup>	1	—	—	—	—	—	1
Mr. Wang Guoping <sup>(2)</sup>	1	—	—	—	—	—	1
Mr. Ong Thiam Kin	9	—	—	—	—	—	9
Mr. Yu Yu	8	—	—	—	—	—	8
Dr. Chen Nan Xiang	8	—	—	—	—	—	8
Mr. Paul P. Wang <sup>(3)</sup>	6	—	—	—	—	—	6
Mrs. Oon Kum Loon	28	—	—	—	—	—	28
Mr. Hsue Chi Nan, Mark	26	—	—	—	—	—	26
Mr. Ralph Sytze Ybema	33	—	—	—	—	—	33



The remuneration of every director for the year ended 31 December 2005 is set out below:

	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits <sup>(1)</sup>	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Executive:</b>								
Dr. Chen Cheng-Yu, Peter	64	90	—	—	108	—	—	262
Mr. Lee Naii, Robert	67	134	16	—	85	—	—	302
Mr. Tsai Nein-Nan	8	138	23	—	78	—	—	247
<b>Non-executive:</b>								
Mr. Ong Thiam Kin	12	—	—	—	—	—	—	12
Mr. Yu Yu	10	—	—	—	—	—	—	10
Mr. Chen Nan Xiang	8	—	—	—	—	—	—	8
Mr. Paul P. Wang <sup>(3)</sup>	4	—	—	—	—	—	—	4
Mrs. Oon Kum Loon	24	—	—	—	—	—	—	24
Mr. Hsue Chi Nan, Mark	22	—	—	—	—	—	—	22
Mr. Ralph Sytze Ybema	24	—	—	—	—	—	—	24

*Notes:*

- (1) Other benefits include share-based payment, housing and other allowances.
- (2) The directors were appointed on 1 September 2006.
- (3) The directors resigned on 1 September 2006.

During the year ended 31 December 2006, none of the directors waived any emoluments or has agreed to waive any emoluments (2005: None).

Up to 31 December 2006, approximately 18,003,000 shares of the Company were allocated to the directors under the "Equity Incentive Plan". Among these shares allocated, approximately 5,337,000 (2005: 7,341,000) shares have vested and were issued during the year (Note 32(a)). As of 31 December 2006, 12,678,000 shares were vested and issued.

## (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors (including the executive director who ceased to be an executive director during the year) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Basic salaries and allowances	251	289
Bonuses	49	24
Consultancy fee	96	59
	<u>396</u>	<u>372</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Emolument bands</b>		
HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately US\$128,200 to US\$192,300)	1	1
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately US\$192,300 to US\$256,410)	1	1
	<u>2</u>	<u>2</u>

## 23 FINANCE INCOME AND COSTS

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Interest expense:		
Interest expense on bank borrowings repayable within 5 years	(3,002)	(1,616)
Interest expense on long term payable	(529)	—
Finance costs	(3,531)	(1,616)
Finance income — Interest income on short-term bank deposits	339	172
Net finance costs	<u>(3,192)</u>	<u>(1,444)</u>

## 24 INCOME TAX (EXPENSE) RECOVERY

The Company is incorporated under the Companies Law (2003 Revision) of Cayman Islands and is not subject to taxation in Cayman Islands.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with the relevant PRC income tax laws. The general applicable EIT rate for Fab 1, Fab 2 and Fab 3 is 33%. However, being located in the "Coastal Open Economic Zone", Fab 1 and Fab 2 are entitled to a preferential EIT rate of 24%. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", Fab 1 is also entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. Moreover, since Fab 1 also qualifies as an "advanced-technology enterprise", it is further entitled to a 50% reduction in EIT for an additional three years. The first profitable year of Fab 1 was 1999.

In April 2005, Fab 1 received approval from the PRC National Administration of Taxation to be classified as an encouraged technology intensive foreign investment enterprise with foreign investment in excess of US\$30,000,000. As a result, from 1 January 2004 onwards, Fab 1 enjoys a preferential EIT rate of 15%. However, according to PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", the minimum EIT rate applicable to a foreign investment enterprise is 10%, and therefore although Fab 1 can enjoy 50% reduction in EIT for the years ended 31 December 2004 to 2006, Fab 1 is still subject to 10% EIT rate.

No EIT has been provided for Fab 2 and Fab 3 as there was no taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

The amount of taxation (credited) charged to the consolidated income statement represents:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Current income tax		
— PRC EIT	1,459	—
— Reversal of over-accrued EIT	—	(279)
Deferred income tax ( <i>Note 9</i> )	<u>(338)</u>	<u>(87)</u>
	<u>1,121</u>	<u>(366)</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits (loss) of the consolidated companies as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Profit (loss) before tax	<u>7,487</u>	<u>(7,208)</u>
Tax calculated at domestic tax rates applicable to profit (loss) in the respective jurisdictions in which the Group operates	586	(554)
Effect of tax losses for which no deferred income tax asset was recognized	1,225	513
Income not subject to taxation	(340)	(77)
Expenses not deductible for taxation purposes	196	31
Effect on deferred taxes arising from change in tax rate	(187)	—
Utilisation of tax losses	(269)	—
Reversal of over-accrued EIT	<u>—</u>	<u>(279)</u>
Tax charge (recovery)	<u><u>1,121</u></u>	<u><u>(366)</u></u>

**25 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US\$3,748,000 (2005: US\$1,235,000).

**26 EARNINGS PER SHARE**

(a) **Basic**

Basic earnings (loss) per share is calculated by dividing the profit (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	<b>2006</b>	<b>2005</b>
Profit (loss) attributable to equity holders of the Company (US\$'000)	<u>6,366</u>	<u>(6,842)</u>
Weighted average number of ordinary shares in issue ('000)	<u>2,701,158</u>	<u>2,646,935</u>
Basic earnings (loss) per share (US cent per share)	<u><u>0.24</u></u>	<u><u>(0.26)</u></u>

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only two categories of dilutive potential ordinary shares: shares to be issued under the Equity Incentive Plan (“EIP”) and Share Options Scheme (“SOS”) (Note 32). The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company’s shares) based on the monetary value of the subscription rights attached to outstanding shares/share options under EIP and SOS. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the right of subscription of shares/share options.

	<b>2006</b>
Profit attributable to equity holders of the Company (US\$’000)	<u>6,366</u>
Weighted average number of ordinary shares in issue (’000)	2,701,158
Adjustments for Equity Incentive Plan (’000)	36,454
Adjustments for Share Option Scheme (’000)	<u>1,099</u>
Weighted average number of ordinary shares for diluted earnings per share (’000)	<u>2,738,711</u>
Diluted earnings per share (US cent per share)	<u><u>0.23</u></u>

No diluted loss per share for 2005 has been presented as the potential ordinary shares resulting from the Equity Incentive Plan were anti-dilutive.

**27 PROFIT APPROPRIATIONS****(a) Dividends**

The directors do not recommend the payment of a dividend for the year ended 31 December 2006 and 2005.

	<b>2006</b>	<b>2005</b>
	<i>US\$’000</i>	<i>US\$’000</i>
Final, paid	<u>—</u>	<u>1,705</u>

**(b) Statutory reserve funds**

The laws and regulations of the PRC require CSMC Technologies Fab 1 Co., Ltd. (“Fab 1”) and CSMC Technologies Fab 2 Co., Ltd. (“Fab 2”), to provide for certain statutory funds which are appropriated from profit for the year (based on its statutory accounts) after offsetting any prior years’ losses but before dividend distribution.

According to the relevant laws and regulations of the PRC, Fab 1 and Fab 2, being a wholly-owned foreign enterprise, is required to provide for (i) “reserve fund” and (ii) “staff and workers, bonus and welfare fund”. It is required to allocate at least 10% of its net profit after tax to the “reserve fund” until the balance of such fund has reached 50% of its registered capital while the appropriation to the “staff and workers’ bonus and welfare fund” is at the discretion of Fab 1 and Fab 2’s board of directors.

These funds are created for specific purposes. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for collective welfare of the subsidiaries' employees and assets acquired through this fund shall not be taken as Fab 1 and Fab 2's assets.

Under generally accepted accounting principles in Hong Kong, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund has been accounted for as a liability of the Group.

As of 31 December 2006, the Board of Directors has not approved any appropriation of "reserve fund" and "staff and workers' bonus and welfare fund" for Fab 1 for year 2006. No appropriation has been made for Fab 2 for year 2006 as Fab 2 has incurred a loss during the year. No appropriation had been made for the year ended 31 December 2005 as Fab 1 had incurred a loss during the year.

## 28 CASH GENERATED FROM OPERATIONS

### (a) Cash generated from operations

	2006	2005
	<i>US\$'000</i>	<i>US\$'000</i>
Profit (loss) before income tax	7,487	(7,208)
Adjustments for:		
(Reversal of provision) provision for doubtful receivables	(10)	1,185
Write down inventories to net realizable value	2,002	525
Depreciation of property, plant and equipment ( <i>Note 7</i> )	22,633	22,559
Amortization of intangible assets ( <i>Note 8</i> )	630	277
(Profit) loss on disposal of property, plant and equipment	(529)	22
Impairment of property, plant and equipment ( <i>Note 7</i> )	1,820	48
Interest expenses ( <i>Note 23</i> )	3,531	1,616
Interest income from bank deposits ( <i>Note 23</i> )	(339)	(172)
Impairment of goodwill ( <i>Note 8</i> )	—	211
Amortization of prepaid operating lease payment ( <i>Note 6</i> )	12	13
Costs of equity incentive plan and share option scheme ( <i>Note 22</i> )	2,488	1,453
	<u>39,725</u>	<u>20,529</u>
Change in working capital changes		
Decrease (increase) in prepaid expenses	215	(11)
Increase in inventories	(11,360)	(1,844)
Decrease (increase) in restricted bank deposits	328	(981)
Increase in trade and other receivables	(789)	(535)
Increase in trade and other payables	3,874	3,763
	<u>31,993</u>	<u>20,921</u>
Cash generated from operations	<u>31,993</u>	<u>20,921</u>

### (b) Property, plant and equipment and intangible assets

During the year, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of US\$36,510,000 (*Note 7*) and US\$5,028,000 (*Note 8*) respectively and of which the payments of US\$4,664,000 for property, plant and equipment and US\$4,468,000 for intangible assets were satisfied by means of long-term payable over a period of 10 to 12 years. Cash payments of US\$31,846,000 and US\$560,000 were made to purchase property, plant and equipment and intangible assets respectively.

## 29 COMMITMENTS — GROUP

## (a) Capital commitments

As at 31 December 2006, the Group had the following significant capital commitments which were not provided for in the consolidated balance sheet of the Group:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Contracted but not provided for:		
— Acquisition of property, plant and equipment	49,216	4,588
— Acquisition of information technology system	498	929
Authorized but not contracted for:		
— Acquisition of property, plant and equipment	50,463	211,597
— Acquisition of information technology system	<u>1,372</u>	<u>3,235</u>
	<u>101,549</u>	<u>220,349</u>

The Group leases various offices, factory premises and machinery under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Office and factory premises and machinery		
— No later than 1 year	1,997	1,519
— Later than 1 year but no later than 5 years	7,359	4,732
— Later than 5 years	<u>1,323</u>	<u>—</u>
	<u>10,679</u>	<u>6,251</u>

## 30 BANKING FACILITIES

As at year end, the Group had aggregate banking facilities as follows:

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Loan facilities	163,329	147,848
Letters of credit	<u>11,291</u>	<u>5,642</u>
Total facilities	174,620	153,490
Less: amount utilised		
Loan facilities	(42,785)	(42,152)
Letters of credit	<u>(2,254)</u>	<u>(2,172)</u>
Unutilised facilities	<u><u>129,581</u></u>	<u><u>109,166</u></u>

As at 31 December 2006, the utilized letters of credit facilities were secured by certain of the Group's pledged deposits amounting to approximately US\$194,000 (2005: approximately US\$503,000) (Note 12).

## 31 RELATED PARTY TRANSACTIONS

## (a) Name and relationship

Name	Relationship
China Resources Logic Limited ("CR Logic")*	Holding company
China Resources Microelectronics (Holdings) Limited	Subsidiary of CR Logic
Wuxi China Resources Microelectronics Co., Ltd ("Wuxi CR")	Subsidiary of CR Logic
Wuxi China Resources Semico Co., Ltd. ("Wuxi CR Semico")	Subsidiary of CR Logic
Wuxi Huajing Multi Service Co., Ltd.	Subsidiary of CR Logic
CR Powtech (Shanghai) Limited ("CR Powtech")	Subsidiary of CR Logic
China Resources Semiconductor Company Limited ("HK Semico")	Subsidiary of CR Logic
Wuxi China Resources Huajing Microelectronics Co., Ltd. ("Wuxi Huajing")	Subsidiary of CR Logic
Wuxi CR Semiconductor Wafers & Chips Ltd. ("CSWC")	Subsidiary of CR Logic
Shenzhen China Resources Semico Co., Ltd. ("Shenzhen CR Semico")	Subsidiary of CR Logic
Central Semiconductor Manufacturing Corporation ("CSMC Cayman")	Under significant influence of certain directors of the Company
Central Semiconductor Manufacturing Co., Ltd. ("CSMC-HK")	Subsidiary of CSMC Cayman
Wiston Management Limited ("Wiston")	Controlled by certain directors of the Company
IPCore Technologies Corporation ("IPCore")**	Under significant influence of a director and shareholder of the Company
IPCore Technologies (Shanghai) Co., Ltd. ("IPCore SH")**	Subsidiary of IPCore



\* Became the holding company with 72.9% equity interest of the Company since 12 July 2006. (23.65% as of 31 December 2005).

\*\* Ceased to be related parties since February 2006.

(b) **Related party transactions**

During the year ended 31 December 2006, the Group had the following significant transactions with related parties. Sales, purchases and other transactions with the respective related parties are negotiated in the normal course of business with margin with reference to the transactions entered with non-related parties.

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
a) Sales of goods to:		
— Subsidiaries of CR Logic	15,412	12,443
— IPCore SH	—	3,221
— IPCore	—	3,136
	<u>15,412</u>	<u>18,800</u>
(b) Rental, utilities and other services fees paid to the subsidiaries of CR Logic	<u>14,771</u>	<u>13,295</u>
(c) Purchase from the subsidiaries of CR Logic	<u>34</u>	<u>24</u>
(d) Consultancy fee paid to Wiston	<u>385</u>	<u>234</u>
(e) Design and technical service fees paid to IPCore	<u>—</u>	<u>666</u>

Key management compensation

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Salary and other short term employee benefits	671	599
Share-based payments	<u>321</u>	<u>212</u>
	<u>992</u>	<u>811</u>

(c) **Related party balances**

As at 31 December 2006, the Group and the Company had the following significant balances with related parties:

**Group**

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Receivables from related parties (Note 11):</b>		
(i) Trade		
— Subsidiaries of CR Logic	2,448	2,799
— IPCore SH	—	737
— IPCore	—	270
	<u>2,448</u>	<u>3,806</u>

**Group**

	<b>2006</b>	<b>2005</b>
	<i>US\$'000</i>	<i>US\$'000</i>
(ii) Non-trade		
— CSMC Cayman	—	203
— CSMC HK	—	5
— IPCore SH	—	4
— IPCore	—	4
— Subsidiary of CR Logic	1	1
	<u>1</u>	<u>217</u>

**Payables to related parties (Note 18):**

(i) Trade		
— Subsidiary of CR Logic	1,143	1,183
	<u>1,143</u>	<u>1,183</u>
(ii) Non-trade		
— CSMC Cayman	—	476
— Subsidiary of CR Logic	122	111
— IPCore	—	36
— Wiston	24	23
— IPCore SH	—	294
— CSMC HK	7	18
	<u>153</u>	<u>958</u>

Company	2006 US\$'000	2005 US\$'000
<b>Due from related parties (Note 11)</b>		
— Subsidiaries of the Company	<u>111,939</u>	<u>113,416</u>
<b>Due to related parties (Note 18)</b>		
— CSMC Cayman	—	474
— Subsidiaries of the Company	109	73
— IPCore SH	—	19
— Wiston	<u>24</u>	<u>23</u>
	<u>133</u>	<u>589</u>

As at 31 December 2006, all balances with related parties were unsecured, non-interest bearing and without fixed repayment terms.

## 32 SHARE-BASED COMPENSATION

### (a) Equity Incentive Plan

The Company, as approved by its shareholders by way of ordinary resolution, adopted an “Equity Incentive Plan” (the “Plan”) on 8 May 2004. Under the Plan the Company may allocate the Company’s shares to full time employees of the Company and its subsidiaries, and the directors (including executive directors, non-executive directors and independent non-executive directors) (the “participants”). The objective of the Plan is to share the pride of ownership among the executives and employees of the Group and to reward their performance and contribution. The term of the Plan is 10 years from the date of adoption.

Under the Plan, the total number of shares which may fall to be issued must not exceed 15% of the shares of the Company in issue from time to time and, when aggregated with the number of shares which may be issued under any other employee incentive schemes (if any), must not exceed 30% of the shares of the Company in issue from time to time. Further, the total number of shares which may be issued pursuant to the Plan in any financial year must not exceed 1% of the total number of shares in issue at the close of business on the last business day of the preceding financial year.

In general, the shares allocated under the Plan will vest in equal portions over a period of four years commencing from the date of the grant or in such other proportions as the Remuneration Committee may otherwise specify at the time of the allocation of shares at intervals of every twelve calendar months to the participants. Shares allocated will only be issued once they vest and formal applications from the respective participants are received. An administration fee of US\$0.01 per share is payable by the participant upon application. Such vested and applied for shares will be issued to the participants as bonus shares.

The fair value of the shares granted under the Plan during the year determined using the binomial model were HK\$0.30 (third grant) and HK\$0.33 (fourth grant). The significant inputs into the model were share price at the grant date of HK\$0.38 (third grant) and HK\$0.41 (fourth grant) (2005: HK\$0.41 (first grant) and HK\$0.36 (second grant)), exercise price of HK\$0.078, expected dividend pay out rate of 0% (2005: 0%), annual risk-free interest rate of within the range of 1.08% to 1.99% (2005: 1.08% to 1.99%) and volatility rate of 27.7% (2005: 27.7%). The volatility is measured based on the volatility return on Hang Seng Index for the past ten years.

Details of the shares under the Plan are as follows:

	Outstanding at 31 December 2005 ‘000	Allocated during the year ‘000	Exercised during the year ‘000	Cancelled during the year ‘000	Outstanding at 31 December 2006 ‘000	Exercise price (in HK\$)	Grant date	Exercisable from	Exercisable until
<b>Directors</b>									
— Peter Chen	4,665	—	2,335	—	2,330	0.078	1 October 2003	1 October 2004	1 October 2007
— Robert Lee	3,332	—	1,667	—	1,665	0.078	1 October 2003	1 October 2004	1 October 2007
— Gene Tsai	2,665	—	1,335	—	1,330	0.078	1 October 2003	1 October 2004	1 October 2007
<b>Managements and employees</b>									
	52,633	—	20,998	5,486	26,149	0.078	1 October 2003	1 October 2004	1 October 2007
	19,124	—	8,066	4,321	6,737	0.078	26 January 2005	26 January 2006	26 January 2009
	—	12,300	6,668	—	5,632	0.078	2 January 2006	2 January 2007	2 January 2010
	—	15,599	10,896	2,663	2,040	0.078	16 May 2006	16 May 2007	16 May 2010
Total	<u>82,419</u>	<u>27,899</u>	<u>51,965</u>	<u>12,470</u>	<u>45,883</u>				

(b) **Share Options Scheme**

The Company, as approved by its shareholders by way of ordinary resolution, adopted a “Share Option Scheme” (the “Scheme”) on 27 May 2005. Under the Scheme, the Company may issue options to the directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries and any advisors, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of the Company and its subsidiaries (the “Scheme participants”). The objective of the Scheme is to provide the Scheme participants with the opportunity to acquire proprietary interests in the Company and to encourage the Scheme participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The term of the Scheme is 10 years from the date of adoption.

The exercise price is determined by the Remuneration Committee, a committee of the Board comprising two independent non-executive Directors and a non-executive Director as established by the Board, from time to time, at its absolute discretion and notified to the participant in the offer and shall not be less than the higher of:

- the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange of Hong Kong Limited on the date of grant;
- the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant; and
- the nominal value of a Share on the date of grant.

Based on the approval of Remuneration Committee, the share options allocated under the Scheme during the year will vest in equal portions over a period of four years commencing from the commencement of the “Vesting Date” as approved by the Remuneration Committee.

The fair value of the options granted during the year determined using the binomial model were HK\$0.0414 (first grant). The significant inputs into the model were share price at the grant date of HK\$0.36 (first grant), expected dividend paid out rate of 0%, annual risk-free interest rate of within the range of 1.08% to 1.99% and volatility rate of 27.7%. The volatility is measured based on the volatility return on Hang Seng Index for the past ten years.

No option was granted under the Scheme during the year ended 31 December 2005.

Movement in the number of share options outstanding and related exercise price are as follows:

	At 1 January 2006 '000	Granted during the year '000	Exercised during the year '000	Forfeited/ lapsed during the year '000	At 31 December 2006 '000	Exercise price (in HK\$)	Grant date	Exercisable from	Exercisable until
Managements and employees	—	21,291	—	—	21,291	0.36	8 September 2006	8 September 2007	8 September 2011
Total	—	21,291	—	—	21,291				

### 33 PENSIONS — DEFINED CONTRIBUTION PLANS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (“the MPF Scheme”), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong dollar 1,000 (equivalent to approximately US\$128) per person per month and thereafter contributions are voluntary. When employees leave before the funds vest, contributions from the Group are forfeited and available to reduce future contributions of the Group. There were no forfeited contributions available at the year end to reduce future contributions (2005: Nil).

Pursuant to PRC laws and regulations, contributions to the basic pension insurance for local staff of the Company’s subsidiaries operating in the PRC are made monthly to a government agency based on 29% (2005: 29%) of the standard salary set by the provincial government, of which 20% (2005: 22%) is borne by the subsidiaries and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

Contribution totalling US\$65,000 (2005: US\$52,000) were payable to the funds at year end.

### 34 CONTINGENT LIABILITIES

During the year, the Group has provided corporate guarantees to a third party bank for the down payment of loans, in addition to the pledged bank deposit as set out in Note 12, of its employees amounting to approximately US\$515,000 (2005: US\$340,000). Management anticipate that no material liabilities will arise from the above guarantees.

III. FINANCIAL INFORMATION OF CSMC FOR THE NINE MONTHS ENDED 30  
SEPTEMBER 2007

CONSOLIDATED INCOME STATEMENT

	Nine months ended	
	30 September 2006 <i>US\$'000</i> <i>(Unaudited)</i>	30 September 2007 <i>US\$'000</i> <i>(Unaudited)</i>
<b>Revenue</b>	83,759	103,505
Cost of goods sold	<u>(65,344)</u>	<u>(75,522)</u>
<b>Gross profit</b>	18,415	27,983
Selling and marketing costs	(2,402)	(2,108)
Administrative expenses	(7,235)	(8,338)
Research and development expenses	(1,831)	(3,059)
Other gains (expenses) — net	<u>(215)</u>	<u>793</u>
<b>Operating profit</b>	6,732	15,271
Finance income	243	161
Finance costs	<u>(2,655)</u>	<u>(2,656)</u>
Finance costs — net	(2,412)	(2,495)
<b>Profit before income tax</b>	4,320	12,776
Income tax (expenses) recovery	<u>(776)</u>	<u>(3,257)</u>
<b>Profit for the year</b>	<u>3,544</u>	<u>9,519</u>
Attributable to:		
Equity holders of the Company	<u>3,544</u>	<u>9,519</u>
<b>Earnings per share for the profit attributable to the equity holders of the Company during the year</b>		
Basic	<u>US cent 0.13</u>	<u>US cent 0.35</u>
Diluted	<u>US cent 0.13</u>	<u>US cent 0.34</u>
<b>Dividends</b>	<u>—</u>	<u>—</u>

## CONSOLIDATED BALANCE SHEET

	As at 31 December 2006 <i>US\$'000</i> <i>(Audited)</i>	As at 30 September 2007 <i>US\$'000</i> <i>(Unaudited)</i>
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Land use rights	561	573
Property, plant and equipment	175,310	198,384
Intangible assets	6,976	7,041
Deferred income tax assets	<u>717</u>	<u>700</u>
	<u>183,564</u>	<u>206,698</u>
<b>Current Assets</b>		
Inventories	27,230	29,321
Trade and other receivables	20,403	27,229
Restricted bank deposits	982	721
Cash and cash equivalents	<u>21,101</u>	<u>18,277</u>
	<u>69,716</u>	<u>75,548</u>
<b>Total Assets</b>	<u><u>253,280</u></u>	<u><u>282,246</u></u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Capital and Reserves Ordinary shares	34,947	35,081
Share premium	76,892	77,303
Other reserves	50,977	57,925
Retained earnings	<u>8,319</u>	<u>17,838</u>
<b>Total Equity</b>	<u><u>171,135</u></u>	<u><u>188,147</u></u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Long-term payables	8,488	8,467
Borrowings	<u>7,000</u>	<u>7,000</u>
	<u><u>15,488</u></u>	<u><u>15,467</u></u>

	As at 31 December 2006 <i>US\$'000</i> <i>(Audited)</i>	As at 30 September 2007 <i>US\$'000</i> <i>(Unaudited)</i>
<b>Current liabilities</b>		
Trade and other payables	30,229	38,046
Current income tax liabilities	643	1,332
Borrowings	<u>35,785</u>	<u>39,254</u>
	<u>66,657</u>	<u>78,632</u>
<b>Total liabilities</b>	<u>82,145</u>	<u>94,099</u>
<b>Total equity and liabilities</b>	<u>253,280</u>	<u>282,246</u>
<b>Net current assets (liabilities)</b>	<u>3,059</u>	<u>(3,084)</u>
<b>Total assets less current liabilities</b>	<u>186,623</u>	<u>203,614</u>



**IV. INDEBTEDNESS****Borrowings**

The borrowings of the CSMC group, which are repayable within one year as at 30th November, 2007 are as follows:

	<i>(US\$'000)</i>
Short-term bank borrowings	
— Secured	9,800
— Unsecured	<u>51,397</u>
Total bank borrowings	<u>61,197</u>
<b>Other long-term payable</b>	<u>8,503</u>
<b>Contingent liabilities</b>	
— Guarantees for employee housing loans	<u>510</u>
<b>Pledge of assets</b>	
— Bank deposits	210
— Property, plant and equipment and land use rights	<u>2,717</u>
	<u>2,927</u>

Save as disclosed above, the CSMC group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings of the CSMC group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30th November, 2007.

**Borrowings**

The borrowings of the CSMC group after acquisition of CR Logic Semiconductor group as at 30th November, 2007 are as follows:

	<b>CR Logic Semiconductor group (US\$'000)</b>	<b>CSMC group (US\$'000)</b>	<b>Total (US\$'000)</b>
Short-term bank borrowings			
— Secured	—	9,800	9,800
— Unsecured	154,775	51,397	206,172
Bills receivables discounted with recourse	<u>8,276</u>	<u>—</u>	<u>8,276</u>
Total bank borrowings	<u>163,051</u>	<u>61,197</u>	<u>224,248</u>
Amounts due to the remaining CR Logic group	<u>31,591</u>	<u>—</u>	<u>31,591</u>
	<u>194,642</u>	<u>61,197</u>	<u>255,839</u>
<b>Other long-term payable</b>	<u>—</u>	<u>8,503</u>	<u>8,503</u>
<b>Contingent liabilities</b>			
— Guarantees for employee housing loans	<u>—</u>	<u>510</u>	<u>510</u>
<b>Pledge of assets</b>			
— Bank deposits	—	210	210
— Property, plant and equipment and land use rights	<u>—</u>	<u>2,717</u>	<u>2,717</u>
	<u>—</u>	<u>2,927</u>	<u>2,927</u>
Borrowings repayable:			
On demand or within one year	43,937	61,197	105,134
More than two years, but not exceeding five years	<u>150,705</u>	<u>—</u>	<u>150,705</u>
	<u>194,642</u>	<u>61,197</u>	<u>255,839</u>

*Note: Original currency for the borrowings of the CR Logic Semiconductor group is in Hong Kong dollar, which have been translated to US dollar using the exchange rate as at 30th November, 2007 of US\$1.00 to HK\$7.79.*

**V. WORKING CAPITAL**

Taking into account the financial resources of the enlarged CSMC group, comprising the CSMC group and the CR Logic Semiconductor group combined, including internally generated funds and banking facilities available to the enlarged CSMC group on completion of acquisition of CR Logic Semiconductor group, the directors of CSMC, after due and careful consideration, are of the opinion that the enlarged CSMC group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this composite circular.

**VI. MATERIAL ADVERSE CHANGE**

The directors of CSMC confirm that there has not been any material adverse change in the financial or trading position or prospects of the CSMC group since 31st December, 2006, which is the period end date of the latest published audited consolidated financial statements of the CSMC group.

**VII. MANAGEMENT DISCUSSION AND ANALYSIS OF THE CSMC GROUP**

The following is the management discussion and analysis extracted from the annual reports of CSMC for the three years ended 31st December, 2006.

**Management discussion and analysis for the year ended 31 December 2004*****Business and Financial Review***

The year 2004 represented the fifth consecutive year of record turnover and profitability for CSMC. Despite a softening of the worldwide market beginning in the fourth quarter of 2004, the CSMC group's turnover for 2004 grew by 89.8% to US\$79.86 million, as compared with US\$42.08 million in 2003. The increase in turnover was primarily due to the increase in CSMC Fab 1 capacity from 26,700 wpm at the end of 2003 to 59,200 wpm by 31st December, 2004. Net profit in 2004 recorded a 153.3% growth to US\$10.17 million. Net profit margin increased from 9.5% in 2003 to 12.7% in 2004. The growth in turnover and net profit was mainly attributable to the increased capacity from 26,700 wpm at the end of 2003 to 59,200 wpm by 31st December, 2004, and higher sales volume achieved from both PRC and overseas markets.

For the year ended 31st December, 2004, the CSMC group recorded a turnover of US\$79.86 million, an increase of 89.8% from US\$42.08 million in 2003. The increase in turnover was primarily due to the increase in CSMC Fab 1 capacity from 26,700 wpm at the end of 2003 to 59,200 wpm by 31st December, 2004. Gross profit increased by 138% from US\$9.60 million in 2003 to US\$22.85 million in 2004. Gross margin increased from 22.8% in 2003 to 28.6% in 2004. The increase in gross margin was primarily due to the expansion of capacity which resulted in a significant decrease in fixed costs per unit, such as depreciation, utilities, rent and labor costs. Net profit for the year ended 31st December, 2004 increased to US\$10.17 million from US\$4.02 million in 2003, representing an increase of 153.3%. Net profit margins were 12.7% in 2004 and 9.5% in 2003. Basic earnings per share for the year ended 31st December, 2004 was US\$0.50 cent, compared to US\$0.35 cent for the preceding year.

The CSMC group's business in the PRC contributed 58.6% to the total revenue of the CSMC group in 2004, which represented an increase of 45.1% over the year 2003. The CSMC group's business from overseas market increased by 237.2% to US\$33.01 million in 2004 from US\$9.79 million in 2003.

#### *Liquidity and Capital Resources*

At 31st December, 2004, the CSMC group had total borrowing of US\$17,500,000, compared to US\$20,350,000 as at 31st December, 2003. As of 31st December, 2004, the CSMC group's short-term bank loans bore interest rates ranging from 3.0% to 3.6% per annum.

The CSMC group received payments in currencies including Renminbi, US dollars and Hong Kong dollars, and it incurred costs and expenses in currencies including US dollars, Renminbi, Japanese Yen, Hong Kong dollars and Euros. The management believed that, considering the working capital position of the CSMC group, the CSMC group had sufficient foreign exchange to meet its foreign exchange liabilities as they become due.

For the year ended 31st December, 2004, the CSMC group's sources of liquidity mainly included net proceeds from the initial public offer and issue of warrants, bank loans and cash flow from operating activities, which amounted to US\$55.13 million, US\$28.33 million and US\$19.97 million, respectively. The CSMC group's cash has principally been applied to fund capital expenditures related to the purchase of machinery and equipment for CSMC Fab 1 and construction of CSMC Fab 2 and repayment of bank loans, which amounted to US\$77.77 million and US\$33.48 million, respectively.

In accordance with IFRS the shareholders' funds to liabilities ratio of the CSMC group in 2004 was 4.16 times compared with 2.28 times in 2003.

#### *Capital Expenditures*

The CSMC group required capital to build, expand, upgrade and maintain its production facilities and equipment. The CSMC group made capital expenditure of US\$77.77 million in 2004. The management estimated that the cost of the reconditioned equipment and its installation in CSMC Fab 1 would amount to approximately US\$112.38 million for 2003 through 2005. Of this amount US\$106.33 was spent from 2003 to 2005.

In addition, the management estimated the cost of the construction of CSMC Fab 2 building and facilities would be approximately US\$115.76 million. Of this amount, approximately US\$18.06 million was spent in 2004. Both the capital expenditure for CSMC Fab 1 and CSMC Fab 2 described above have been or will be funded from the proceeds of share issuances, bank loans and internally generated cash flow from operations. The CSMC group will continue to implement its prudent policy on capital expenditures and further optimise the allocation of its capital expenditures.

*Commitments and Contingent Liabilities*

As at 31st December, 2004, the CSMC group had capital commitments of US\$142.63 million, of which US\$8.74 million was contracted but not provided for the purchase of equipment for CSMC Fab 1, US\$20.92 million was authorised but not contracted for the purchase of equipment for CSMC Fab 1, US\$16.81 million was contracted but not provided for the purchase of building and facilities of Fab 2 and US\$96.17 million was authorised but not contracted for the purchase of building and facilities of Fab 2. As at 31st December, 2004, the CSMC group had lease commitments of US\$6.65 million for factory promises and machinery, which all were due within five years. The CSMC group did not have any other commitment or contingent liabilities.

*Employees*

The management believes that the CSMC's employees are its greatest asset. The CSMC group had 1,337 employees as at 31 December 2004. The CSMC group maintained a good working relationship with employees over the year. On 8 May 2004, an equity incentive plan was adopted by the CSMC group to motivate and retain employees. In 2004, the CSMC group remunerated its employees US\$10.04 million as wages, salaries, pension cost and shares.

The CSMC group developed continuous training programs for its employees at different levels. In 2004, it conducted managerial and technical training programs totaling 22,575 hours, with an average of 18.5 training hours per employee. Starting from 2004, it also worked with outside training providers to introduce 37 new technical subjects into the CSMC group's training programs from 2004 through 2005.

*Foreign Exchange Risk Management*

The CSMC group's operational cash flow was primarily dominated in Renminbi and US dollars. The CSMC group's borrowings were also dominated in Renminbi and US dollars. The Directors of CSMC believe that, considering the working capital position of the CSMC group, there were no significant exposure to foreign exchange risk. It is the CSMC group's policy not to enter in to derivative transactions for speculative purposes.

**Management discussion and analysis for the year ended 31st December, 2005***Business and Financial Review*

The year 2005 represented the first year of reporting a net loss for the CSMC group after five consecutively profitable years. The CSMC group experienced a difficult year in 2005 due to the down cycling of the global semiconductor market. This down trend, starting from the fourth quarter of 2004, came at the height of the CSMC group's capacity expansion. The average capacity utilisation rate of the CSMC group was down to 63% in 2005 from 87% in 2004. The CSMC group experienced substantial pressure to fill the available capacity with much lower average selling price ("ASP") products.

As a result, the CSMC group's consolidated sales decreased by 2.2% to US\$78.10 million in 2005 from US\$79.86 million in 2004. Earning before interest, tax, depreciation and amortisation ("EBITDA") decreased by 37.2% to US\$17.24 million in 2005 from US\$27.46 million in 2004 which was mainly due to the decrease of ASP with an effect of approximately US\$3.96 million, as well as the increase of utility cost of approximately US\$2.74 million. The refund of VAT decreased to US\$0.75 million in 2005 from US\$3.75 million in 2004, which also affected the CSMC group's EBITDA. The CSMC group incurred a net loss of US\$6.84 million in 2005, compared with a net profit of US\$10.17 million in 2004.

The CSMC group's business in the PRC contributed 67.8% to the total revenue of the CSMC group in 2005, which represented an increase of 13.1% over the year 2004. The CSMC group's business from overseas market declined 23.9% from year 2005 as a result of market downturn and inventory build-up by overseas customers in the first half of year 2005.

#### *Liquidity and Capital Resources*

As at 31st December, 2005, the CSMC group had total borrowing amounted to US\$42,152,000, representing an increase of US\$24,652,000 as at 31 December 2004. As at 31 December 2005, the CSMC group's short-term bank loans bore interest rates ranging from 4.41% to 6.32% per annum. Long-term bank loans bore interest rates ranging from 5.58% to 5.62% per annum. The secured portion of US\$12.23 million was secured by certain of the CSMC group's equipments and land use right with the net book value of approximately US\$11.99 million.

The CSMC group received payments in currencies including Renminbi, US dollars and Hong Kong dollars, and it incurred costs and expenses in currencies including US dollars, Rmb, Japanese Yen, Hong Kong dollars and Euros. The management believed that, considering the working capital position of the CSMC group, the CSMC group had sufficient foreign exchange to meet its foreign exchange liabilities as they become due.

For the year ended 31st December, 2005, the CSMC group's sources of liquidity mainly included net bank borrowings and cashflow from operating activities, which amounted to US\$24.90 million and US\$18.03 million, respectively. The CSMC group's cash was principally applied to fund capital expenditures related to the purchase of machinery and equipment for CSMC Fab 1 amounting to US\$20.34 million, construction of CSMC Fab 2 shell amounting to US\$20.00 million and purchase of intangible assets of US\$0.52 million as well as dividend payment of approximately US\$1.71 million.

As at 31st December, 2005, the gearing ratio, calculated based on total liabilities divided by total shareholders' equity was 42.77%, compared with 24.37% in 2004.

#### *Capital Expenditures*

The CSMC group required capital to build, expand, upgrade and maintain its production facilities and equipment. The CSMC group incurred capital expenditure of US\$40.86 million in

2005, of which US\$20.00 million was spent on construction of CSMC Fab 2 shell, US\$17.10 million was spent on CSMC Fab 1's technology migration to 0.35 micron and paying for the remainder of prior year's capacity expansion, and the remaining US\$3.76 million was spent on other capital expenditures, such as office buildings and IT implementation systems, etc.

The CSMC group slowed down the construction of supporting facilities of CSMC Fab 2 in line with its overall plan to look for strategic partners. The management estimates the cost of the construction of the CSMC Fab 2 building and facilities to be US\$115.76 million. Of this amount, US\$38.06 million was spent in 2004 and 2005. Both the capital expenditure for CSMC Fab 1 and CSMC Fab 2 described above were or will be funded from the proceeds of share issuances, bank loans and internally generated cash inflow from operations.

#### ***Commitments and Contingent Liabilities***

As at 31st December, 2005, the CSMC group had capital commitments of US\$226.56 million, mainly for purchase of plant and equipments. As at 31st December, 2005, the CSMC group had lease commitments of US\$6.25 million for factory premises and office, which were all due within five years.

As at 31st December, 2005, Fab 1 had a staff retention program which required CSMC Fab 1 to provide corporate guarantee to a third party bank for the down payment of mortgage loans of its key employees amounting to approximately US\$340,000. Save as disclosed above, the CSMC group did not have any other commitment or contingent liabilities.

#### ***Employees***

The management believed that the CSMC's employees are its greatest asset. The CSMC group had 1,436 employees as at 31st December, 2005, an increase of 99 employees compared with 1,337 at end of 2004. The CSMC group maintained a good working relationship with employees over the year. On 27th May, 2005, the CSMC group adopted a new share option scheme, in addition to the equity incentive plan, to motivate and retain employees. In 2005, the CSMC group remunerated its employees US\$10.86 million as wages, salaries, pension cost and shares.

The CSMC group developed continuous training programs for its employees at different levels. In 2005, it conducted managerial and technical training programs totaling 29,119 hours, with an average of 21 training hours per employee. Since 2005, it also worked with external consultants to introduce 35 new technical subjects into the CSMC group's training programs.

#### ***Foreign Exchange Risk Management***

The CSMC group's operational cash flow was primarily dominated in Renminbi and US dollars. The CSMC group's borrowings were also dominated in Renminbi and US dollars. On 31st December, 2005, The CSMC group did not expect significant exposure to foreign exchange fluctuations in this regard, considering the working capital position of the CSMC group. It is the CSMC group's policy not to enter in to derivative transactions for speculative purposes.

***Charge against Assets***

As at 31st December, 2005, the CSMC group's certain equipment and land use right with net book value of US\$11.99 million (2004: nil) were pledged to banks to secure certain bank loans of US\$12.23 million.

***Significant Investment, Acquisitions and Disposals of Subsidiaries and associates***

The CSMC group continued to explore opportunity to further expand its customer base and operational capacity. On the 19th October, 2005, the CSMC group entered into a cooperation agreement with IMECAS for certain premises, facilities, equipment, technologies and services in relation to the manufacturing of wafers. The CSMC group would inject additional machinery and equipment, and upgrade equipment provided by IMECAS in addition to providing management expertise to establish a new fab in Beijing with a capacity reaching 20,000 wpm by 2007.

**Management discussion and analysis for the year ended 31st December, 2006*****Business and Financial Review***

In 2006, the CSMC group took the advantage of growing global semiconductor market and benefited from the prior capacity expansion and process technology mix evolution. The CSMC group's consolidated revenue increased by 46.4% to US\$114.30 million in 2006 from US\$78.10 million in 2005. EBITDA increased by 98.8% to US\$34.28 million in 2006 from US\$17.24 million in 2005. The increase of both revenue and EBITDA was primarily due to the continuous improvement in capacity utilisation rate and ASP. The CSMC group recorded a net profit of US\$6.37 million in 2006 compared with a net loss of US\$6.84 million in 2005. In 2006, the average capacity utilisation rate of the CSMC group was up to 86% as well as the ASP has increased to US\$175 per wafer from US\$168 per wafer in 2005.

The CSMC group's business in the PRC contributed 67.7% to the consolidated revenue of the Group in 2006. The revenue from the PRC increased by 46.1% to US\$77.41 million in 2006 from US\$52.98 million in 2005. The CSMC group's business from overseas market increased by 46.9% to US\$36.89 million in 2006 from US\$25.12 million in 2005, as a result of market recovery from the down cycling of the industry. The CSMC group adopted a strategy to diversify its customer base to avoid over-reliance on any single customer. The CSMC group's top five customers' contribution to the revenue decreased to 42.3% in 2006 from 68.0% in 2005.

By the end of 2006, the CSMC group's production capacity reached 67,200 wpm. Average capacity utilisation achieved 86% in 2006 compared to 63% in 2005.



*Liquidity and Capital Resources*

As at 31st December, 2006, the CSMC group has total borrowing of US\$42,785,000, representing a slight increase compared to the total borrowing of US\$42,152,000 as at 31st December, 2005. The secured portion of US\$15.31 million was secured by certain of the CSMC group's equipments and land use right with the net book value of approximately US\$25.65 million.

The CSMC group received payments in currencies including Renminbi, US dollars and Hong Kong dollars, and it incurred costs and expenses in currencies including US dollars, Renminbi, Japanese Yen, Hong Kong dollars and Euros. The management believed that, considering the working capital position of the CSMC group, the CSMC group had sufficient foreign exchange fundings to meet its foreign exchange liabilities as they become due.

For the year ended 31st December, 2006, the CSMC group's sources of liquidity mainly derived operating activities amounting to US\$28.44 million. The CSMC group's cash was principally applied to fund capital expenditures related to the purchase of machinery and equipment for CSMC Fab 1 amounting to US\$7.35 million, construction of CSMC Fab 2 amounting to US\$4.94 million, and fab construction and purchase of equipment and intangible assets for CSMC Fab 3 amounting to US\$20.12 million.

As at 31st December, 2006, the gearing ratio, calculated based on total liabilities divided by total shareholder's equity was 48.0%, compared with 42.8% as at 31st December, 2005.

*Capital Expenditures*

The CSMC group required capital to build, expand, upgrade and maintain its production facilities and equipment. The CSMC group incurred capital expenditure of US\$32.41 million in 2006, of which US\$7.35 million was spent on the purchase of machinery and equipment of CSMC Fab 1, US\$4.94 million was spent on construction of CSMC Fab 2, and US\$20.12 million was spent on the equipment and intangible assets purchase and fab construction of CSMC Fab 3. The management estimated the cost of the construction of CSMC Fab 2 building and facilities to be US\$115.76 million. Of this amount, US\$45.84 million was spent till 2006.

The capital expenditure described above have been or will be funded from the proceeds of share issuances, bank loans and internally generated cash inflow from operations. The CSMC group will continue to implement its prudent capital management policy and optimise the allocation of its capital resources.

***Commitments and Contingent Liabilities***

Capital commitments for 2006 amounted to US\$101.5 million (2005:220.3 million) mainly for acquisition of property, plant and equipment. The CSMC group leased various offices, factory premises and machinery under non-cancellable operating lease agreements with operating lease commitment of US\$ 10.6 million (2005:US\$6.2 million). As at 31st December, 2006, CSMC Fab 1 had a staff retention program which requires CSMC Fab 1 to provide corporate guarantee to a third party bank for the down payment of loans of its key employees amounting to approximately US\$515,000 (2005: US\$340,000). Save as disclosed above, the CSMC group did not have any other commitments or contingent liabilities.

***Employees***

The management believed that the CSMC's employees are its greatest asset. The CSMC group had 1,820 employees as at 31st December, 2006, an increase of 384 employees compared with 1,436 at end of 2005. The CSMC group maintained a good working relationship with employees over the year. In 2006, the CSMC group remunerated its employees US\$15.02 million as wages, salaries, pension cost, shares and options.

***Foreign Exchange Risk Management***

The CSMC group's operational cash flow was primarily dominated in Renminbi and US dollars. The CSMC group's borrowings were also dominated in Renminbi and US dollars. On 31st December, 2006, The CSMC group did not expect significant exposure to foreign exchange fluctuations in this regard, considering the working capital position of the CSMC group. It is the CSMC group's policy not to enter in to derivative transactions for speculative purposes.

***Charge against Assets***

As at 31st December, 2006, the CSMC group's certain equipment and land use right with net book value of US\$25.65 million were pledged to banks to secure certain bank loans of US\$15.31 million.

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**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP**

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**I.    UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE REMAINING CR LOGIC GROUP**

The accompanying unaudited pro forma financial information on the remaining CR Logic group, being the CR Logic group remaining upon completion of the proposed disposal of the CR Logic Semiconductor group to CSMC, the proposed dividend in specie by way of distribution by CR Logic of all its shares in CSMC and the proposed acquisition of Redland Concrete Limited (collectively referred to as the “Distribution and Acquisition”), comprising the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the remaining CR Logic group, has been prepared in accordance with rule 4.29 of the Listing Rules to illustrate the effects of the Distribution and Acquisition as if such transactions had been completed on the basis set out below.

The unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the remaining CR Logic group have been prepared based upon CR Logic’s audited consolidated balance sheet as at 31st December, 2006, the audited consolidated income statement and the audited consolidated cash flow statement for the year ended 31st December, 2006, as set out in Appendix II — Financial Information on CR Logic to this composite document, after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments for the Distribution and Acquisition that are (i) directly attributable to the Distribution and Acquisition and (ii) factually supportable, are summarized in the accompanying notes.

The unaudited pro forma financial information on the remaining CR Logic group has been prepared based on a number of assumptions, estimates and uncertainties and is for illustrative purposes only. In view of the foregoing and its hypothetical nature, it does not purport to describe the true picture of the actual financial position of the remaining CR Logic group that would have been attained had the Distribution and Acquisition been completed on 31st December, 2006 or the results and cash flows of the remaining CR Logic group that would have been attained had the Distribution and Acquisition been completed on 1st January, 2006. It does not purport to predict the future financial position, results or cash flows of the remaining CR Logic group.

The unaudited pro forma financial information on the remaining CR Logic group should be read in conjunction with the historical financial information of the CR Logic group set out in the Accountants’ Report on the CR Logic group contained in Appendix II to this composite document and other financial information included elsewhere in this composite document.

For the purpose of preparing the unaudited pro forma financial information of the remaining CR Logic group, the financial information of the CSMC group has been translated from US dollar into Hong Kong dollar at the exchange rate of US\$1.00 : HK\$7.8.



## II. Unaudited Pro Forma Consolidated Balance Sheet of the remaining CR Logic group at 31 December 2006

	Pro forma adjustments				Pro forma adjusted total before acquisition of Redland Concrete group HK\$ '000	Pro forma adjustments			Pro forma adjusted total HK\$ '000 Note 21
	CR Logic group HK\$ '000	CR Logic Semiconductor group HK\$ '000 Note 10	CSMC group HK\$ '000 Note 12	Other adjustments HK\$ '000 Notes		Redland Concrete group HK\$ '000 Note 13	Other adjustments HK\$ '000 Note 13	Pro forma adjusted total HK\$ '000 Note 21	
<b>Non-current Assets</b>									
Property, plant and equipment	4,217,639	(1,588,408)	(1,383,818)	(45,032)	1,200,381	226,017	—	1,426,398	
Investment properties	—	(50,090)	—	50,090	—	—	—	—	
Prepaid lease payments	172,559	(144,822)	(4,362)	(5,058)	18,317	—	—	18,317	
Technical know-how	53,663	(2,859)	(34,115)	—	16,689	—	—	16,689	
Investment in an associate	—	—	—	—	—	54	—	54	
Available-for-sale investments	10,105	(770)	—	—	9,335	1,702	—	11,037	
Goodwill	152,777	(13,908)	—	(10,152)	128,717	—	—	128,717	
Deferred tax assets	16,416	(4,355)	(5,578)	—	6,483	1,226	—	7,709	
Deposit for acquisition of property, plant and equipment	63,205	(63,205)	—	—	—	—	—	—	
	4,686,364	(1,868,417)	(1,427,873)	(10,152)	1,379,922	228,999	—	1,608,921	
<b>Current Assets</b>									
Inventories	1,068,568	(420,954)	(211,808)	10,533	446,339	2,518	—	448,857	
Debtors, deposits and prepayments	1,622,459	(663,953)	(151,941)	284	806,849	73,264	—	880,113	
Amounts due from group companies	—	(322,581)	(10)	322,591	—	20,000	—	20,000	
Amount due from an associate	—	—	—	—	—	24	—	24	
Amounts due from minority shareholders	2,164	—	—	—	2,164	—	—	2,164	
Tax recoverable	10,057	(4,881)	—	—	5,176	—	—	5,176	
Prepaid lease payments	4,625	(3,637)	—	—	988	—	—	988	
Pledged bank deposits	7,642	—	(7,642)	—	—	—	—	—	
Bank balances and cash	521,250	(135,130)	(164,135)	197,989	419,974	23,114	(217,758)	225,330	
	3,236,765	(1,551,136)	(535,536)	531,397	1,681,490	118,920	(217,758)	1,582,652	

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP

	Pro forma adjustments				Pro forma adjustments				Pro forma adjustments				
	CR Logic group HK\$'000	Semiconductor group HK\$'000	CSMC group HK\$'000	Other adjustments HK\$'000	Notes	Pro forma adjusted total before acquisition of Redland Concrete group HK\$'000	Redland Concrete group HK\$'000	Other adjustments HK\$'000	Pro forma adjusted total HK\$'000	Notes	Redland Concrete group HK\$'000	Other adjustments HK\$'000	Pro forma adjusted total HK\$'000
	Note 10	Note 12				Note 13	Note 13	Note 13	Note 21		Note 13	Note 13	Note 21
<b>Current Liabilities</b>													
Creditors and accrued charges	1,648,101	(842,564)	(227,193)	(9,592)	4,7	568,752	36,109	—	604,861				
Amounts due to group companies	—	(54,839)	(1,194)	56,033	4,7	—	—	—	—				
Amounts due to minority shareholders	85,213	—	—	—	—	85,213	—	—	85,213				
Bank borrowings	1,706,617	(543,872)	(278,355)	—	22	884,390	—	—	884,390				
Taxation	8,133	(3,131)	(5,002)	—	—	—	5,033	—	5,033				
Provisions	77,111	(77,111)	—	—	—	—	—	—	—				
	3,525,175	(1,521,517)	(511,744)	46,441		1,538,355	41,142	—	1,579,497				
<b>Net Current (Liabilities)/Assets</b>	<b>(288,410)</b>	<b>(29,619)</b>	<b>(23,792)</b>	<b>484,956</b>		<b>143,135</b>	<b>77,778</b>	<b>(217,758)</b>	<b>3,155</b>				
<b>Non-current Liabilities</b>													
Bank borrowings	522,306	—	(54,450)	—	22	467,856	—	—	467,856				
Deferred tax liabilities	—	—	—	—	—	—	30,648	—	30,648				
Long-term payables	66,025	—	(66,025)	—	—	—	—	—	—				
	588,331	—	(120,475)	—	—	467,856	30,648	—	498,504				
<b>Net Assets</b>	<b>3,809,623</b>	<b>(1,898,036)</b>	<b>(1,331,190)</b>	<b>474,804</b>		<b>1,055,201</b>	<b>276,129</b>	<b>(217,758)</b>	<b>1,113,572</b>				
<b>CAPITAL AND RESERVES</b>													
Share capital	276,580	—	(271,453)	22,531	14,15	27,658	300	(300)	27,658				
Share premium and reserves	2,478,511	(1,814,757)	(1,059,737)	819,224	6,11,12,14,15,16	423,241	275,829	(217,458)	481,612				
Equity attributable to equity holders of the Company	2,755,091	(1,814,757)	(1,331,190)	841,755		450,899	276,129	(217,758)	509,270				
Share option reserve of a listed subsidiary	5,805	—	—	(5,805)	12	—	—	—	—				
Minority interests	1,048,727	(83,279)	—	(361,146)	15,16	604,302	—	—	604,302				
<b>Total Equity</b>	<b>3,809,623</b>	<b>(1,898,036)</b>	<b>(1,331,190)</b>	<b>474,804</b>		<b>1,055,201</b>	<b>276,129</b>	<b>(217,758)</b>	<b>1,113,572</b>				

III Unaudited Pro Forma Consolidated Cash Flow Statement of the remaining CR Logic group  
for the year ended 31 December 2006

	CR Logic group HK\$'000	Pro forma adjustments			Pro forma adjusted total before acquisition of Redland Concrete group HK\$'000	Pro forma adjustments			Pro forma adjusted total HK\$'000 Note 21
		CR Logic Semiconductor group HK\$'000 Note 18	CSMC group HK\$'000 Note 19	Other adjustments HK\$'000 Notes		Redland Concrete group HK\$'000 Note 20	Other adjustments HK\$'000 Note 13		
<b>OPERATING ACTIVITIES</b>									
Profit before taxation	313,595	(176,683)	(51,957)	(42,572)	42,383	35,793	—	78,176	
Adjustments for:									
Finance costs	89,601	(17,986)	(15,042)	—	56,573	35	—	56,608	
Interest income	(6,072)	2,193	1,435	—	(2,444)	(258)	—	(2,702)	
Imputed interest income	—	1,000	—	(1,000)	—	—	—	—	
Share of result of an associate	(1,103)	—	—	1,103	—	5	—	5	
Gain on deemed disposal in an associate	(1,590)	—	—	1,590	—	—	—	—	
Gain on additional investment of an associate	(3,641)	—	—	3,641	—	—	—	—	
Discount on acquisition of subsidiaries	(41,296)	—	—	41,296	—	—	—	—	
Depreciation of property, plant and equipment	326,170	(130,137)	(68,506)	(1,058)	126,469	13,869	—	140,338	
Depreciation of investment properties	1,367	(2,425)	—	1,058	—	—	—	—	
Impairment loss on property, plant and equipment recognised (written back)	9,271	—	(14,153)	—	(4,882)	—	—	(4,882)	
Impairment loss recognised on available-for-sale investments	—	—	—	—	—	—	—	—	
Amortization of technical know-how	4,886	(179)	(1,454)	—	—	1,084	—	1,084	
Amortization of prepaid lease payments	4,615	(3,436)	(48)	—	3,253	—	—	3,253	
Allowance for bad and doubtful debts	—	—	—	—	1,131	—	—	1,131	
Provision for product liabilities	—	—	—	—	—	5,643	—	5,643	
Share-based payment expenses	8,401	—	(7,971)	—	—	3,747	—	3,747	
(Gain)loss on disposal of property, plant and equipment	(6,337)	3,085	4,074	—	822	17	—	839	
Write back of other loans	(14,735)	14,735	—	—	—	—	—	—	

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UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP

	Pro forma adjustments			Pro forma adjusted total HK\$'000 Note 21
	CR Logic group HK\$'000	CR Logic group adjustments HK\$'000 Notes	Pro forma adjusted total before acquisition of Redland Concrete group HK\$'000	
<b>Operating cash flows before movements in working capital</b>				
(Increase) decrease in inventories	683,132	(309,833)	223,735	283,670
Increase in debtors, deposits and prepayments	(178,171)	164,228	37,507	36,811
Increase in amounts due from remaining CR Logic group/amounts due to CR Logic Semiconductor group	(302,592)	73,155	(210,912)	(236,123)
Decrease in amount due from CSMC group	—	3,486	3,486	3,486
Increase in amount due from holding company	—	(517)	—	—
Decrease in amounts due from an associate	—	—	—	(20,000)
— CSMC	10,236	—	10,236	10,223
Decrease in amount due from minority shareholders	3,024	—	3,024	3,024
Increase in creditors and accrued charges	464,178	(236,206)	186,190	60,943
Increase in amounts due to remaining CR Logic group/amounts due from CR Logic Semiconductor group	—	(13,161)	(13,161)	(13,161)
Decrease in amounts due from CR Logic Semiconductor group	—	—	16,726	16,726
Decrease in amounts due to CSMC	(38,558)	—	(38,558)	(38,558)
Decrease in amounts due to an associate — CSMC	—	20,156	—	—
Increase in amount due to minority shareholders	23,666	—	23,666	23,666
Utilisation of provisions	(17,580)	17,580	—	—
<b>Cash generated from operations</b>	647,335	(281,112)	241,939	130,707
Profits tax paid	(40,159)	17,602	(18,180)	(24,416)
Net cash from operating activities	607,176	(263,510)	223,759	106,291





APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP

	Pro forma adjustments			Pro forma adjustments			Pro forma adjusted total before acquisition of Redland Concrete group		
	CR Logic group HK\$'000	CR Logic Semiconductor group HK\$'000	CSMC group HK\$'000	Other adjustments HK\$'000	Notes	Redland Concrete group HK\$'000	Other adjustments HK\$'000	Pro forma adjusted total HK\$'000	
Repurchase of shares	(2,124)	—	—	—	—	—	—	(2,124)	
New bank loans raised	2,004,814	(311,206)	(217,225)	341,542	3	—	—	1,817,925	
Capital contribution from minority shareholders of a subsidiary	77,786	(77,786)	—	—	—	—	—	—	
Increase in amounts due to CR Logic group	—	(189,379)	—	189,379	23	—	—	—	
Exercise of share options	6,221	—	—	—	—	—	—	6,221	
Cash outflow upon distribution of CSMC shares to shareholders of CR Logic	—	—	—	(243,173)	17	—	—	(243,173)	
<b>NET CASH FROM FINANCING ACTIVITIES</b>	329,674	(451,401)	59,842	287,748		(35)	—	225,828	
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,190	(2,827)	73,562	304,474		(8,155)	(217,758)	167,486	
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	470,009	(116,155)	(243,173)	359,328	18,19	31,269	—	501,278	
Effect on changes of exchange rate	33,051	(16,148)	5,476	—	—	—	—	22,379	
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	521,250	(135,130)	(164,135)	663,802		23,114	(217,758)	691,143	

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## APPENDIX IV      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE REMAINING CR LOGIC GROUP

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### Notes to the Unaudited Pro Forma Financial Information

1. Adjustments to exclude the results of the CR Logic Semiconductor group for the year ended 31st December, 2006, on the assumption that the Distribution and Acquisition had been completed on 1st January, 2006.
2. Adjustments to exclude the results of the CSMC group for the year ended 31st December, 2006, attributable to CR Logic group, on the assumption that the Distribution and Acquisition had been completed on 1st January, 2006.
3. Adjustments to reverse the intercompany transactions between the CR Logic Semiconductor group and the CSMC group during the year ended 31st December, 2006, which had been made in arriving at the results of the CR Logic group.

On completion of the Distribution and Acquisition on 1st January, 2006, the remaining CR Logic group would have received a dividend of HK\$474,423,000 from the CR Logic Semiconductor group, paid an amount of approximately HK\$217,758,000 to acquire the Redland Concrete group and made payments for the settlement of intercompany indebtednesses. The effects of such cashflows on the interest income and interest expense of the remaining CR Logic group have not been accounted for in the unaudited pro forma consolidated income statement as it is not practicable to quantify such amounts.

The payment by the CR Logic Semiconductor group of a dividend of HK\$474,423,000 is assumed to be paid out of its available bank balances and cash and bank borrowings.

4. Adjustments to reverse the elimination of the balances between the CR Logic Semiconductor group and the CSMC group as at 31st December, 2006 and to reverse the elimination of the cashflows between the CR Logic Semiconductor group and the CSMC group for the year ended 31st December, 2006.
5. Adjustment to reverse the reclassification of the investment properties of the CR Logic Semiconductor group leased to a subsidiary of the CSMC group to property, plant and equipment and prepaid lease payments.
6. Adjustment to reflect the payment of a dividend of HK\$474,423,000 by the CR Logic Semiconductor group to the remaining CR Logic group.
7. Adjustments to settle all intercompany indebtednesses between the remaining CR Logic group and the CR Logic Semiconductor group.
8. Adjustment to reverse the elimination of the imputed interest income on the amounts due by the remaining CR Logic group to the CR Logic Semiconductor group. No adjustment is made to record the imputed interest expense by the remaining CR Logic group as it is assumed that all such advances had been settled upon completion of the Distribution and Acquisition at the beginning of the year.
9. Adjustment to combine the results of the Redland Concrete group for the year ended 31st December, 2006, on the assumption that the acquisition of the Redland Concrete group had been completed on 1st January, 2006.
10. Adjustment to exclude the assets, liabilities and reserves of the CR Logic Semiconductor group on the assumption that the Distribution and Acquisition had been completed on 31st December, 2006.
11. Adjustment to derecognise the goodwill attributable to the acquisition of an entity in the CR Logic Semiconductor groups, previously recognised by the CR Logic group.

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## APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE REMAINING CR LOGIC GROUP

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12. Adjustment to exclude the assets, liabilities and reserves of the CSMC group, on the assumption that the Distribution and Acquisition had been completed on 31st December, 2006.
13. Adjustment to combine the assets and liabilities of the Redland Concrete group, in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” on the assumption that the acquisition of the Redland Concrete group for a cash consideration of approximately HK\$217,758,000 had been completed on 31st December, 2006.
14. Adjustment to account for the effect of reduction of CR Logic’s share capital by cancelling HK\$0.09 of the nominal value of each of its issued and paid up share of HK\$0.10 per share by applying the amounts standing to the credit of its share premium account and any non-distributable reserves.
15. Adjustments to reverse the discount on acquisition of CSMC during the year 2006 recognised by the CR Logic group, to eliminate the share capital of CSMC and to exclude the pre-acquisition reserves of the CSMC group.
16. Adjustments to reverse the share of post-acquisition reserves and results of the CSMC group attributable to the minority shareholders of CSMC.
17. Adjustment to account for the cash outflow upon the distribution of CSMC shares to the shareholders of CR Logic immediately after CSMC group became the subsidiaries of CR Logic on 1st July, 2006.
18. Adjustments to exclude the cash flows of the CR Logic Semiconductor group for the year ended 31st December, 2006, and the cash and cash equivalents of the CR Logic Semiconductor group at 1st January 2006, on the assumption that the Distribution and Acquisition had been completed on 1st January, 2006.
19. Adjustments to exclude the cash flows of the CSMC group for the period from 1st July, 2006, the date when CSMC became a subsidiary of CR Logic, to 31st December, 2006 and the cash and cash equivalents as at 1st July, 2006, on the assumption that the Distribution and Acquisition had been completed on 1st January, 2006.
20. Adjustments to combine the cash flows of the Redland Concrete group for the year ended 31st December, 2006, on the assumption that the Distribution and Acquisition had been completed on 1st January, 2006.
21. The unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the remaining CR Logic group include the assets and liabilities, the results and cash flows of the compressor business of CR Logic group which was disposed of in August 2007 for a cash consideration of HK\$1,170 million. The disposal constitutes a non-adjusting event under Hong Kong Accounting Standard 10 “Events after the Balance Sheet Date” and therefore has not been dealt with in the unaudited pro forma financial information.

The assets and liabilities of the compressor business and its net assets attributable to minority shareholders included in the unaudited pro forma consolidated balance sheet at 31st December, 2006 amounted to HK\$2,649.9 million, HK\$962.2 million and HK\$604.3 million respectively. The turnover and the net profit of the compressor business included in the unaudited pro forma consolidated income statement for the year ended 31st December, 2006 amounted to HK\$1,364.3 million and HK\$93.3 million respectively.

The cash generated from operations, net cash used in investing activities and the net cash used in financing activities attributable to the compressor business included in the unaudited pro forma consolidated cash flow statement for the year ended 31st December, 2006 amounted to HK\$237.7 million, HK\$63.5 million and HK\$151.7 million respectively.

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**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP**

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22. CR Logic and China Resources Microelectronics (Holdings) Limited are required, under the agreement to dispose the CR Logic Semiconductor group, to repay all their outstanding bank loans before completion of the Distribution and Acquisition. However, no adjustments have been made in this respect because the remaining CR Logic group would not have sufficient available liquid funds to repay the outstanding bank loans as at 31st December, 2006 for the proforma consolidated balance sheet or as at 1st January, 2006 for the proforma consolidated income statement and cash flow statement until the compressor business of CR Logic was disposed of in August 2007. No pro forma adjustment to account for the effects on the finance costs of the remaining CR Logic group has been made in this respect as it is not practicable to quantify such impact.
23. Adjustment to reverse the elimination of the advances made by CR Logic group to CR Logic Semiconductor group, which were subsequently capitalised by CR Logic Semiconductor group.
24. A dividend of HK\$102 million was paid by Redland Concrete Limited subsequent to 31st December, 2006, thus reducing the net assets value of the Redland Concrete group by the same amount. No adjustment has been made to the pro forma information to account for the effect of the payment of the dividend.
25. The reorganisation and other expenses attributable to the Distribution and Acquisition have not been accounted for in the preparation of the unaudited pro forma financial information as such expenses cannot be accurately estimated at this stage.
26. In respect of the pro forma combined income statement and the pro forma cashflow statement, adjustments numbers 1, 2, 3, 6, 7, 8, 9, 18, 19 and 20 have continuing effects.

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**APPENDIX IV      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP**

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**II. LETTER FROM THE REPORTING ACCOUNTANT**

**Deloitte.**  
**德勤**

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF CHINA RESOURCES LOGIC LIMITED**

We report on the unaudited pro forma financial information of China Resources Logic Limited (“CR Logic”) and its subsidiaries (together hereinafter referred to as the “CR Logic group”), which has been prepared by the directors of CR Logic for illustrative purposes only, to provide information about how the proposed disposal of the entire interests in Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited (together with their respective subsidiaries referred to as the “CR Logic Semiconductor group”) to CSMC Technologies Corporation (“CSMC”), the proposed dividend in specie by way of distribution by CR Logic of all of its shares in CSMC and the proposed acquisition of the entire interest in Redland Concrete Limited (the “Proposed Transactions”) might have affected the financial information presented, for inclusion in Appendix IV to the circular dated 16th January 2008 issued by CR Logic in connection with the Proposed Transactions (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on page IV-1 to the Circular.

**Respective responsibilities of directors of CR Logic and reporting accountants**

It is the responsibility solely of the directors of CR Logic to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE REMAINING CR LOGIC GROUP**

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**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of CR Logic. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of CR Logic on the basis stated, that such basis is consistent with the accounting policies of CR Logic group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of CR Logic, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of CR Logic group as at 31 December 2006 or any future date; or
- the results and cash flows of CR Logic group for the year ended 31 December 2006 or any future period.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of CR Logic on the basis stated;
- b) such basis is consistent with the accounting policies of CR Logic group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

16 January 2008

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**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

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**I.    UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED CSMC GROUP**

The accompanying unaudited pro forma financial information on the enlarged CSMC group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined balance sheet and unaudited pro forma combined cash flow statement of the enlarged CSMC group, has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of CSMC's acquisition of the CR Logic Semiconductor group (the "Proposed Transactions") as if it had been completed on 30th September, 2007.

The unaudited pro forma combined income statement, unaudited pro forma combined balance sheet and the unaudited pro forma combined cash flow statement of the enlarged CSMC group have been prepared based upon the consolidated balance sheet as at 30th September, 2007 and the consolidated income statement and the consolidated cash flow statement for the nine-month period ended 30th September, 2007 of the CR Logic Semiconductor group as set out in Appendix I — Financial Information on the CR Logic Semiconductor group to this composite document and the unaudited consolidated balance sheet as at 30th September, 2007 and the unaudited consolidated income statement and the unaudited consolidated cash flow statement for the nine-month period ended 30th September, 2007 of CSMC as set out in Appendix III — Financial Information on CSMC to this composite document or its published unaudited financial statements for that period after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments for the Proposed Transactions that are (i) directly attributable to the transactions and (ii) factually supportable, are summarized in the accompanying notes.

The unaudited pro forma financial information on the enlarged CSMC group is prepared based on a number of assumptions, estimates and uncertainties, and is provided for illustrative purposes only. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information on the enlarged CSMC group does not purport to give a true picture of the actual financial position of the enlarged CSMC group that would have been attained had the Proposed Transactions been completed on 30th September, 2007, or the results and cash flows of the enlarged CSMC group that would have been attained had the Proposed Transactions been completed on 1st January, 2007. The unaudited pro forma financial information does not purport to predict the future financial position, results or cash flows of the enlarged CSMC group.

For the purpose of preparing the unaudited pro forma financial information on the enlarged CSMC group, the financial information of the CSMC group has been translated from US dollar into Hong Kong dollar at the exchange rate of US\$1.00 : HK\$7.8.



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**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

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**UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED  
CSMC GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2007**

	<b>CSMC group</b>	<b>CR Logic Semiconductor group</b>	<b>Combined total</b>	<b>Pro forma Adjustments</b>	<i>Notes</i>	<b>Pro forma adjusted total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Turnover	807,783	1,500,418	2,308,201	(169,707)	1	2,138,494
Cost of Sales	<u>(589,366)</u>	<u>(1,165,367)</u>	<u>(1,754,733)</u>	<u>176,576</u>	1	<u>(1,578,157)</u>
Gross profit	218,417	335,051	553,468	6,869		560,337
Other income	30,559	97,640	128,199	(26,965)	1,6	101,234
Distribution costs	(16,450)	(31,840)	(48,290)	66	1	(48,224)
Administrative expenses	(65,054)	(126,188)	(191,242)	331	1	(190,911)
Other operating expenses	(46,976)	(134,522)	(181,498)	120	1	(181,378)
Finance costs	<u>(20,729)</u>	<u>(30,377)</u>	<u>(51,106)</u>	<u>—</u>		<u>(51,106)</u>
Profit before taxation	99,767	109,764	209,531	(19,579)		189,952
Taxation	<u>(25,430)</u>	<u>(8,330)</u>	<u>(33,760)</u>	<u>387</u>	1	<u>(33,373)</u>
Profit for the period	<u>74,337</u>	<u>101,434</u>	<u>175,771</u>	<u>(19,192)</u>		<u>156,579</u>
Attributable to:						
Equity holders of the company	74,337	103,380	177,717	(19,192)		158,525
Minority interests	<u>—</u>	<u>(1,946)</u>	<u>(1,946)</u>	<u>—</u>		<u>(1,946)</u>
	<u>74,337</u>	<u>101,434</u>	<u>175,771</u>	<u>(19,192)</u>		<u>156,579</u>

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**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

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**UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED  
CSMC GROUP AT 30 SEPTEMBER 2007**

	<b>CSMC group</b>	<b>CR Logic Semiconductor group</b>	<b>Combined total</b>	<b>Pro forma Adjustments</b>	<i>Notes</i>	<b>Pro forma adjusted total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
<b>Non-current assets</b>						
Property, plant and equipment	1,572,251	1,899,906	3,472,157	44,600	3	3,516,757
Investment properties	—	49,719	49,719	(49,719)	3	—
Goodwill	—	13,908	13,908	—		13,908
Technical know-how	33,309	2,392	35,701	—		35,701
Available-for-sale investments	—	571	571	—		571
Prepaid lease payments	4,481	146,322	150,803	5,119	3	155,922
Deferred tax assets	5,474	2,555	8,029	1,851	1	9,880
	<u>1,615,515</u>	<u>2,115,373</u>	<u>3,730,888</u>	<u>1,851</u>		<u>3,732,739</u>
<b>Current assets</b>						
Inventories	229,170	558,559	787,729	(12,340)	1	775,389
Debtors, deposits and prepayments	212,813	830,663	1,043,476	(32,360)	2	1,011,116
Prepaid lease payments	—	3,567	3,567	—		3,567
Amounts due from group companies	—	56,496	56,496	(56,496)	2,8	—
Taxation recoverable	—	2,189	2,189	—		2,189
Pledged bank deposits	5,634	—	5,634	—		5,634
Bank balances and cash	142,847	113,523	256,370	(113,523)	4,8	142,847
	<u>590,464</u>	<u>1,564,997</u>	<u>2,155,461</u>	<u>(214,719)</u>		<u>1,940,742</u>

**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

	CSMC group <i>HK\$'000</i>	CR Logic Semiconductor group <i>HK\$'000</i>	Combined total <i>HK\$'000</i>	Pro forma Adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma adjusted total <i>HK\$'000</i>
<b>Current liabilities</b>						
Creditors and accrued charges	297,357	1,045,524	1,342,881	(14,848)	2	1,328,033
Amounts due to group companies	—	285,934	285,934	(285,934)	2,8	—
Taxation	10,407	5,778	16,185	—		16,185
Provisions	—	44,057	44,057	—		44,057
Borrowings — due within one year	<u>306,800</u>	<u>78,931</u>	<u>385,731</u>	<u>508,469</u>	7,8	<u>894,200</u>
	<u>614,564</u>	<u>1,460,224</u>	<u>2,074,788</u>	<u>207,687</u>		<u>2,282,475</u>
<b>Net current (liabilities) assets</b>	<u>(24,100)</u>	<u>104,773</u>	<u>80,673</u>	<u>(422,406)</u>		<u>(341,733)</u>
<b>Total assets less current liabilities</b>	<u>1,591,415</u>	<u>2,220,146</u>	<u>3,811,561</u>	<u>(420,555)</u>		<u>3,391,006</u>
<b>Capital and reserves</b>						
Share capital	272,506	—	272,506	321,017	4	593,523
Share premium and reserves	<u>1,198,020</u>	<u>1,964,033</u>	<u>3,162,053</u>	<u>(741,572)</u>	1,5,7	<u>2,420,481</u>
Equity attributable to equity holders of the company	1,470,526	1,964,033	3,434,559	(420,555)		3,014,004
Minority interests	—	<u>84,272</u>	<u>84,272</u>	—		<u>84,272</u>
<b>Total equity</b>	<u>1,470,526</u>	<u>2,048,305</u>	<u>3,518,831</u>	<u>(420,555)</u>		<u>3,098,276</u>
<b>Non-current liabilities</b>						
Borrowings — due after one year	54,711	171,841	226,552	—		226,552
Long-term payables	<u>66,178</u>	—	<u>66,178</u>	—		<u>66,178</u>
	<u>120,889</u>	<u>171,841</u>	<u>292,730</u>	—		<u>292,730</u>
	<u>1,591,415</u>	<u>2,220,146</u>	<u>3,811,561</u>	<u>(420,555)</u>		<u>3,391,006</u>

**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

**UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED  
CSMC GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2007**

	CSMC group <i>HK\$'000</i>	CR Logic Semiconductor group <i>HK\$'000</i>	Combined total <i>HK\$'000</i>	Pro forma Adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma adjusted total <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>						
Profit before taxation	99,767	109,764	209,531	(19,579)	1,6	189,952
Adjustments for:						
Finance costs	20,729	30,377	51,106	—		51,106
Interest income	(1,248)	(17,798)	(19,046)	17,000	6	(2,046)
Depreciation of property, plant and equipment	122,029	129,611	251,640	1,783	3	253,423
Amortisation of technical know-how	2,314	552	2,866	—		2,866
Amortisation of prepaid lease payments	75	2,579	2,654	90	3	2,744
Depreciation of investment properties	—	1,873	1,873	(1,873)	3	—
Share-based payment expense	6,566	—	6,566	—		6,566
Gain on disposal of property, plant and equipment	(9,225)	(1,755)	(10,980)	—		(10,980)
Gain on disposal of available-for-sale investments	—	(1,924)	(1,924)	—		(1,924)
Allowance for inventories	9,426	—	9,426	—		9,426
Write back of provisions	—	(26,221)	(26,221)	—		(26,221)
Operating cash flows before movements in working capital	250,433	227,058	477,491	(2,579)		474,912
Increase in inventories	(26,788)	(137,605)	(164,393)	2,579	1	(161,814)
Increase in debtors, deposits and prepayments	(54,103)	(166,710)	(220,813)	13,459	2	(207,354)
Increase in amounts due from group companies	—	(3,298)	(3,298)	1,437	2,8	(1,861)
Increase in creditors and accrued charges	10,910	162,949	173,859	(4,639)	2	169,220
Increase in amounts due to group companies	—	20,151	20,151	(10,257)	2,8	9,894
Decrease in provisions	—	(7,846)	(7,846)	—		(7,846)
Cash generated from operations	180,452	94,699	275,151	—		275,151
Profits tax paid	(19,826)	(1,082)	(20,908)	—		(20,908)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>160,626</u>	<u>93,617</u>	<u>254,243</u>	<u>—</u>		<u>254,243</u>

**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

	CSMC group <i>HK\$'000</i>	CR Logic Semiconductor group <i>HK\$'000</i>	Combined total <i>HK\$'000</i>	Pro forma Adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma adjusted total <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>						
Purchase of property, plant and equipment	(202,079)	(292,613)	(494,692)	—		(494,692)
Repayment from holding company	—	269,383	269,383	—		269,383
Purchases of prepaid lease payments	—	(87)	(87)	—		(87)
Proceeds on disposal of property, plant and equipment	15,436	6,570	22,006	—		22,006
Proceeds on disposal of available-for-sale investments	—	2,146	2,146	—		2,146
Interest received	1,248	798	2,046	—		2,046
Decrease in pledged bank deposits	2,007	—	2,007	—		2,007
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(183,388)</u>	<u>(13,803)</u>	<u>(197,191)</u>	<u>          </u>		<u>(197,191)</u>
<b>FINANCING ACTIVITIES</b>						
New bank loans raised	313,791	1,244,446	1,558,237	274,936	7	1,833,173
Repayments of borrowings	(290,953)	(1,537,576)	(1,828,529)	—		(1,828,529)
Repayments of long-term liabilities	(7,425)	—	(7,425)	—		(7,425)
Increase in amounts due to group companies	—	210,944	210,944	—		210,944
Interest paid on borrowings	(14,742)	(30,377)	(45,119)	—		(45,119)
Dividend paid	—	—	—	(474,423)	7	(474,423)
Exercise of share options	569	—	569	—		569
Issue of shares	—	—	—	64,357	4	64,357
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<u>1,240</u>	<u>(112,563)</u>	<u>(111,323)</u>	<u>(135,130)</u>		<u>(246,453)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(21,522)</u>	<u>(32,749)</u>	<u>(54,271)</u>	<u>(135,130)</u>		<u>(189,401)</u>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY 2007</b>	164,135	135,130	299,265	—		299,265
Effect of foreign exchange rate changes	234	11,142	11,376	—		11,376
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2007, representing bank balances and cash</b>	<u>142,847</u>	<u>113,523</u>	<u>256,370</u>	<u>(135,130)</u>		<u>121,240</u>

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## APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED CSMC GROUP

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*Notes:*

1. Adjustments to eliminate the intercompany transactions between the CR Logic Semiconductor group and the CSMC group during the period from 1st January, 2007 to 30th September, 2007 and the related tax effect.
  2. Adjustments to eliminate the balances between the CR Logic Semiconductor group and the CSMC group as at 30th September, 2007.
  3. Adjustments to reclassify the investment properties of the CR Logic Semiconductor group leased to a subsidiary of the CSMC group to property, plant and equipment and prepaid lease payments.
  4. Adjustments to account for the effects of the acquisition of the CR Logic Semiconductor group by CSMC on the following bases:
    - (i) The issue of a total of 3,210,167,717 shares of HK\$0.1 each in CSMC (the “Consideration Shares”) on 30th September, 2007 as consideration for the acquisition of the CR Logic Semiconductor group, which includes the additional 159,586,200 CSMC shares issued on assumption that all the share options issued by CR Logic which were outstanding on 16th November, 2007 had been vested and exercised in full resulting in the issuance of the aforementioned additional shares.
    - (ii) The proceeds from the exercise of the share options as referred to in (i) above of HK\$64,357,000 were applied by CR Logic to subscribe for new shares in CRL Management Services Limited and CRL Finance Limited.
- In the event that all the outstanding share options granted by CR Logic were not exercised on or before the last acceptance date for the cancellation of the options, the number of additional shares to be issued by CSMC as consideration for cancellation of those share options would not exceed 78,222,686 shares, which would result in a decrease in the bank balances of the enlarged CSMC group by HK\$64,357,000 and a corresponding decrease in its equity of the same amount.
5. Adjustments to account for the special reserve of HK\$256,660,000 arising from the Proposed Transactions on the basis that the acquisition of the CR Logic Semiconductor group is accounted for by CSMC in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations”.
  6. Adjustments to reverse the imputed interest income on the amounts due by the remaining CR Logic group to the CR Logic Semiconductor group on assumption that the advances of HK\$276,434,000 had been settled upon completion of the Proposed Transactions at the beginning of the period.
  7. Adjustment to reflect the payment of a dividend of HK\$474,423,000 by the CR Logic Semiconductor group to the remaining CR Logic group out of the banking facilities of the enlarged CSMC group. Interest expenses on bank borrowings to finance such payment have not been accounted for in the unaudited pro forma combined income statement as it is impracticable to quantify such amount.
  8. Adjustment to settle all intercompany indebtednesses between the remaining CR Logic group and the CR Logic Semiconductor group out of the bank balances and the banking facilities of the CR Logic Semiconductor group.
  9. The reorganization and other expenses attributable to the Proposed Transactions have not been accounted for in the preparation of the unaudited pro forma financial information as such expenses cannot be accurately estimated at this stage.
  10. The actual number of Consideration Shares eventually issuable and the final amount of special reserve arising on combination of the CR Logic Semiconductor group may be different from those presented above.
  11. In respect of the unaudited pro forma combined income statement and the unaudited pro forma combined cash flow statement, adjustments number 1, 7 and 8 have continuing effects.

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**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

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**II. LETTER FROM THE REPORTING ACCOUNTANT**

*The following is the text of a letter, received from the reporting accountant, Deloitte Touche Tohmatsu, prepared for the sole purpose of inclusion in this composite circular.*



**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION  
TO THE DIRECTORS OF CSMC TECHNOLOGIES CORPORATION**

We report on the unaudited pro forma financial information of CSMC Technologies Corporation (the "Company") and its subsidiaries (together hereinafter referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire interests in Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited might have affected the financial information presented, for inclusion in Appendix V to the circular dated 16 January 2008 issued by the Company in connection with the proposed acquisitions (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page V-1 to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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**APPENDIX V                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE ENLARGED CSMC GROUP**

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**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 September 2007 or any future date; or
- the results and cash flows of the Group for the period ended 30 September 2007 or any future period.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
16 January 2008



**Vigers Appraisal & Consulting Limited  
International Assets Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



16 January 2008

The Directors  
CSMC Technologies Corporation

Dear Sirs,

In accordance with your instructions for us to value the property interests held by the enlarged CSMC group in the People's Republic of China (the "PRC"), the Hong Kong Special Administrative Region ("Hong Kong") and Taiwan, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 October 2007 (the "date of valuation") for the purpose of incorporating into the composite circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the properties nos. 1 to 3 in Group I, which are owned by the enlarged CSMC group in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

In valuing the properties nos. 4 to 8 in Group I and properties nos. 9 to 14 in Group II, we have valued the property interests by the direct comparison approach assuming sale of the properties in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

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## APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP

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For property interests in Groups III, IV and V which are rented by the enlarged CSMC group in Hong Kong, Taiwan and the PRC, we have assigned no commercial value to them mainly due to the prohibition against assignment or sub-letting, the lack of substantial profit rents or the short term nature of such interests.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interests at the relevant government bureau in the PRC and Taiwan. For the property interest in Hong Kong, we have caused searches to be made at the Land Registry. We have been provided with certain extracts of title documents relating to the property interests in the PRC and Taiwan. However, we have not inspected the original documents to verify the ownership, encumbrances or existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC and Taiwan, we have relied on the legal opinions provided by the enlarged CSMC group's PRC legal adviser, Jiangsu Yuanwen Law Firm (the "PRC legal opinion") and the enlarged CSMC group's Taiwan legal adviser, PCL Transasia Law Offices (the "Taiwan legal opinion") respectively.

We have relied to a considerable extent on information provided by the enlarged CSMC group and have accepted advice given to us by the enlarged CSMC group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have also been advised by the enlarged CSMC group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the enlarged CSMC group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all money amounts stated are in Renminbi (RMB) and Hong Kong Dollars (HK\$). The exchange rate used in valuing the property interests in the PRC as at 31 October 2007 was HK\$1=RMB0.965. There has been no significant fluctuation in the exchange rate for Renminbi against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
*MRICS MHKIS MSc(e-com)*  
*Executive Director*

*Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty years' experiences in undertaking valuations of properties in Hong Kong and has over thirteen years' experiences in valuations of properties in the PRC and Taiwan.*

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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**SUMMARY OF VALUATION****Group I — Property interests owned by the enlarged CSMC group in the PRC**

<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
1. A parcel of land located at Lot Nos. 86 and 87, Wuxi National Hi-tech Industry Development Zone, Wuxi City, Jiangsu Province, the PRC	RMB98,000,000 (equivalent to HK\$101,600,000)
2. An industrial complex located at No. 14 Liangxi Road and Huajing Xin Cun, Binhu District, Wuxi City, Jiangsu Province, the PRC	RMB328,000,000 (equivalent to HK\$340,000,000)
3. Parcels of land located at Lot Nos. B26-A and B27, Wuxi National Hi-tech Industry Development Zone, Wuxi City, Jiangsu Province, the PRC	RMB132,600,000 (equivalent to HK\$137,400,000)
4. A parcel of land located at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC	No commercial value
5. East 7 Kua on Level 4 of Block 702, Pengji Industrial Zone, Lian Tang, Luhu District, Shenzhen City, the PRC	RMB5,400,000 (equivalent to HK\$5,600,000)

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
6. Room 623, Block 8, Pengcheng Cun, Bagua Yi Road, Futian District, Shenzhen City, the PRC	RMB250,000 (equivalent to HK\$260,000)
7. Room 4D, Tian Xiang Building, Che Gong Miao, Futian District, Shenzhen City, the PRC	RMB13,900,000 (equivalent to HK\$14,400,000)
8. Room 8A, Tian Xiang Building, Che Gong Miao, Futian District, Shenzhen City, the PRC	RMB14,500,000 (equivalent to HK\$15,000,000)
	<hr/>
<b>Sub-total:</b>	RMB592,650,000 (equivalent to HK\$614,260,000)

**Group II — Property interests owned by the enlarged CSMC group in Hong Kong**

9. Flat F on 24th Floor, Block 11, City One Shatin, Shatin, New Territories, Hong Kong	HK\$2,280,000
10. Flat F on 25th Floor, Block 11, City One Shatin, Shatin, New Territories, Hong Kong	HK\$2,290,000

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
11. Flat F on 6th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong	HK\$1,220,000
12. Flat F on 7th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong	HK\$1,230,000
13. Flat F on 10th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong	HK\$1,250,000
14. Car Parking Space No. 215 on 2nd Floor, Commercial Block A, City One Shatin, Shatin, New Territories, Hong Kong	HK\$220,000
	_____
<b>Sub-total:</b>	<b>HK\$8,490,000</b>

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
<b>Group III — Property interests rented by the enlarged CSMC group in Hong Kong</b>	
15. Unit 510 on 5th Floor, Building 5, Phase One, Hong Kong Science Park, Pak Shek Kok, Tai Po, New Territories, Hong Kong	No commercial value
16. Rooms 4003-06 on 40th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	No commercial value
17. Rooms 2404 and 3807, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	No commercial value
18. Rooms 3702 and 3703, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	No commercial value
19. Room 4107, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	No commercial value
<b>Sub-total:</b>	_____ Nil

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
<b>Group IV — Property interests rented by the enlarged CSMC group in Taiwan</b>	
20. Portion of Unit 503 on 5th Floor, Lotus Building, No. 136 Jen Ai Road Section 3, Taipei, Taiwan	No commercial value
21. Unit 4 on 3rd Floor and Parking Spaces Nos. 98 and 99 on Basement Level 2, No. 18 Pu Ting Road, Hsin Chu City, Taiwan	No commercial value
	<hr/>
<b>Sub-total:</b>	Nil
<b>Group V — Property interests rented by the enlarged CSMC group in the PRC</b>	
22. Levels 1 and 2 of Block No. 1 and Level 2 of Block No. 4, Jiangnan Jia She, No. 14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	No commercial value
23. The factory and ancillary office of No. 14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	No commercial value
24. The Research and Development Building of No. 14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	No commercial value



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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
25. Units 301-1, 302-1, 302-2, 501-3, 502-1 and 602-1, No. 98, District 2, Tai Hu Garden, Wuxi City, Jiangsu Province, the PRC	No commercial value
26. Portions of Science Research Building and Test Purification Building, Institute of Microelectronics of Chinese Academy of Science, No. 3 Bei Tu Cheng Xi Road, Chaoyang District, Beijing City, the PRC	No commercial value
27. Room 12G, Hua Ting Jia Yuan, Chaoyang District, Beijing City, the PRC	No commercial value
28. Room 605, Entrance 3, Block No. 35, Hua Yan Li, Chaoyang District, Beijing City, the PRC	No commercial value
29. Room 1806, Block C, Hua Ting Jia Yuan, Chaoyang District, Beijing City, the PRC	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
30. Room 1104, Block No. 1, Ma Dian Jing Dian, Chaoyang District, Beijing City, the PRC	No commercial value
31. Room 2001, Block D, Jun Feng Hua Ting, Chaoyang District, Beijing City, the PRC	No commercial value
32. Room 1108, Block No. 3, Dou Jing Yuan, Haidian District, Beijing City, the PRC	No commercial value
33. Room 310, Block No. 4, Dou Jing Yuan, Haidian District, Beijing City, the PRC	No commercial value
34. Room 407, Block No. 5, Hua Yan Bei Li No. 2 Yuan, Chaoyang District, Beijing City, the PRC	No commercial value
35. Room 602, Entrance 1, Block No. 35, Hua Yan Li, Chaoyang District, Beijing City, the PRC	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
36. Room 619, Entrance 3, Block No. 3, Hua Yan Bei Li No. 2 Yuan, Chaoyang District, Beijing City, the PRC	No commercial value
37. Room 101, Entrance 3, Block No. 70, Hua Yan Bei Li, Chaoyang District, Beijing City, the PRC	No commercial value
38. Room 202, Entrance 4, Block No. 56, Hua Yan Bei Li, Chaoyang District, Beijing City, the PRC	No commercial value
39. Room 1505, Block No. 12, Mu Dan Yuan Dong Li, Chaoyang District, Beijing City, the PRC	No commercial value
40. Room 406, Entrance 2, Block No. 27, Hua Yan Li, Chaoyang District, Beijing City, the PRC	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
41. Room 104, Entrance 2, Block No. 27, Hua Yan Li, Chaoyang District, Beijing City, the PRC	No commercial value
42. Room 602, Entrance 7, Block No. 11, An Zhen Xi Li Area 1, Chaoyang District, Beijing City, the PRC	No commercial value
43. Room 1206, Block No. 21, An Zhen Li Area 1, Chaoyang District, Beijing City, the PRC	No commercial value
44. Room 510, Block No. 43, Wen Tao Yuan, Lin Cui Xi Li, Chaoyang District, Beijing City, the PRC	No commercial value
45. Rooms 510-522, Block No. 102, Pengji Industrial Zone, Luhu District, Shenzhen City, the PRC	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
46. Room 408, Block H3.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	No commercial value
47. Room 6A13, Qing Tai Apartment H5.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	No commercial value
48. Room 708, Block H3.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	No commercial value
49. Rooms 704 and 705, Jiu Tai Apartment H2.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	No commercial value
50. Room 4A5, Chang Tai Apartment H3.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	No commercial value
51. Room 509, Shun Tai Apartment H4.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Market Value in existing state as at 31 October 2007</b>
52. Room 7A4, Shun Tai Apartment H4.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	No commercial value
53. Level 5, Block No. 92, No. 1112 Qinzhou Bei Road, Cao He Jing Development Zone, Shanghai City, the PRC	No commercial value
	<hr/>
<b>Sub-total:</b>	<u>Nil</u>
<b>Grand Total:</b>	<u><u>HK\$622,750,000</u></u>

## APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP

### VALUATION CERTIFICATES

#### Group I — Property interests owned by the enlarged CSMC group in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2007																						
1. A parcel of land located at Lot Nos. 86 and 87, Wuxi National Hi-tech Industry Development Zone, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 310,231.8 sq.m.</p> <p>The property is developed in three phases. Phase I is under construction and will comprise the following buildings with 1 to 6 storeys when completed:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Building</th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr><td>Office Building</td><td style="text-align: right;">15,954</td></tr> <tr><td>Produce Fab — Ph-1</td><td style="text-align: right;">41,647</td></tr> <tr><td>Equipment Building</td><td style="text-align: right;">21,692</td></tr> <tr><td>Mechanical Building</td><td style="text-align: right;">10,506</td></tr> <tr><td>Waste Water Treatment Plant</td><td style="text-align: right;">3,317</td></tr> <tr><td>Power Station</td><td style="text-align: right;">1,440</td></tr> <tr><td>Canteen</td><td style="text-align: right;">10,080</td></tr> <tr><td>Composite Building</td><td style="text-align: right;">5,299</td></tr> <tr><td>Water Station</td><td style="text-align: right;"><u>1,584</u></td></tr> <tr><td>Total:</td><td style="text-align: right;"><u>111,519</u></td></tr> </tbody> </table>	Building	Gross Floor Area (sq.m.)	Office Building	15,954	Produce Fab — Ph-1	41,647	Equipment Building	21,692	Mechanical Building	10,506	Waste Water Treatment Plant	3,317	Power Station	1,440	Canteen	10,080	Composite Building	5,299	Water Station	<u>1,584</u>	Total:	<u>111,519</u>	The property is currently under construction and the superstructures of the buildings were completed.	RMB98,000,000 (equivalent to HK\$101,600,000)
Building	Gross Floor Area (sq.m.)																								
Office Building	15,954																								
Produce Fab — Ph-1	41,647																								
Equipment Building	21,692																								
Mechanical Building	10,506																								
Waste Water Treatment Plant	3,317																								
Power Station	1,440																								
Canteen	10,080																								
Composite Building	5,299																								
Water Station	<u>1,584</u>																								
Total:	<u>111,519</u>																								
	<p>It is expected that the above buildings of Phase I will be completed in late 2007.</p> <p>The land use rights of the property have been granted for a term expiring on 29 September 2052 for industrial use.</p>																								

*Notes:*

1. According to a State-owned Land Use Rights Certificate (Document No.: Xi Xin Guo Yong (2005) Di No. 292) dated 18 October 2005, the land use rights of the property having a site area of approximately 310,231.8 sq.m. have been granted to CSMC Technologies Fab 2 Co., Ltd. (“CSMC Fab 2”).
2. According to a Construction Work Commencement Permit (Document No.: Xi Xin Jian Shi Xu (2004) Di No. 35) dated 13 August 2004, CSMC Fab 2 has been permitted to construct properties with a total area of approximately 72,271 sq.m.
3. According to a Construction Work Commencement Permit (Document No.: Xi Xin Jian Shi Xu (2005) Di No. B32) dated 22 March 2005, CSMC Fab 2 has been permitted to construct properties with a total area of approximately 15,519 sq.m.
4. According to a Construction Work Commencement Permit (Document No.: Xi Xin Jian Shi Xu (2005) Di No. B99) dated 19 September 2005, CSMC Fab 2 has been permitted to construct properties with a total area of approximately 19,867 sq.m.

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## APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP

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5. According to a Construction Work Commencement Permit (Document No.: Xi Xin Jian Shi Xu (2006) Di No. B145) dated 26 December 2006, CSMC Fab 2 has been permitted to construct properties with a total area of approximately 811.8 sq.m.
6. As advised by the Group, all the buildings under construction erected on the subject site have obtained the relevant Construction Work Commencement Permits.
7. The land use rights of the property is subject to a mortgage in favour of Agricultural Bank of China for a term from 30 March 2005 to 29 March 2008.
8. For the construction in progress, the incurred construction cost as at the date of valuation was RMB313,000,000. The completion value of the construction in progress is RMB352,000,000. As the buildings are currently under construction and the building ownership certificates have not been obtained, we have attributed no commercial value to such construction in progress.
9. The PRC legal opinion states, inter alia, the following:
  - (i) The land use rights of the property are vested in CSMC Fab 2.
  - (ii) CSMC Fab 2 has the right to transfer, mortgage, or make other arrangements according to the laws to deal with the granted land use rights of the property within the land use rights term.
  - (iii) Pursuant to a loan agreement, CSMC Fab 2 as the guarantor to a loan of CSMC Technologies Fab 1 Co., Ltd. (a wholly-owned subsidiary of the Company) mortgaged its land use rights of the subject property in favour of the Agricultural Bank of China. The mortgage has been registered and is valid and effective. If the mortgagee cannot repay the loan when the loan agreement term expired, then the mortgagor may enforce its obligations according to the loan agreement.



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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
2. An industrial complex located at No. 14 Liangxi Road and Huajing Xin Cun, Binhu District, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises 13 parcels of land with a total site area of approximately 277,724.5 sq.m. and 127 buildings and various ancillary structures erected thereon completed in various stages between 1960 and 2007.</p> <p>The buildings have a total gross floor area of approximately 193,617.75 sq.m.</p> <p>The buildings mainly include workshops, storehouses, dormitories, shops, staff canteens and office buildings.</p> <p>The structures mainly include roads, walls, sheds and pools.</p> <p>The land use rights of the property have been granted for various terms with the earliest expiry date on 15 April 2050 for industrial use.</p>	The property is currently occupied and leased to its subsidiaries by the enlarged CSMC group for production, storage, office, staff quarters and ancillary uses.	RMB328,000,000 (equivalent to HK\$340,000,000)

*Notes:*

1. According to 13 State-owned Land Use Rights Certificates (Document Nos.: Xi Bin Guo Yong (2003) Zi Di Nos. 63 to 67, 68, 69 and 71 to 76), the land use rights of the property having a total site area of approximately 277,724.5 sq.m. have been granted to Wuxi China Resources Microelectronics Co., Ltd. for various terms expiring on 15 April 2050, 15 February 2051, 16 August 2050 and 2 April 2053 respectively.
2. According to 46 Building Ownership Certificates, the building ownership rights of 118 buildings with a total gross floor area of approximately 155,698.45 sq.m. are owned by Wuxi China Resources Microelectronics Co., Ltd.
3. The remaining 9 buildings with a total gross floor area of approximately 37,919.3 sq.m. have not yet obtained building ownership certificate.
4. In the valuation of this property, we have attributed no commercial value to 9 buildings with a total gross area of approximately 37,919.3 sq.m. which have not obtained building ownership certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be RMB52,400,000 assuming all relevant title ownership certificates have been obtained and they could be freely transferred.
5. The PRC legal opinion states, inter alia, the following:
  - (i) The land use rights and the buildings of the property are legally vested in Wuxi China Resources Microelectronics Co., Ltd.
  - (ii) Within the term of land use rights, Wuxi China Resources Microelectronics Co., Ltd. is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the land use rights and the buildings of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
3. Parcels of land located at Lot Nos. B26-A and B27, Wuxi National Hi-tech Industry Development Zone, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 248,597.6 sq.m. and 10 buildings erected thereon completed in various stages between 2006 and 2007.</p> <p>The buildings have a total gross floor area of approximately 75,536.77 sq.m.</p> <p>The buildings mainly include workshops, staff canteens and office buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 21 December 2053 for industrial use.</p>	The property is currently occupied by the enlarged CSMC group for production, office and ancillary uses.	RMB132,600,000 (equivalent to HK\$137,400,000)

*Notes:*

1. According to 2 State-owned Land Use Rights Certificates (Document Nos.: Xi Bin Guo Yong (2004) Zi Di Nos. 174 and 175), the land use rights of the property having a total site area of approximately 248,597.6 sq.m. have been granted to Wuxi China Resources Microelectronics Co., Ltd. for a term expiring on 21 December 2053.
2. According to 2 Building Ownership Certificates, the building ownership rights of 8 buildings with a total gross floor area of approximately 42,543.61 sq.m. are owned by Wuxi China Resources Microelectronics Co., Ltd.
3. The remaining 2 buildings with a total gross floor area of approximately 32,993.16 sq.m. have not yet obtained building ownership certificate.
4. In the valuation of this property, we have attributed no commercial value to 2 buildings with a total gross area of approximately 32,993.16 sq.m. which have not obtained building ownership certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be RMB32,000,000 assuming all relevant title ownership certificates have been obtained and they could be freely transferred.
5. The PRC legal opinion states, inter alia, the following:
  - (i) The land use rights and the buildings of the property are legally vested in Wuxi China Resources Microelectronics Co., Ltd.
  - (ii) Within the term of land use rights, Wuxi China Resources Microelectronics Co., Ltd. is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the land use rights and the buildings of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
4. A parcel of land located at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 29,997.68 sq.m.</p> <p>Construction of 4 blocks of buildings with a total gross floor area of approximately 13,467.29 sq.m. are in progress. It is expected that the buildings will be completed in 2008.</p> <p>The land use rights of the property have been granted for a term of 50 years from 23 June 2006 to 22 June 2056 for industrial use.</p>	The property is currently under construction.	No commercial value

*Notes:*

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi Di No. 6000234069) dated 28 December 2006, the land use rights of the property having a site area of approximately 29,997.68 sq.m. have been granted to China Resources Microelectronics (Shenzhen) Limited.
2. According to a Construction Work Commencement Permit (Document No.: 44030720070600702) dated 16 July 2007, China Resources Microelectronics (Shenzhen) Limited has been permitted to construct properties with a total area of approximately 13,467.29 sq.m.
3. On account of the statement stated on the Real Estate Ownership Certificate that the property is not permitted to be transferred, we have ascribed no commercial value to the property. However, for indicative purpose, the market value of the property as at the date of valuation was RMB2,890,000 (equivalent to approximately HK\$2,995,000) assuming the property is entitled to be transferred in the open market.
4. The PRC legal opinion states, inter alia, the following:
  - (i) The land use rights of the property are vested in China Resources Microelectronics (Shenzhen) Limited.
  - (ii) The land use rights of the property are not permitted to be transferred and mortgaged.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
5. East 7 Kua on Level 4 of Block 702, Pengji Industrial Zone, Lian Tang, Luhu District, Shenzhen City, the PRC	<p>The property comprises an industrial unit on the Level 4 of a 6-storey industrial building completed in 1991.</p> <p>The property has a gross floor area of approximately 1,204.5 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years from 25 February 1992 to 24 February 2042 for industrial and storage uses.</p>	The property is occupied by the enlarged CSMC group for industrial use.	RMB5,400,000 (equivalent to HK\$5,600,000)

*Notes:*

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi Di No. 2000330831) dated 14 September 2006, the title of the property having a gross floor area of approximately 1,204.5 sq.m. is vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
2. The PRC legal opinion states, inter alia, the following:
  - (i) The title of the property is legally vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
  - (ii) Semicon Microelectronics (Shen Zhen) Co., Ltd. is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
6. Room 623, Block 8, Pengcheng Cun, Bagua Yi Road, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the Level 6 of an 8-storey residential building completed in 1992.</p> <p>The property has a gross floor area of approximately 31.48 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years from 28 April 1991 to 28 April 2041 for residential use.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	RMB250,000 (equivalent to HK\$260,000)

*Notes:*

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi Di No. 3000435428) dated 2 November 2006, the title of the property having a gross floor area of approximately 31.48 sq.m. is vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
2. The PRC legal opinion states, inter alia, the following:
  - (i) The title of the property is legally vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
  - (ii) Semicon Microelectronics (Shen Zhen) Co., Ltd. is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
7. Room 4D, Tian Xiang Building, Che Gong Miao, Futian District, Shenzhen City, the PRC	<p>The property comprises an industrial unit on the Level 4 of a 13-storey industrial building completed in 1998.</p> <p>The property has a gross floor area of approximately 1,212.48 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years from 16 November 1988 to 15 November 2038 for industrial use.</p>	The property is occupied by the enlarged CSMC group for industrial use.	RMB13,900,000 (equivalent to HK\$14,400,000)

*Notes:*

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi Di No. 3000435433) dated 2 November 2006, the title of the property having a gross floor area of approximately 1,212.48 sq.m. is vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
2. The PRC legal opinion states, inter alia, the following:
  - (i) The title of the property is legally vested in Semicon Microelectronics (Shen Zhen) Co., Ltd.
  - (ii) Semicon Microelectronics (Shen Zhen) Co., Ltd. is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
8. Room 8A, Tian Xiang Building, Che Gong Miao, Futian District, Shenzhen City, the PRC	<p>The property comprises an industrial unit on the Level 8 of a 13-storey industrial building completed in 1998.</p> <p>The property has a gross floor area of approximately 1,212.48 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years from 16 November 1988 to 15 November 2038 for industrial use.</p>	The property is occupied by the enlarged CSMC group for industrial use.	RMB14,500,000 (equivalent to HK\$15,000,000)

*Notes:*

1. According to a Real Estate Ownership Certificate (Document No.: Shen Fang Di Zi Di No. 3000068038) dated 3 April 2001, the title of the property having a gross floor area of approximately 1,212.48 sq.m. is vested in Well-Known (Hong Kong) Property Limited.
2. The PRC legal opinion states, inter alia, the following:
  - (i) The title of the property is legally vested in Well-Known (Hong Kong) Property Limited.
  - (ii) Well-Known (Hong Kong) Property Limited is entitled to transfer, lease, mortgage, occupy, use or otherwise dispose of the property.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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**Group II — Property interests owned by the enlarged CSMC group in Hong Kong**

<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
9. Flat F on 24th Floor, Block 11, City One Shatin, Shatin, New Territories, Hong Kong	<p>The property comprises a residential unit on the 24th Floor of a 34-storey residential building completed in 1981.</p> <p>The property has a gross floor area of approximately 52.95 sq.m.</p>	The property is occupied by the enlarged CSMC group for residential use.	HK\$2,280,000
55/377,557th equal and undivided shares of and in the Remaining Portion of Section A of Shatin Town Lot No. 1	<p>The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.</p>		

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).



	<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
10.	Flat F on 25th Floor, Block 11, City One Shatin, Shatin, New Territories, Hong Kong  55/377,557th equal and undivided shares of and in the Remaining Portion of Section A of Shatin Town Lot No. 1	The property comprises a residential unit on the 25th Floor of a 34-storey residential building completed in 1981.  The property has a gross floor area of approximately 52.95 sq.m.  The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.	The property is occupied by the enlarged CSMC group for residential use.	HK\$2,290,000

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).

	<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
11.	Flat F on 6th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong	<p>The property comprises a residential unit on the 6th Floor of a 31-storey residential building completed in 1985.</p> <p>The property has a gross floor area of approximately 36.70 sq.m.</p>	<p>The property is occupied by the enlarged CSMC group for residential use.</p>	HK\$1,220,000
	33/153,761st equal and undivided shares of and in Section F of Shatin Town Lot No. 1	<p>The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.</p>		

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).

	<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
12.	Flat F on 7th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong  33/153,761st equal and undivided shares of and in Section F of Shatin Town Lot No. 1	The property comprises a residential unit on the 7th Floor of a 31-storey residential building completed in 1985.  The property has a gross floor area of approximately 36.70 sq.m.  The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.	The property is occupied by the enlarged CSMC group for residential use.	HK\$1,230,000

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).

	<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
13.	Flat F on 10th Floor, Block 37, City One Shatin, Shatin, New Territories, Hong Kong  33/153,761st equal and undivided shares of and in Section F of Shatin Town Lot No. 1	The property comprises a residential unit on the 10th Floor of a 31-storey residential building completed in 1985.  The property has a gross floor area of approximately 36.70 sq.m.  The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.	The property is occupied by the enlarged CSMC group for residential use.	HK\$1,250,000

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2007
14. Car Parking Space No. 215 on 2nd Floor, Commercial Block A, City One Shatin, Shatin, New Territories, Hong Kong  1/377,557th equal and undivided shares of and in the Remaining Portion of Section A of Shatin Town Lot No. 1	The property comprises a car parking space on the 2nd Floor of a 5-storey commercial building completed in 1982.  The property is held under New Grant No. 11064 for a term extended to 30 June 2047. The annual government rent is at 3% of the prevailing rateable value of the property.	The property is occupied by the enlarged CSMC group for car parking use.	HK\$220,000

*Note:*

According to the record in the Land Registry, the current registered owner of the property is Fortune Property Limited (formerly known as E-Ultimate Enterprises Limited).

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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**Group III — Property interests rented by the enlarged CSMC group in Hong Kong**

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
15. Unit 510 on 5th Floor, Building 5, Phase One, Hong Kong Science Park, Pak Shek Kok, Tai Po, New Territories, Hong Kong	<p>The property comprises an office unit on the 5th Floor of a 6-storey office building completed in 2004.</p> <p>The property has a gross floor area of approximately 1,875 sq.m.</p> <p>The property is leased to CSMC Technologies Corporation by Hong Kong Science and Technology Parks Corporation, an independent third party, for a term of 3 years commencing on 1 August 2006 at a monthly rent of HK\$22,500, exclusive of management fee, rates and service charges.</p>	The property is occupied by the enlarged CSMC group for office use.	No commercial value
<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
16. Rooms 4003-06 on 40th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	<p>The property comprises 4 office units on the 40th Floor of a 50-storey office building completed in 1982.</p> <p>The property has a total gross floor area of approximately 7,126 sq.m.</p> <p>The property is leased to China Resources Logic Limited by China Resources Property Management Limited, a connected party, for a term of 2 years from 1 April 2007 to 31 March 2009 at a monthly rent of HK\$178,150, exclusive of management fee, rates and air-conditioning charge.</p>	The property is occupied by the enlarged CSMC group for office use.	No commercial value

Property	Description and Tenancy particulars	Particulars of occupancy	Market Value in existing state as at 31 October 2007
17. Rooms 2404 and 3807, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	<p>The property comprises 2 residential units on the 24th Floor and 38th Floor of a 43-storey residential building completed in 1979.</p> <p>The property has a total gross floor area of approximately 1,010 sq.m.</p> <p>The property is leased to China Resources Logic Limited by Easy Harvest Limited, a connected party, for an undefined term commencing on 1 January 2007 at a total monthly rent of HK\$29,000, inclusive of management fee, rates, gas, water, broadband and local telephone charges and electricity charge not exceeding HK\$1,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
Property	Description and Tenancy particulars	Particulars of occupancy	Market Value in existing state as at 31 October 2007
18. Rooms 3702 and 3703, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	<p>The property comprises 2 residential units on the 37th Floor of a 43-storey residential building completed in 1979.</p> <p>The property has a total gross floor area of approximately 964 sq.m.</p> <p>The property is leased to China Resources Logic Limited by Easy Harvest Limited, a connected party, for an undefined term commencing on 1 April 2006 at a total monthly rent of HK\$23,500, inclusive of management fee, rates, gas, water, broadband and local telephone charges and electricity charge not exceeding HK\$1,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
19.	Room 4107, Block A, Causeway Centre, No. 28 Harbour Road, Wanchai, Hong Kong	<p>The property comprises a residential unit on the 41st Floor of a 43-storey residential building completed in 1979.</p> <p>The property has a gross floor area of approximately 505 sq.m.</p> <p>The property is leased to China Resources Microelectronics (Holdings) Limited by Easy Harvest Limited, a connected party, for an undefined term commencing on 1 January 2007 at a monthly rent of HK\$14,400, inclusive of management fee, rates, gas, water, broadband and local telephone charges and electricity charge not exceeding HK\$500.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value



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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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**Group IV — Property interests rented by the enlarged CSMC group in Taiwan**

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
20. Portion of Unit 503 on 5th Floor, Lotus Building, No. 136 Jen Ai Road Section 3, Taipei, Taiwan	<p>The property comprises an office on the 5th Floor of a 15-storey (excluding 2 basement floors) building completed in 1984.</p> <p>The property has a gross floor area of approximately 26.4 sq.m.</p> <p>The property is leased to CSMC Manufacturing Co., Ltd. by 尚志資產開發股份有限公司 (Shan-Chih Asset Development Co.), an independent third party, for a term from 1 January 2007 to 31 December 2008 at a monthly rent of NT\$14,000.</p>	The property is occupied by the enlarged CSMC group for office use.	No commercial value

*Note:*

The Taiwan legal opinion states, inter alia, the following:

- (i) The landlord is the registered owner of the property and is entitled to lease the property to CSMC Manufacturing Co., Ltd.
- (ii) The lease is valid and enforceable under the Taiwan's laws.
- (iii) The property is not subject to any mortgage or encumbrance.

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
21. Unit 4 on 3rd Floor and Parking Spaces Nos. 98 and 99 on Basement Level 2, No. 18 Pu Ting Road, Hsin Chu City, Taiwan	<p>The property comprises an office on the 3rd Floor of a 10-storey (excluding 2 basement floors) building completed in 2000.</p> <p>The property has a gross floor area of approximately 234.45 sq.m.</p> <p>The property is leased to CSMC Manufacturing Co., Ltd. by Mao, Yen-Fei, an independent third party, for a term from 1 March 2006 to 31 December 2007 at a monthly rent of NT\$61,111.</p>	The property is occupied by the enlarged CSMC group for office use.	No commercial value

*Note:*

The Taiwan legal opinion states, inter alia, the following:

- (i) The landlord is the registered owner of the property and is entitled to lease the property to CSMC Manufacturing Co., Ltd.
- (ii) The lease is valid and enforceable under the Taiwan's laws.
- (iii) The property is subject to a mortgage registered on 28 November 2006 in favour of Cathay United Bank. In case the mortgagee seeks for enforcement of its right over the mortgage, the court may, at the request of the mortgagee, order CSMC Manufacturing Co., Ltd. to move away from the subject property to facilitate the enforcement procedure.

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**Group V — Property interests rented by the enlarged CSMC group in the PRC**

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
22. Levels 1 and 2 of Block No. 1 and Level 2 of Block No. 4, Jiangnan Jia She, No.14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises Levels 1 and 2 of a 3-storey dormitory building and Level 2 of another 3-storey dormitory building. They were completed in or about 1950's.</p> <p>The property has a total gross floor area of approximately 2,023.6 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 1 Co., Ltd. by 無錫華晶綜合服務有限公司 (Wuxi Huajing Multi-Services Co., Ltd.), a connected party, for a term of 18 months commencing on 1 September 2005 at a monthly rent of RMB18,240.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

*Note:*

The PRC legal opinion states, inter alia, the following:

- (i) Wuxi China Resources Microelectronics Co., Ltd. has obtained the building ownership certificate and state-owned land use rights certificate of the property.
- (ii) Wuxi Huajing Multi-Services Co., Ltd. signed the tenancy agreement on behalf of Wuxi China Resources Microelectronics Co., Ltd. The tenancy agreement is valid, lawful and legally enforceable between the parties. However, as the tenancy agreement has not been registered with the authority, therefore the tenancy agreement will not be enforceable against any bona fide third parties if his/her lease of the property has been registered. There will be a risk that the lessee is required to vacate the property but no penalty from relevant government department will be imposed on the lessee.

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	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
23.	The factory and ancillary office of No. 14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises a 4-storey factory building completed in 1986.</p> <p>The property has a total gross floor area of approximately 15,319.31 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 1 Co., Ltd. by Wuxi China Resources Microelectronics Co., Ltd., a connected party, for a term as stated in Notes 1 to 3 below at a monthly rent of RMB260,000.</p>	The property is occupied by the enlarged CSMC group for factory and ancillary office uses.	No commercial value

*Notes:*

1. According to a tenancy agreement (“Real Property Tenancy Agreement”) dated 1 March 2003, CSMC Technologies Fab 1 Co., Ltd. agreed to lease from Wuxi China Resources Microelectronics Co., Ltd., a connected party, the above premises for a term of 2 years commencing from 1 March 2003 to 28 February 2005 at a monthly rent of RMB260,000. The Real Property Tenancy Agreement covers the premises of Fab 1 and the consideration stated therein forms part of the total consideration payable by the CSMC Group for lease of Fab 1, which includes other facilities not forming part of this tenancy. That means the Real Property Tenancy Agreement only covers the portion of property of the two lease agreements dated 1 March 2003 (“Factory Tenancy Agreements”) which also include other facilities and with a total consideration of RMB760,083.29 per month and the expiry date is the same as the term of operation of CSMC Technologies Fab 1 Co., Ltd.
2. According to a Supplementary Real Property Tenancy Agreement dated 6 June 2004, it states that the term of the Real Property Tenancy Agreement will be automatically renewed at 3 year interval or other term agreed by relevant authority until the expiry of the term as agreed by both parties. The lessor cannot sign any tenancy, which conflicts with the existing lease with other parties regarding the subject property during the term of the Real Property Tenancy Agreement. Both parties have the rights and obligations to apply for registration of all effective tenancies individually or together. Each party should cooperate with the other for the registration of the tenancy.
3. According to a Supplementary Factory and Supporting Facilities Tenancy Agreement dated 6 June 2004, it states that the main factory with a gross floor area of approximately 15,319.31 sq.m. is leased with a monthly rent of RMB260,000 and the supporting facilities occupy approximately 10,006 sq.m. of the aforesaid main factory are leased with a monthly rent of RMB500,000. The lessor agreed that the rental payable shall be in line with rates charged to independent third parties. Both parties agreed to review the rental once every three years and may come to further agreement on adjustment (if any) in the event of material changes to market conditions. In addition, the lessee may terminate the tenancy (i) during the first ten years of the lease of the factory and supporting facilities by giving five years’ written notice to the lessor; (ii) during the second ten years by giving two years’ written notice; and (iii) by giving one year’s written notice thereafter. In addition, the lease will automatically renewed during the term of operation of the lessee at 20 year interval until 2049 and keeping all conditions the same as before. The lessor cannot sign any lease agreement, which conflicts with the existing lease, with other parties regarding the subject property during the lease term of the factory and supporting facilities. Both parties have the rights and obligations to apply for registration of all effective tenancies individually or together. Each party should cooperate with the other for the registration of the tenancy. If it is required by relevant laws or registration department, the parties should enter another tenancy complying with the requirements from relevant laws or

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## APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP

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registration department and in consistent with the Real Property Tenancy Agreement for the purpose of registration. So that the lease can be protected by the tenancy registration during the operation term of the lessee. If one party fails to assist for the application of registration, the other party has the rights to act as the agency of that party to complete the registration.

4. The PRC Legal Opinion states, inter alia, that:
- (i) The lessor has obtained the ownership of the property and the lease arrangement is complied with the relevant regulations.
  - (ii) The tenancy agreements stated in Notes 1, 2 and 3 above are legally enforceable. The rights and obligations of the parties of the tenancy agreements are protected by the PRC Laws. The Real Property Tenancy Agreement has been registered in the Wuxi City Real Estate Administrative Bureau.
  - (iii) Pursuant to the People's Republic of China Contract Law, the term of any tenancy cannot exceed 20 years. However, the arrangement of the lease term will be automatically renewed at 20 year interval until 2049 in the tenancy stated in Note 3 is complied with the PRC laws and legally effective and enforceable on both parties.
  - (iv) Moreover, according to relevant laws and requirements of relevant registration department, the arrangement of entering another tenancy by the parties complying with the requirements from relevant laws or registration department for the purpose of registration is complied with the PRC laws. The lease can be protected by the registration and resist third party during the operation of the lessee. The lease is legally binding and enforceable. The rights and obligations of the parties are protected and bound by the PRC laws.

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
24. The Research and Development Building of No. 14 Liangxi Road, Binhu District, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises a 6-storey building completed in 2006.</p> <p>The property has a gross floor area of approximately 10,000 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 1 Co., Ltd. by Wuxi China Resources Microelectronics Co., Ltd., a connected party, for a term with an expiry date same as that of the term of Property No. 23 at a monthly rent of RMB150,000.</p>	The property is occupied by the enlarged CSMC group for office use.	No commercial value

*Notes:*

1. According to an agreement dated 19 March 2004 and a supplemental agreement dated 6 June 2004, CSMC Technologies Fab 1 Co., Ltd. agreed to lease from Wuxi China Resources Microelectronics Co., Ltd. an office premises with an estimated gross floor area of approximately 10,000 sq.m. with a term expiring on the date same as the expiry date of that of the lease term of Property No. 23 with a monthly rent of RMB15 per sq.m. The parties have also agreed that, without default of either party, the CSMC Group may terminate the lease (i) during the first ten years (from the effective date of the tenancy agreement of Property No.23 and ending 5 May 2009) by giving five years' written notice to Wuxi China Resources Microelectronics Co., Ltd.; (ii) during the second ten years of operation by giving two years' written notice; and (iii) by giving one year's written notice thereafter. In addition, the lease will automatically renewed during the term of operation of the lessee at 20 year interval until 2049 and keeping all conditions the same as before.
  
2. The PRC Legal Opinion states, inter alia, that:
  - (i) As the building ownership certificate of the property has not been obtained, so the tenancy registration cannot be applied. However, according to the PRC laws, the agreement and supplemental agreement are valid and effective and is enforceable on the parties but is not enforceable against any bona fide third parties.
  
  - (ii) If the lessee bears any loss due to the lessor has not obtained the building ownership of the property, the lessor should compensate to the lessee for those losses since he is in breach of the contract.
  
  - (iii) As the tenancy agreement has not been registered, therefore the agreement will not be enforceable against any bona fide third parties. There is a risk that the lessee is required to vacate the property. However, no penalty from relevant government department will be imposed on the lessee.

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
25. Units 301-1, 302-1, 302-2, 501-3, 502-1 and 602-1, No.98, District 2, Tai Hu Garden, Wuxi City, Jiangsu Province, the PRC	<p>The property comprises Units 301-1, 302-1, 302-2, 501-3, 502-1 and 602-1 of a 7-storey residential building completed in 2000.</p> <p>The property has a total gross floor area of approximately 240 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 1 Co., Ltd. by 矽格微電子(無錫)有限公司 (Tpic Microelectronics (Wuxi) Co., Ltd.), not a connected party, on a monthly basis at a monthly rent of RMB17,400.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

*Notes:*

1. According to a tenancy agreement, CSMC Technologies Fab 1 Co., Ltd. agreed to lease from 矽格微電子(無錫)有限公司 (Tpic Microelectronics (Wuxi) Co., Ltd.) the above premises for a term from 1 September 2007 to 30 September 2007 at a monthly rent of RMB17,400.
2. The PRC Legal Opinion states, inter alia, that:
  - (i) Although the tenancy agreement as stated in Note 1 above has already expired, the lessee is still leasing the property and the lessor does not object to the leasing. According to the PRC laws, the tenancy agreement is still valid. However, there is a risk that the lessee is required to vacate the property but the lessor should give a notice with a reasonable time to the lessee.
  - (ii) The lessor has obtained the building ownership certificates and the state-owned land use rights certificate of the property. The tenancy agreement has not been registered.
  - (iii) As the tenancy agreement has not been registered, the tenancy agreement will not be enforceable against any bona fide third parties. There is a risk that the lessee is required to vacate the property. However, no penalty from relevant government department will be imposed on the lessee.

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
26. Portions of Science Research Building and Test Purification Building, Institute of Microelectronics of Chinese Academy of Science, No. 3 Bei Tu Cheng Xi Road, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit on a multi-storey office building completed in 2006 and a unit on another multi-storey building completed in 1985.</p> <p>The property has a total gross floor area of approximately 2,062 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 1 Co., Ltd. by Institute of Microelectronics of Chinese Academy of Science, an independent third party, for a term as stated in Notes 1 and 2 below.</p>	The property is occupied by the enlarged CSMC group for office and workshop uses.	No commercial value

*Notes:*

1. According to a tenancy agreement dated 2 February 2006, CSMC Technologies Fab 1 Co., Ltd. agreed to lease from Institute of Microelectronics of Chinese Academy of Science a portion of Science Research Building for a term from 1 January 2006 to 1 September 2015 at a monthly rent of RMB83,000.
2. According to a co-operation agreement dated October 2005, Institute of Microelectronics of Chinese Academy of Science agreed to lease CSMC Technologies Fab 1 Co., Ltd. a portion of Test Purification Building for a term of 10 years commencing on 1 January 2006 without any charges.
3. The PRC Legal Opinion states, inter alia, that:
  - (i) The building ownership certificates and the state-owned land use rights certificate of the property have not been provided. The tenancy agreement has not been registered.
  - (ii) The tenancy agreement is binding on the parties. If the lessor does not have the right to lease the property or the property cannot be leased under the law, there is a risk that the lessee is required to vacate the property but the lessee can request compensation from the lessor.
  - (iii) As the tenancy agreement has not been registered, therefore the tenancy agreement will not be enforceable against any bona fide third parties. There is a risk that the lessee will have to vacate the property. However, no penalty from relevant government department will be imposed on the lessee.



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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
27. Room 12G, Hua Ting Jia Yuan, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1997.</p> <p>The property has a gross floor area of approximately 75 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 齊文清, an independent third party, for a term from 27 March 2007 to 25 March 2008 at a monthly rent of RMB4,800.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
28. Room 605, Entrance 3, Block No. 35, Hua Yan Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 92 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 何自強, an independent third party, for a term from 15 August 2007 to 14 February 2008 at a monthly rent of RMB3,200.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
29. Room 1806, Block C, Hua Ting Jia Yuan, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1997.</p> <p>The property has a gross floor area of approximately 170.5 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 楊樺, an independent third party, for a term from 31 May 2007 to 31 December 2007 at a monthly rent of RMB6,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
30. Room 1104, Block No. 1, Ma Dian Jing Dian, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1992.</p> <p>The property has a gross floor area of approximately 64.53 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 李麗萍, an independent third party, for a term from 10 January 2007 to 9 January 2008 at a monthly rent of RMB2,150.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
31. Room 2001, Block D, Jun Feng Hua Ting, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 2001.</p> <p>The property has a gross floor area of approximately 70 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 田莉娟, an independent third party, for a term from 8 March 2007 to 7 March 2008 at a monthly rent of RMB6,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
32. Room 1108, Block No. 3, Dou Jing Yuan, Haidian District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1999.</p> <p>The property has a gross floor area of approximately 108 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 王軍, an independent third party, for a term from 11 April 2007 to 10 April 2008 at a monthly rent of RMB3,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

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	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
33.	Room 310, Block No. 4, Dou Jing Yuan, Haidian District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1999.</p> <p>The property has a gross floor area of approximately 108 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 王慧玲, an independent third party, for a term from 9 April 2007 to 8 April 2008 at a monthly rent of RMB3,200.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
34.	Room 407, Block No. 5, Hua Yan Bei Li No. 2 Yuan, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 89.18 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 田瑞芬, an independent third party, for a term from 12 April 2007 to 11 April 2008 at a monthly rent of RMB2,800.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
35.	Room 602, Entrance 1, Block No. 35, Hua Yan Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 92.6 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 王琳, an independent third party, for a term from 18 April 2007 to 17 April 2008 at a monthly rent of RMB3,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
36.	Room 619, Entrance 3, Block No. 3, Hua Yan Bei Li No. 2 Yuan, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 56.18 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 王新, an independent third party, for a term from 28 April 2007 to 27 April 2008 at a monthly rent of RMB2,100.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
37.	Room 101, Entrance 3, Block No. 70, Hua Yan Bei Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 82.8 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 李軼華, an independent third party, for a term from 28 April 2007 to 27 April 2008 at a monthly rent of RMB3,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
38.	Room 202, Entrance 4, Block No. 56, Hua Yan Bei Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 104.81 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 2 Co., Ltd. Beijing Branch by 李寧, an independent third party, for a term from 12 June 2007 to 11 June 2008 at a monthly rent of RMB8,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

**APPENDIX VI****PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
39. Room 1505, Block No. 12, Mu Dan Yuan Dong Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 2002.</p> <p>The property has a gross floor area of approximately 65 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 楊海政, an independent third party, for a term from 12 June 2007 to 11 June 2008 at a monthly rent of RMB2,500.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
40. Room 406, Entrance 2, Block No. 27, Hua Yan Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 60.2 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 謝靜, an independent third party, for a term from 2 July 2007 to 1 January 2008 at a monthly rent of RMB2,300.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value
<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
41. Room 104, Entrance 2, Block No. 27, Hua Yan Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 1998.</p> <p>The property has a gross floor area of approximately 80.5 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 黃宗湖 and 黃景先, an independent third party, for a term from 6 August 2007 to 5 February 2008 at a monthly rent of RMB3,300.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
42. Room 602, Entrance 7, Block No. 11, An Zhen Xi Li Area 1, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 2003.</p> <p>The property has a gross floor area of approximately 40 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 陳曉莉 and 易闊靜, an independent third party, for a term from 27 August 2007 to 26 August 2008 at a monthly rent of RMB2,200.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
43. Room 1206, Block No. 21, An Zhen Li Area 1, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 2003.</p> <p>The property has a gross floor area of approximately 102 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 北京我愛我家房地產經紀有限公司, an independent third party, for a term from 25 September 2007 to 24 September 2008 at a monthly rent of RMB3,500.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
44. Room 510, Block No. 43, Wen Tao Yuan, Lin Cui Xi Li, Chaoyang District, Beijing City, the PRC	<p>The property comprises a unit in a multi-storey composite building completed in 2001.</p> <p>The property has a gross floor area of approximately 71.2 sq.m.</p> <p>The property is leased to CSMC Technologies Fab 3 Co., Ltd. by 李雨洋, an independent third party, for a term from 1 October 2007 to 30 June 2008 at a monthly rent of RMB3,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

*Note:*

The PRC Legal Opinion states, inter alia, that:

- (i) For Property Nos. 27 to 44, the tenancy agreements of the properties are lawful, valid and legally binding.
- (ii) For Property Nos. 27 to 29, 33 to 37 and 39 to 44, the building ownership certificates and the state-owned land use rights certificates of the properties have not been provided. If the lessors do not have the right to lease the properties or the properties cannot be leased under the law, there is a risk that the lessees are required to vacate the properties but the lessees can request compensation from the lessors.

**APPENDIX VI**
**PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
45.	Rooms 510-522, Block No. 102, Pengji Industrial Zone, Luh District, Shenzhen City, the PRC	<p>The property comprises 13 residential units in a multi-storey residential building completed in or about 1990's.</p> <p>The property has a total gross floor area of approximately 390 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 深圳鹏基(集團)有限公司, an independent third party, for a term from 1 January 2007 to 31 December 2009 at a monthly rent of RMB7,800.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
46.	Room 408, Block H3.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 4th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 42 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 鄭高潮, an independent third party, for a term from 19 June 2003 to 18 June 2004 at a monthly rent of RMB1,000.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
47.	Room 6A13, Qing Tai Apartment H5.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 6th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 44.01 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 劉俊堅, an independent third party, for a term from 2 August 2007 to 2 August 2008 at a monthly rent of RMB1,500.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

**APPENDIX VI**
**PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
48.	Room 708, Block H3.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 7th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 44.01 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 徐克軍, an independent third party, for a term from 28 September 2002 to 27 March 2003 at a monthly rent of RMB1,200.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
49.	Rooms 704 and 705, Jiu Tai Apartment H2.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	<p>The property comprises 2 residential units on the 7th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a total gross floor area of approximately 81.46 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 陳燕雲, an independent third party, for a term from 1 October 2005 to 30 December 2006 at a monthly rent of RMB2,400.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
50.	Room 4A5, Chang Tai Apartment H3.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 4th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 41.36 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 虹梅梅, an independent third party, for a term from 16 August 2007 to 15 August 2008 at a monthly rent of RMB1,300.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value



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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
51. Room 509, Shun Tai Apartment H4.8, Tianan Cyber Park, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 5th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 41 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 劉英, an independent third party, for an undefined term commencing on 1 June 2006 at a monthly rent of RMB1,100.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
52. Room 7A4, Shun Tai Apartment H4.8, Tianan Che Gong Miao Industrial Zone, Futian District, Shenzhen City, the PRC	<p>The property comprises a residential unit on the 7th Floor of an 8-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 35.7 sq.m.</p> <p>The property is leased to Semicon Microelectronics (Shen Zhen) Co., Ltd. by 徐曉紅, an independent third party, for a term from 25 June 2007 to 24 June 2008 at a monthly rent of RMB1,300.</p>	The property is occupied by the enlarged CSMC group for staff quarters use.	No commercial value

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**APPENDIX VI      PROPERTY VALUATION ON THE ENLARGED CSMC GROUP**

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	<b>Property</b>	<b>Description and Tenancy particulars</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 October 2007</b>
53.	Level 5, Block No. 92, No. 1112 Qinzhou Bei Road, Cao He Jing Development Zone, Shanghai City, the PRC	<p>The property comprises an industrial floor on the Level 5 of a multi-storey industrial building completed in 2005.</p> <p>The property has a gross floor area of approximately 1,237.4 sq.m.</p> <p>The property is leased to CR PowTech (Shanghai) Limited by 上海新興技術開發區聯合發展有限公司, an independent third party, for a term from 1 January 2006 to 31 December 2007 at an annual rent of RMB722,641.6.</p>	The property is occupied by the enlarged CSMC group for industrial use.	No commercial value

*Note:*

The PRC Legal Opinion states, inter alia, that:

- (i) For Property Nos. 45 to 53, the tenancy agreements of the properties are lawful, valid and legally binding.
- (ii) For Property Nos. 46, 48 and 49, the terms of the tenancy agreements were expired. However, the lessees are still occupying the properties without being objected by the lessors. Pursuant to the People's Republic of China Contract Law, the original tenancy agreements are still valid and are subject to undefined terms.
- (iii) For Property Nos. 45 to 53, the tenancy agreements have not been registered. Therefore, the tenancy agreements will not be enforceable against any bona fide third parties. There is a risk that the lessees are required to vacate the properties. However, no penalty from relevant government department will be imposed on the lessees.

**1. RESPONSIBILITY STATEMENT**

This composite circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to CR Logic. The directors collectively and individually accept full responsibility for the accuracy of the information contained in this composite circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**2. DISCLOSURE OF INTERESTS**

Save as disclosed below, as at the Latest Practicable Date, none of the directors, chief executive of CR Logic and their associates had any interests or short positions in any shares, underlying shares or debentures of CR Logic or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to CR Logic and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to CR Logic and the Stock Exchange:

**(a) Interests in issued ordinary shares and underlying shares of CR Logic**

<b>Name of director</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Number of shares</b>	<b>Number of share options<sup>1</sup></b>	<b>Aggregate percentage of interest<sup>2</sup></b>
Mr. Zhu Jinkun	Beneficial owner	Long position	5,350,000	2,300,000	0.277%
	Interest of spouse	Long position	160,000	—	
Mr. Wang Guoping	Beneficial owner	Long position	1,108,000	3,000,000	0.146%
Mr. Ong Thiam Kin	Beneficial owner	Long position	1,500,000	3,000,000	0.160%
Mr. Jiang Wei	Beneficial owner	Long position	—	720,000	0.026%
Mr. Liu Yanjie	Beneficial owner	Long position	—	510,000	0.018%
Mr. Li Fuzuo	Beneficial owner	Long position	510,000	—	0.018%
Mr. Wong Tak Shing	Beneficial owner	Long position	—	500,000	0.018%

Name of director	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Aggregate percentage of interest <sup>2</sup>
Mr. Luk Chi Cheong	Beneficial owner	Long position	—	900,000	0.032%
Prof. Ko Ping Keung	Beneficial owner	Long position	—	900,000	0.032%

*Notes:*

1. This refers to the number of underlying shares of CR Logic covered by the share options granted under the share option schemes of CR Logic, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 3 below.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares to the total issued share capital of the Company as at the Latest Practicable Date.
3. Particulars of share options referred to in Note 1 above:

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
Mr. Zhu Jinkun	25/04/2001 <sup>1</sup>	0.547	1,000,000	1,000,000	—
	02/10/2002 <sup>4</sup>	0.570	800,000	—	800,000
	09/04/2003 <sup>6</sup>	0.479	2,800,000	2,800,000	—
	13/01/2004 <sup>7</sup>	0.906	1,500,000	—	1,500,000
Mr. Wang Guoping	09/04/2003 <sup>6</sup>	0.479	2,000,000	—	2,000,000
	13/01/2004 <sup>8</sup>	0.906	1,000,000	—	1,000,000
Mr. Ong Thiam Kin	25/04/2001 <sup>1</sup>	0.547	2,000,000	1,000,000	1,000,000
	02/10/2002 <sup>4</sup>	0.570	1,000,000	—	1,000,000
	09/04/2003 <sup>6</sup>	0.479	500,000	500,000	—
	13/01/2004 <sup>8</sup>	0.906	1,000,000	—	1,000,000
Mr. Jiang Wei	09/04/2002 <sup>9</sup>	0.820	720,000	—	720,000
Mr. Liu Yanjie	09/04/2002 <sup>10</sup>	0.820	510,000	—	510,000
Mr. Li Fuzuo	09/04/2002 <sup>10</sup>	0.820	510,000	510,000	—
Mr. Wong Tak Shing	22/05/2002 <sup>2</sup>	0.920	300,000	—	300,000
	13/01/2004 <sup>7</sup>	0.906	200,000	—	200,000

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
Mr. Luk Chi Cheong	22/05/2002 <sup>2</sup>	0.920	300,000	—	300,000
	02/10/2002 <sup>3</sup>	0.570	200,000	—	200,000
	09/04/2003 <sup>5</sup>	0.479	200,000	—	200,000
	13/01/2004 <sup>7</sup>	0.906	200,000	—	200,000
Prof. Ko Ping Keung	22/05/2002 <sup>2</sup>	0.920	500,000	—	500,000
	09/04/2003 <sup>5</sup>	0.479	200,000	—	200,000
	13/01/2004 <sup>7</sup>	0.906	200,000	—	200,000

*Notes:*

1. The exercisable period is divided into 2 tranches exercisable during the periods from 25th April, 2003 and 2004 to 24th April, 2011.
2. The exercisable period during which the options may be exercised is from 22nd May, 2002 to 21st May, 2012.
3. The exercisable period during which the options may be exercised is from 2nd October, 2002 to 1st October, 2012.
4. The exercisable period is divided into 3 tranches exercisable during the periods from 2nd October, 2003, 2004 and 2005 to 1st October, 2012.
5. The exercisable period during which the options may be exercised is from 9th April, 2003 to 8th April, 2013.
6. The exercisable period is divided into 3 tranches exercisable during the periods from 9th April, 2004, 2005 and 2006 to 8th April, 2013.
7. The exercisable period during which the options may be exercised is from 13th January, 2004 to 12th January, 2014.
8. The exercisable period is divided into 3 tranches exercisable during the periods from 13th January, 2005, 2006 and 2007 to 12th January, 2014.
9. The exercisable period is divided into 2 tranches exercisable during the periods from 9th April, 2002 and from 1st January, 2003 to 8th April, 2012.
10. The exercisable period is divided into 4 tranches exercisable during the periods from 9th April, 2002 and from 1st January, 2003, 2004 and 2005 to 8th April, 2012.

(b) **Interests in issued ordinary shares and underlying shares of China Resources Enterprise, Limited (“CRE”), an associated corporation of CR Logic**

<b>Name of director</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Number of shares</b>	<b>Number of share options<sup>1</sup></b>	<b>Aggregate percentage of interest<sup>2</sup></b>
Mr. Zhu Jinkun	Interest of spouse	Long position	42,000	—	0.002%
Mr. Jiang Wei	Beneficial owner	Long position	240,000	—	0.010%

*Notes:*

1. This refers to the number of underlying shares of CRE covered by the share options granted under the share option schemes of CRE, such options being unlisted physically settled equity derivatives.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares to the total issued share capital of CRE as at the Latest Practicable Date.

(c) **Interests in issued ordinary shares and underlying shares of China Resources Power Holdings Company Limited (“CRP”), an associated corporation of CR Logic**

<b>Name of director</b>	<b>Capacity</b>	<b>Long or short position</b>	<b>Number of shares</b>	<b>Number of share options<sup>1</sup></b>	<b>Aggregate percentage of interest<sup>2</sup></b>
Mr. Zhu Jinkun	Beneficial owner	Long position	30,000	350,000	0.009%
Mr. Wang Guoping	Beneficial owner	Long position	270,000	180,000	0.011%
Mr. Ong Thiam Kin	Beneficial owner	Long position	70,000	50,000	0.003%
Mr. Jiang Wei	Beneficial owner	Long position	—	1,600,000	0.039%
Mr. Liu Yanjie	Beneficial owner	Long position	320,000	230,000	0.013%
Mr. Li Fuzuo	Beneficial owner	Long position	480,000	270,000	0.018%

*Notes:*

1. This refers to the number of underlying shares of CRP covered by the share options granted under the share option scheme of CRP, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 3 below.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares to the total issued share capital of CRP as at the Latest Practicable Date.

3. Particulars of share options referred to in Note 1 above:

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
Mr. Zhu Jinkun	12/11/2003 <sup>1</sup>	2.800	500,000	150,000	350,000
Mr. Wang Guoping	12/11/2003 <sup>1</sup>	2.800	450,000	270,000	180,000
Mr. Ong Thiam Kin	12/11/2003 <sup>1</sup>	2.800	250,000	200,000	50,000
Mr. Jiang Wei	12/11/2003 <sup>1</sup>	2.800	1,000,000	—	1,000,000
	18/03/2005 <sup>2</sup>	3.990	600,000	—	600,000
Mr. Liu Yanjie	12/11/2003 <sup>1</sup>	2.800	250,000	200,000	50,000
	18/03/2005 <sup>2</sup>	3.990	300,000	120,000	180,000
Mr. Li Fuzuo	12/11/2003 <sup>1</sup>	2.800	450,000	360,000	90,000
	18/03/2005 <sup>2</sup>	3.990	300,000	120,000	180,000

Notes:

- The options are exercisable in 5 tranches, from 6th October, 2004, 2005, 2006, 2007 and 2008 to 5th October, 2013.
- The options are exercisable in 5 tranches, from 18th March, 2006, 2007, 2008, 2009 and 2010 to 17th March, 2015.

(d) **Interests in issued ordinary shares and underlying shares of China Resources Land Limited (“CR Land”), an associated corporation of CR Logic**

Name of director	Capacity	Long or short position	Number of shares	Number of share options <sup>1</sup>	Aggregate percentage of interest <sup>2</sup>
Mr. Zhu Jinkun	Beneficial owner	Long position	100,000	—	0.002%
Mr. Jiang Wei	Beneficial owner	Long position	892,000	—	0.022%
Mr. Liu Yanjie	Beneficial owner	Long position	550,000	250,000	0.020%
Mr. Li Fuzuo	Beneficial owner	Long position	750,000	250,000	0.025%

Notes:

- This refers to the number of underlying shares of CR Land covered by the share options granted under the share option scheme of CR Land, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 3 below.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares to the total issued share capital of CR Land as at the Latest Practicable Date.
3. Particulars of share options referred to in Note 1 above:

Name of Director	Date of grant (HK\$)	Exercise price per share	Number of share options		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
Mr. Liu Yanjie	01/06/2005 <sup>1</sup>	1.230	500,000	250,000	250,000
Mr. Li Fuzuo	01/06/2005 <sup>1</sup>	1.230	500,000	250,000	250,000

*Note:*

1. The options are exercisable in 4 tranches, from 1st June, 2006, 2007, 2008 and 2009 to 31st May, 2015.

(e) **Interests in issued ordinary shares and underlying shares of CSMC, a subsidiary of CR Logic**

Name of director	Capacity	Long or short position	Number of shares	Number of shares allocated <sup>1</sup>	Aggregate percentage of interest <sup>2</sup>
Mr. Ong Thiam Kin	Beneficial owner	Long position	1,000,000	—	0.036%
Mr. Chen Cheng-yu, Peter	Beneficial owner	Long position	37,293,200	2,330,000	1.445%

*Notes:*

1. This refers to the number of CSMC's shares allocated to Mr. Chen under the equity incentive plan of CSMC, such shares allocated being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 3 below.
2. This represents the percentage of aggregate long position in ordinary shares and underlying shares to the total issued share capital of CSMC as at the Latest Practicable Date.



3. Particulars of shares allocated referred to in Note 1 above:

Name of Director	Date of grant	Exercise Price per share (HK\$)	Number of shares allocated		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
Dr. Chen Cheng-yu, Peter	01/10/2003 <sup>1</sup>	0.078	2,330,000	—	2,330,000

*Note:*

1. The exercisable period during which the options may be exercised is from 1st October, 2004 to 1st October, 2008.

### 3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the directors and chief executive of CR Logic are not aware that there was any party (other than a director or chief executive of CR Logic), who, as at the Latest Practicable Date had an interest or short position in the shares and underlying shares of CR Logic which would fall to be disclosed to CR Logic under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote at general meeting of any other member of the Group:

#### (a) Long position in CR Logic

Name of shareholder	Capacity	Nature of interests	Number of ordinary shares	Percentage of aggregate long position in shares to the issued share capital of CR Logic as at the Latest Practicable Date
Gold Touch Enterprises Inc. (“Gold Touch”)	Beneficial owner	Beneficial interest	297,229,604	10.55%
Waterside Holdings Limited (“Waterside”)	Beneficial owner	Beneficial interest	535,347,743	18.99%
Splendid Time Investments Inc. (“Splendid”)	Beneficial owner	Beneficial interest	1,109,688,810	39.37%

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Nature of interests</b>	<b>Number of ordinary shares</b>	<b>Percentage of aggregate long position in shares to the issued share capital of CR Logic as at the Latest Practicable Date</b>
China Resources Holdings	Beneficial owner	Beneficial interest	4,836,000	0.17%
China Resources Holdings	Interest of controlled corporation	Corporate interest	1,942,266,157	69.91%
CRC Bluesky Limited (“CRC Bluesky”)	Interest of controlled corporation	Corporate interest	1,947,102,157	69.08%
China Resources Co., Limited (“CRCL”)	Interest of controlled corporation	Corporate interest	1,947,102,157	69.08%
China Resources National Corp. (“CRN”)	Interest of controlled corporation	Corporate interest	1,947,102,157	69.08%

Gold Touch, Waterside and Splendid each directly holds 297,229,604 shares, 535,347,743 shares and 1,109,688,810 shares respectively in CR Logic as at the Latest Practicable Date. Gold Touch, Waterside and Splendid are wholly owned subsidiaries of China Resources Holdings, which is therefore deemed to own 1,942,266,157 shares of CR Logic as at the Latest Practicable Date. In addition, China Resources Holdings directly owns 4,836,000 shares in CR Logic. China Resources Holdings is a wholly owned subsidiary of CRC Bluesky. CRC Bluesky is a wholly owned subsidiary of CRCL, which in turn is 99.98% owned by CRN. CRN is deemed to have interest in 1,947,102,157 shares.

The director of CR Logic namely, Mr. Zhu Jinkun is a director of Waterside, China Resources Holdings, CRCL and CRN. The director of CR Logic namely, Mr. Jiang Wei is a director of Gold Touch, Waterside, China Resources Holdings, CRCL and CRN.

**(b) Of other members of the CR Logic group**

So far as is known to any director or chief executive of CR Logic, as at the Latest Practicable Date, the following persons were, directly or indirectly, interested in 10% or more of the share capital carrying rights to vote at general meetings of the following members of the CR Logic group:

<b>Members of the CR Logic group</b>	<b>Name of substantial Shareholder</b>	<b>Percentage of shareholding</b>
Micro Assembly Technologies Limited	STATS ChipPAC Ltd.	25%

**4. PROCEDURE TO DEMAND A POLL**

Pursuant to bye-law 78 of the Bye-Laws of CR Logic, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in CR Logic conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the directors has entered or proposed to enter into a service contract with any member of the CR Logic group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 6. DIRECTORS INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the directors has any interest, direct or indirect, in any asset which since 31st December, 2006, the date to which the latest published audited financial statements of the CR Logic group were made up, have been acquired or disposed of by or leased to any member of the CR Logic group or are proposed to be acquired or disposed of by or leased to any member of the CR Logic group.

As at the Latest Practicable Date, none of the directors was materially interested in any contract or arrangement which is significant in relation to the businesses of the CR Logic group.

## 7. NO MATERIAL CHANGES

The directors are not aware of any material adverse change in the financial or trading position of the CR Logic group since 31st December, 2006, the date to which the latest published audited financial statements of the CR Logic group were made up.

## 8. EXPERT

The following is the qualification of the expert who has given an opinion or advice contained in this composite circular:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountants
CIMB-GK Securities (HK) Limited	a licensed corporation for types 1 (Dealing in Securities), 4 (Advising on Securities) and 6 (Advising on Corporate Finance) regulated activities under the SFO

As at the Latest Practicable Date, none of the experts had any shareholding in any member of the CR Logic group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the CR Logic group. As at the Latest Practicable Date, none of the experts had any interest, direct or indirect, in any asset which since 31st December, 2006, the date to which the latest published audited financial statements of the CR Logic group were made up, have been acquired or disposed of by or leased to any member of the CR Logic group or are proposed to be acquired or disposed of by or leased to any member of the CR Logic group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this composite circular with the inclusion of its letter as set out in this composite circular and references to its name in the form and context in which they appear in this composite circular.

## 9. COMPETING BUSINESS

As at the Latest Practicable Date, none of the directors or their respective associates has an interest in a business apart from CR Logic's business which competes or is likely to compete, either directly or indirectly, with the CR Logic group's businesses.

**10. LITIGATION**

Neither CR Logic nor any member of the CR Logic group is engaged in any litigation or arbitration or claim of material importance and, so far as the directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against any member of the CR Logic group.

**11. GENERAL**

- (a) The secretary of CR Logic is Mr. LEE Yip Wah, Peter who is a practising solicitor in Hong Kong, a consultant of Messrs. Woo Kwan Lee & Lo, Solicitors and Notaries, and a China Appointed Attesting Officer.
- (b) The qualified accountant of CR Logic appointed pursuant to Rule 3.24 of the Listing Rules is Mr. ONG Thiam Kin, who is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and members of the national accounting bodies of Singapore and Malaysia.
- (c) The registered office of CR Logic is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of CR Logic is situated at Rooms 4003-06, 40th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (d) The CR Logic's Hong Kong branch share registrar is Tricor Secretaries Limited, which is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

**12. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the CR Logic group within the two years immediately preceding the date of this composite circular and up to the Latest Practicable Date and which are or may be material:

- (a) an asset sale and purchase agreement dated 22nd June 2006 and entered into among STATS ChipPAC Shanghai Co., Ltd. ("SCC"), STATS ChipPAC Ltd. ("SCL"), Wuxi CR Micro-Assemb Tech. Ltd. ("ANST") and CR Logic
- (b) a subscription agreement dated 22nd June 2006 and entered into among SCL, CR Logic, Micro Assembly Technologies Limited ("MAT") and Wuxi China Resources Microelectronics (Holdings) Limited ("Wuxi CRM")
- (c) a joint venture agreement dated 22nd June 2006 and entered into among SCL, CR Logic, Wuxi CRM, MAT and ANST
- (d) an agreement for the sale and purchase of China Resources Cooling Technology Co. Ltd. dated 21st June, 2007 and entered into between CRT (BVI) Limited, Gradison Limited and CR Logic

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at Rooms 4003-06, 40th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, the principal place of business of CR Logic, from the date of this composite circular for a period of 14 days:

- (a) the memorandum and articles of association of CR Logic;
- (b) the sale and purchase agreements in respect of the semiconductors business of CR Logic and Redland Concrete Limited;
- (c) the material contracts referred to in the paragraph headed “Material Contracts” of this appendix;
- (d) the letters from the independent board committees of CR Logic, the text of which is set out on pages 41 to 42 of this composite circular;
- (e) the letters from CIMB-GK Securities (HK) Limited, the text of which is set out on pages 43 to 52 of this composite circular;
- (f) the letters of consent from the experts referred to in the paragraph headed “Expert” in this appendix to this composite circular;
- (g) the Accountant’s Report on the CR Logic group set out in Appendix II to this composite circular;
- (h) the letter from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information on the remaining CR Logic group set out in Appendix IV to this composite circular; and
- (i) circular of CR Logic dated 12th July, 2007.

**1. RESPONSIBILITY STATEMENT**

This composite circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to CSMC. The directors collectively and individually accept full responsibility for the accuracy of the information contained in this composite circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**2. SHARE CAPITAL**

As at the Latest Practicable Date, the authorised and issued share capital of CSMC were as follows:

<i>Authorised share capital:</i>	<b>HK\$</b>
10,000,000,000 shares	1,000,000,000
<i>Issued and fully paid or credited as fully paid shares:</i>	
2,741,290,579 shares	274,129,058
<i>To be issued for the acquisition of semiconductor businesses of CR Logic and as consideration for cancellation of share options of CR Logic:</i>	
Maximum of 3,210,167,717 shares	321,016,772

**3. DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, the directors and the president of CSMC and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of CSMC and its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to CSMC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of CSMC referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to CSMC and the Stock Exchange:

**A. Long positions in CSMC's shares**

- (a) **Particulars of shares allocated (but not exercised) to directors and connected persons (as defined in the Listing Rules) under the equity incentive plan of CSMC were as follows:**

<b>Name of director</b>	<b>Shares allocated*</b>	<b>Approximate percentage of interest in CSMC</b>
Mr. CHEN Cheng-yu, Peter	<u>2,330,000</u>	0.08%

Notes:

\* Particulars of shares allocated referred above:

Name of director	Date of grant	Exercise price per share (HK\$)	Number of shares allocated		
			Outstanding as at 1st January, 2007	Number of shares exercised prior to the Latest Practicable Date	Outstanding as at the Latest Practicable Date
Mr. CHEN Cheng-yu, Peter	01/10/2003 <sup>1</sup>	0.078	2,330,000	—	2,330,000
Mr. DENG Mao-song, Elvis	01/10/2003 <sup>1</sup>	0.078	1,330,000	1,330,000	—

<sup>1</sup> The exercisable period during which the options may be exercised is from 1st October, 2004 to 1st October, 2008.

<sup>2</sup> Dr. CHEN Cheng-yu, Peter is also a director of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date.

(b) CSMC shares held by the directors

As at the Latest Practicable Date, particulars of the CSMC shares held by the directors and their respective associates (as defined in the Listing Rules), directly and indirectly, were as follows:

Name of director	Shares held	Approximate percentage of interest in CSMC
Mr. CHEN Cheng-yu, Peter ( <i>Note 1</i> )	37,293,200	1.36%
Mr. DENG Mao-song, Elvis	6,943,230	0.25%
Mr. ONG Thiam kin ( <i>Note 2</i> )	1,000,000	0.04%
Total	<u>45,236,430</u>	<u>1.65%</u>

Notes:

1. Dr. CHEN Cheng-yu, Peter is also a director of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date.

2. Mr. ONG Thiam Kin is also a director of CR Logic which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date. Mr. Ong is also a director of Faithway Resources Limited, China Resources Microelectronics (Holdings) Limited and CRT (BVI) Limited, each of which is interested in approximately 25.22% of the issued share capital of CSMC as at the Latest Practicable Date.



## B. Long positions in CR Logic's shares

- (a) Particulars of options relating to shares of CR Logic granted (but not exercised) to directors and connected persons (as defined in the Listing Rules) under the share option schemes of CR Logic were as follows:

Name of director	Share options of CR Logic granted*	Approximate percentage of interest in CR Logic
Mr. ZHU Jinkun	2,300,000	0.08%
Mr. WANG Guoping	3,000,000	0.11%
Mr. ONG Thiam Kin	3,000,000	0.11%
Mr. YU Yu	4,000,000	0.14%
Total	<u>12,300,000</u>	<u>0.44%</u>

Notes:

Mr. ZHU Jinkun, Mr. WANG Guoping and Mr. ONG Thiam Kin are also the directors of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date.

Mr. YU Yu is an employee of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date. Mr. YU is also a director of China Resources Microelectronics (Holdings) Limited and Faithway Resources Limited, each of which is interested in approximately 25.22% of the issued share capital of CSMC as at the Latest Practicable Date.

\* Particulars of the outstanding share options granted but not exercised:

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options		
			Outstanding as at 1st January, 2007	Outstanding Exercised during the period	Outstanding as at Latest Practicable Date
Mr. Zhu Jinkun	25/04/2001 <sup>1</sup>	0.547	1,000,000	1,000,000	—
	02/10/2002 <sup>2</sup>	0.570	800,000	—	800,000
	09/04/2003 <sup>3</sup>	0.479	2,800,000	2,800,000	—
	13/01/2004 <sup>4</sup>	0.906	1,500,000	—	1,500,000
Mr. Wang Guoping	09/04/2003 <sup>3</sup>	0.479	2,000,000	—	2,000,000
	13/01/2004 <sup>5</sup>	0.906	1,000,000	—	1,000,000
Mr. Ong Thiam Kin	25/04/2001 <sup>1</sup>	0.547	2,000,000	1,000,000	1,000,000

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options		
			Outstanding as at 1st January, 2007	Exercised during the period	Outstanding as at Latest Practicable Date
	02/10/2002 <sup>2</sup>	0.570	1,000,000	—	1,000,000
	09/04/2003 <sup>3</sup>	0.479	500,000	500,000	—
	13/01/2004 <sup>5</sup>	0.906	1,000,000	—	1,000,000
Mr. Yu Yu	01/12/2001 <sup>6</sup>	0.790	1,500,000	—	1,500,000
	02/10/2002 <sup>2</sup>	0.570	1,000,000	—	1,000,000
	09/04/2003 <sup>3</sup>	0.479	500,000	—	500,000
	13/01/2004 <sup>5</sup>	0.906	1,000,000	—	1,000,000
Dr. Chen Nanxiang	03/04/2003 <sup>7</sup>	0.479	160,000	160,000	—
	13/01/2004 <sup>5</sup>	0.906	800,000	800,000	—

1. The exercisable period is divided into 2 tranches, exercisable during the periods from 25th April, 2003 and 2004 to 24th April, 2011.
2. The exercisable period is divided into tranches, exercisable during the periods from 2nd October, 2003, 2004 and 2005 to 1st October, 2012.
3. The exercisable period is divided into 3 tranches, exercisable during the periods from 9th April, 2004, 2005 and 2006 to 8th April, 2013.
4. The exercisable period during which the share options may be exercised is from 13th January, 2004 to 12th January, 2014.
5. The exercisable period is divided into 3 tranches, exercisable during the periods from 13th January, 2005, 2006 and 2007 to 12th January, 2014.
6. The exercisable period is divided into tranches, exercisable during the periods from 3rd December, 2002, 2003 and 2004 to 3rd December, 2011.
7. The exercisable period during which the share options may be exercised is from 3rd April, 2006 to 2nd April, 2013.

## (b) Shares of CR Logic held by the directors

As at the Latest Practicable Date, particulars of the shares of CR Logic held by the directors and their respective associates (as defined in the Listing Rules), directly and indirectly, were as follows:

Name of director	Shares of CR Logic held	Approximate percentage of interest in CR Logic
Mr. ZHU Jinkun	5,350,000	0.190%
Mr. ZHU Jinkun's spouse	160,000	0.006%
Mr. WANG Guoping	1,108,000	0.039%
Mr. ONG Thiam Kin	1,500,000	0.053%
Mr. YU Yu	100,000	0.004%
Mr. YU Yu's spouse	60,000	0.002%
Dr. CHEN Nan-xiang	<u>960,000</u>	<u>0.034%</u>
Total	<u>9,238,000</u>	<u>0.328%</u>

*Notes:*

Mr. ZHU Jinkun, Mr. WANG Guoping and Mr. ONG Thiam Kin are also the directors of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date.

Mr. YU Yu is an employee of CR Logic, which is interested in approximately 72.41% of the issued share capital of CSMC as at the Latest Practicable Date. Mr. YU is also a director of China Resources Microelectronics (Holdings) Limited and Faithway Resources Limited, each of which is interested in approximately 25.22% of the issued share capital of CSMC as at the Latest Practicable Date.

Dr. CHEN Nan-xiang is a director of China Resources Microelectronics (Holdings) Limited, which is interested in approximately 25.22% of the issued share capital of CSMC as at the Latest Practicable Date.

**C. Particulars of directors' other interests**

As at the Latest Practicable Date, none of the directors has entered or is proposing to enter into a service contract with CSMC or any of its subsidiaries (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the directors and the president of CSMC and their respective associates held any interest or short position in the shares, underlying shares and debentures of CSMC or any of its associated corporation (within the meaning of the SFO) which had to be notified to CSMC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to CSMC and the Stock Exchange;
- (ii) none of the directors had any direct or indirect interest in any assets which had been, since 31st December, 2006, the date to which the latest published audited accounts of CSMC were made up, acquired or disposed of by or leased to CSMC or any of its subsidiaries, or were proposed to be acquired or disposed of by or leased to CSMC or any of its subsidiaries;
- (iii) none of the directors was materially interested in any contract or arrangement entered into by CSMC or any of its subsidiaries which contract or arrangement was subsisting and which was significant in relation to the business of the CSMC group; and
- (iv) none of the directors and their respective associates was interested in any business that was in competition with CSMC.

#### 4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, insofar as the directors were aware, the interests and long positions of any person (other than the Directors) in the shares and underlying shares of CSMC under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

##### Long position in CSMC

Name of shareholder	Number of shares held	Approximate percentage of total shareholding
China Resources National Corporation <sup>(1)</sup> (“CRN”)	1,984,967,848	72.41%
China Resources Co., Limited <sup>(1)</sup> (“CRCL”)	1,984,967,848	72.41%
CRC Bluesky Limited <sup>(1)</sup> (“CRC Bluesky”)	1,984,967,848	72.41%
China Resources Holdings <sup>(1)</sup>	1,984,967,848	72.41%
Splendid Time Investments Inc. <sup>(1)</sup> (“Splendid”)	1,984,967,848	72.41%
China Resources Logic Limited <sup>(1)</sup> (“CR Logic”)	1,984,967,848	72.41%
CRT (BVI) Limited <sup>(2)</sup> (“CRT”)	691,437,790	25.22%
China Resources Microelectronics (Holdings) Limited <sup>(2)</sup> (“CR Microelectronics”)	691,437,790	25.22%
Faithway Resources Limited <sup>(2)</sup> (“Faithway”)	691,437,790	25.22%

*Notes:*

- 1 CRN is a State owned enterprise which is the parent company of CRCL, a company incorporated in the PRC, which in turn is the parent company of CRC Bluesky, a company incorporated in the British Virgin Islands, which is in turn the parent company of CR Holdings, a company incorporated in Hong Kong. Splendid, a company incorporated in the British Virgin Islands, is interested in one third or more of the voting power at general meetings of CR Logic, a company incorporated in Bermuda and whose shares are listed on the Stock Exchange. Each of CRN, CRCL, CRC Bluesky, CR Holdings, Splendid and CR Logic is deemed to be interested in the shares of the Company held by Faithway by virtue of Divisions 2 and 3 of Part XV of the SFO.
- 2 Faithway is wholly owned by CR Microelectronics, a company incorporated in the British Virgin Islands, which is in turn wholly owned by CRT, a company incorporated in the British Virgin Islands. CRT is wholly owned by CR Logic. Each of Faithway, CR Microelectronics and CRT is deemed to be interested in the shares of the Company by virtue of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, so far as was known to the directors, as at the Latest Practicable Date, no other person (other than the directors or the president of CSMC) had any interests or short positions in the shares and underlying shares and debentures of CSMC which are required to be disclosed to CSMC and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, nor is it expected that there are any other persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of CSMC or any of its associated corporations.

**5. PROCEDURE TO DEMAND A POLL**

Pursuant to Article 76 of the articles of association of CSMC, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands) demanded or unless a poll is taken as may from time to time be required under the Listing Rules or under any other applicable laws, rules or regulations:

- (a) by the chairman of the meeting; or
- (b) by at least five members of CSMC present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members of CSMC present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members of CSMC having the right to vote at the meeting; or
- (d) by a member or members of CSMC present in person or by proxy and holding shares in CSMC conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

**6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the directors has entered or proposed to enter into a service contract with any member of the CSMC group which is not determinable by the employer within one year without payment of compensation other than statutory compensation.

**7. LITIGATION**

As at the Latest Practicable Date, neither CSMC nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors to be pending or threatened by or against CSMC or any of its subsidiaries.

**8. MATERIAL ADVERSE CHANGE**

The directors are not aware of any material adverse change in the financial or trading position of CSMC since 31st December, 2006, the date to which the latest audited consolidated financial statements of CSMC were made up.

**9. COMPETING BUSINESS**

As at the Latest Practicable Date, none of the directors or their respective associates has an interest in a business apart from CSMC's business which competes or is likely to compete, either directly or indirectly, with the CSMC group's business.

**10. EXPERT**

The following is the qualification of the expert who has given an opinion or advice contained in this composite circular:

<b>Name</b>	<b>Qualification</b>
Vigers Appraisal & Consulting Limited	valuer
Deloitte Touche Tohmatsu	certified public accounts
KGI Capital Asia Limited	a licensed corporation for types 1 (Dealing in Securities), 4 (Advising on Securities) and 6 (Advising on Corporate Finance) regulated activities under the SFO

As at the Latest Practicable Date, none of the experts had any shareholding in any member of the CSMC group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the CSMC group. As at the Latest Practicable Date, none of the experts had any interest, direct or indirect, in any asset which since 31st December, 2006, the date to which the latest published audited financial statements of the CSMC group were made up, have been acquired or disposed of by or leased to any member of the CSMC group or are proposed to be acquired or disposed of by or leased to any member of the CSMC group.

Each of the experts has given and has not withdrawn its written consent to the issue of this composite circular with the inclusion of its letter as set out in this composite circular and references to its name in the form and context in which they appear in this composite circular.

**11. GENERAL**

- (a) The registered office of CSMC is at Scotia Centre, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and the principal place of business of the Company is at No.14 Liangxi Road, Wuxi, Jiangsu, 214061, PRC. The place of business of CSMC in Hong Kong registered under Part XI of the Companies Ordinance is Rm.510, 5/F., IC Development Centre, No.6 Science Park West Avenue, Hong Kong Science Park, Shatin, N.T., Hong Kong.
- (b) The secretary and qualified accountant of CSMC is Mr. Frank Lai Ni Hium. Mr. Lai is a certified practising accountant in Australia.
- (c) The share registrar and transfer office of CSMC in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of inconsistency, the English text of this composite circular shall prevail over the Chinese text.

**12. MATERIAL CONTRACTS**

Within the two years immediately preceding the date of this composite circular, CSMC did not enter into any contracts (not being contracts entered into in the ordinary course of business), which are or may be material.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection at the offices of Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays), from the date of this composite circular for a period of 14 days:

- (a) the memorandum and articles of association of CSMC;
- (b) the sale and purchase agreement in respect of the semiconductor businesses of CR Logic;
- (c) the letter from the board of CSMC, the text of which is set out on pages 25 to 40 of this composite circular;
- (d) the letter from the independent board committee of CSMC, the text of which is set out on page 53 of this composite circular;
- (e) the letter from KGI Capital Asia Limited, the text of which is set up on pages 54 to 76 to this composite circular;
- (f) the property valuation report prepared by Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix VI to this composite circular;
- (g) the annual reports of CSMC for the two financial years ended 31 December 2005 and 2006; and
- (h) the Accountants' Report on the CR Logic Semiconductor group set out in Appendix I to this composite circular;
- (i) the letter from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information on the enlarged CSMC group set out in Appendix V to this composite circular;
- (j) the letters of consent from the experts referred to in the paragraph headed "Expert" in this appendix to this composite circular;
- (k) circular of CSMC dated 19th April, 2007.



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## NOTICE OF SPECIAL GENERAL MEETING FOR CR LOGIC

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華潤勵致有限公司

China Resources Logic Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1193)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of China Resources Logic Limited (the “**Company**”) will be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February, 2008 at 2:00 p.m. for the purpose of considering and, if thought fit, with or without modification, passing the following resolutions as ordinary resolutions and special resolution of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the sale and purchase agreement dated 4th December, 2007 by and amongst the Company, China Resources Microelectronics (Holdings) Limited, China Resources Semiconductor (International) Limited and CSMC Technologies Corporation (“**CSMC**”) (the “**Disposal Agreement**”), and the transactions contemplated thereunder subject to the conditions set out thereunder being fulfilled or waived as the case may be, be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Disposal Agreement or any matters in relation thereto.”

2. “**THAT**, without limiting the generality of the Ordinary Resolution numbered 1 set out in the notice of special general meeting of the Company dated 16th January, 2008 (the “**Notice of Meeting**”), subject to the Disposal Agreement becoming unconditional in accordance with its terms:

- (a) the offer by the Company to cancel the options granted by it pursuant to its share option schemes adopted on 15th October, 1994 and 26th November, 2001 (and subsequently amended on 21st February, 2002) which remain unexercised to holders thereof that are directors of or otherwise constitute “connected persons” of the Company under the Listing Rules (as defined in the Circular) in the manner described under the section headed “The termination of CR Logic’s employee share option scheme and cancellation of outstanding options” set out in the “Letter from the Board of CR Logic” section of the composite circular of the Company and CSMC dated 16 January 2008 (the “**Circular**”) (the “**Director Option Cancellation Offer**”), be and is hereby approved;

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## NOTICE OF SPECIAL GENERAL MEETING FOR CR LOGIC

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- (b) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Director Option Cancellation Offer or any matters in relation thereto.”

3. **“THAT:**

- (a) the sale and purchase agreement dated 4th December, 2007 by and between the Company and China Resources Concrete Limited dated 4th December, 2007 (the **“Acquisition Agreement”**), and the transactions contemplated thereunder subject to the conditions set out thereunder being fulfilled or waived as the case may be, be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Acquisition Agreement or any matters in relation thereto.”

4. **“THAT:**

- (a) the continuing connected transactions set out under the sub-section headed “Sales of goods to a fellow subsidiary” under the section headed “Continuing Connected transactions for CR Logic” in the “Letter from the Board of CR Logic” of the Circular (the **“Continuing Connected Sales”**) be and are hereby approved;
- (b) the cap amounts in relation to the Continuing Connected Sales for each of three financial years ending 2010 of HK\$20 million, HK\$22 million and HK\$24 million, respectively, be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Continuing Connected Sales or any matters in relation thereto.”

5. **“THAT:**

- (a) the continuing connected transactions set out under the sub-section headed “Purchases of goods from fellow subsidiaries” under the section headed “Continuing Connected transactions for CR Logic” in the “Letter from the Board of CR Logic” of the Circular (the **“Continuing Connected Purchases”**) be and are hereby approved;
- (b) the cap amounts in relation to the Continuing Connected Purchases for each of three financial years ending 2010 of HK\$150 million, HK\$165 million and HK\$182 million, respectively, be and are hereby approved; and

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## NOTICE OF SPECIAL GENERAL MEETING FOR CR LOGIC

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- (c) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Continuing Connected Purchases or any matters in relation thereto.”
6. “**THAT** subject to (i) the Disposal Agreement becoming unconditional in accordance with its terms, and (ii) the Special Resolution numbered 9 in the Notice of Meeting having been passed and the Capital Reduction and Share Premium Cancellation (as defined in such resolution) becoming effective:
- (a) (i) upon the recommendation of the board of directors of the Company (the “**Board**”), the declaration and payment of a special dividend out of the retained earnings of the Company and/or the distribution out of the contributed surplus account of the Company of an amount that is sufficient to effect the Distribution in Specie (as defined below) (such amount to be determined by any one director of the Company with reference to the book value of the shares in the capital of CSMC held by the Company as at the relevant date) be and is hereby approved; and
- (ii) the payment of the dividend and/or the distribution contemplated in (i) above be satisfied by the distribution of all the shares of CSMC that:
- (I) are held by the Company or due to be distributed to the Company or would otherwise be held by the Company as at the date of completion of the Disposal Agreement, and
- (II) are issued or to be or would be issued to the Company in accordance with the terms of the Disposal Agreement,
- to the shareholders of the Company whose names are registered in the register of members of the Company at the close of business on the record date, being 22nd February, 2008:
- (A) on the basis of 180 shares in CSMC for every 100 shares in the Company and so in proportion for any greater or lesser number of shares in the Company held, on the condition that the Acquisition Agreement becomes unconditional in accordance with its terms; or
- (B) if the Acquisition Agreement does not become unconditional in accordance with its terms, on such other basis as the board of directors of the Company shall determine in accordance with the disclosure under “Distribution in specie” in the “Letter from the Board of CR Logic” in the Circular,
- (the “**Distribution in Specie**”); and
- (b) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Distribution in Specie or any matters in relation thereto.”

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## NOTICE OF SPECIAL GENERAL MEETING FOR CR LOGIC

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7. “**THAT** subject to the Distribution in Specie becoming effective in accordance with the Ordinary Resolution numbered 6 in the Notice of Meeting, the share consolidation of the issued share capital of the Company on the basis of every 10 shares in the issued and unissued share capital respectively of the Company of HK\$0.01 each be consolidated into one share of HK\$0.10 each with effect from the first business day (being a day other than a Saturday or a Sunday on which banks are open for general banking business in Hong Kong and Bermuda (“**Business Day**”)) after the Distribution in Specie has been effected (the “**Share Consolidation**”) be and is hereby approved, and any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Share Consolidation or any matters in relation thereto.”
8. “**THAT** subject to the Share Consolidation becoming effective in accordance with Ordinary Resolution numbered 7 in the Notice of Meeting, the authorised share capital of the Company be increased from HK\$60,000,000 divided into 600,000,000 shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each by the creation of an additional 9,400,000,000 new shares of HK\$0.10 each with immediate effect following the Share Consolidation becoming effective (the “**Capital Increase**”), and that the directors of the Company be and are hereby authorised to do all such acts, deeds and things and shall execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the Capital Increase or any matters in relation thereto.”

### SPECIAL RESOLUTION

9. “**THAT**, subject to (i) the Ordinary Resolution numbered 1 in the Notice of Meeting having been passed, (ii) the Disposal Agreement having been approved by the shareholders of CSMC by ordinary resolution, and (iii) compliance with sections 40 and 46(2) of the Companies Act 1981 of Bermuda (as amended), with effect from the first Business Day after the date on which this resolution is passed (the “**Effective Date**”):
- (a) the share capital of the Company be reduced by reducing the nominal amount of each issued and unissued share of HK\$0.10 in the capital of the Company by HK\$0.09 (the “**Capital Reduction**”) such that the authorised share capital of the Company will be HK\$60,000,000 divided into 6,000,000,000 shares of par value of HK\$0.01 each and the issued share capital will be reduced from the amount that is equal to the number of shares of HK\$0.10 each in the share capital of the Company in issue on the Effective Date (the “**Relevant Share Number**”) multiplied by HK\$0.10, to the amount that is equal to the Relevant Share Number multiplied by HK\$0.01 each, by the difference between such two amounts;
  - (b) the entire amount standing to the credit of the share premium account of the Company as at the Effective Date be reduced to nil (the “**Share Premium Cancellation**”);
  - (c) the credits arising from the Capital Reduction and the Share Premium Cancellation be credited to the contributed surplus account of the Company (the “**Credit Transfer**”); and

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## NOTICE OF SPECIAL GENERAL MEETING FOR CR LOGIC

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- (d) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Capital Reduction, Share Premium Cancellation and the Credit Transfer or any matters in relation thereto.”

By order of the board  
**LEE Yip Wah, Peter**  
*Secretary*

Hong Kong, 16th January, 2008

*Principal place of business*  
Rooms 4003-06  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

Registered Office  
Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

**Notes:**

1. Any member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's principal place of business not later than 48 hours before the time appointed for holding the meeting. Completion and return of a form of proxy will not preclude you from attending and voting in person if you are subsequently able to be present, in such event, the instrument appointing the proxy shall be deemed to be revoked.
3. The register of members of the Company will be closed from 19th February, 2008 to 22nd February, 2008, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed Distribution in Specie, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m., on 18th February, 2008.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR CSMC

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華潤上華科技有限公司\*

### CSMC TECHNOLOGIES CORPORATION

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 597)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of CSMC Technologies Corporation (the “Company”) will be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 13th February, 2008 at 3:30 p.m., for the purpose of considering and, if thought fit, passing, with or without modification, resolutions 1 and 2 as ordinary resolutions and resolution 3 as a special resolution:

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (i) the entering into by the Company of the agreement for the sale and purchase of the semiconductor business of China Resources Logic Limited (the “Agreement”), pursuant to which the Company agreed to acquire from China Resources Logic Limited, China Resources Microelectronics (Holdings) Limited and China Resources Semiconductor (International) Limited the entire issued share capital of Oriental Gateway Enterprises Limited, CRL Management Services Limited, CRL Finance Limited, Semicon Technology Company Limited, Kope Microelectronics Company Limited, China Resources Smartech Company Limited, Wuxi China Resources Microelectronics (Holdings) Limited, CRC Microelectronics Company Limited, Fortune Property Limited and Well-Known Property Limited in consideration of the issue of issue of a minimum 3,050,581,517 and a maximum of 3,210,167,717 shares in the Company, as well as the transactions and agreements contemplated under or incidental to the Agreement be and are hereby approved (a copy of which is marked “A” are produced at the meeting and signed by the Chairman of the meeting for the purpose of identification);
- (ii) the allotment of shares to connected person(s) for cancellation of options of CR Logic as set out under the sub-section headed “Reasons for the termination of share option scheme of CR Logic and cancellation of outstanding share options” under the section headed “The termination of CR Logic’s employee share option scheme and cancellation of outstanding options” in the “Letter from the Board of CSMC” of the Circular (the “Connected Transaction”) be and are hereby approved;
- (iii) the allotment and issue of 3,050,581,517 shares and up to an additional 159,586,200 shares in the Company (should all the optionholders of CR Logic accept the offer of shares in CSMC as consideration of the cancellation of their options), credited as fully paid in accordance with the terms of the Agreement be and is hereby approved; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR CSMC

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(iv) any director of the Company be and is hereby authorised on behalf of the Company to exercise, perfect and deliver all such documents and do all such acts and things and any two directors or any director and the company secretary of the Company be and are hereby authorised to affix the Company's seal to all such documents and deliver the same as deeds of the Company, in any such case as may be necessary or desirable to implement or give effect to the terms of the Agreement and the transactions and ancillary agreements or documents contemplated thereunder (including without limitation, the execution of any deeds and, or, documents in connection with the Agreement and the exercise or enforcement of any right thereunder) and to make and agree such variations to the terms of the Agreement and ancillary agreements or documents contemplated thereunder as he, in his absolute discretion, may consider to be desirable, appropriate or necessary and in the interests of the Company."

2. **"THAT** subject to the Agreement becoming unconditional in accordance with its terms:

(i) the continuing connected transaction set out under the sub-section headed "Manufacturer's representative agreement" under the section headed "Continuing Connected Transaction for CSMC" in the "Letter from the Board of CSMC" of the Circular (the "Continuing Connected Transaction") be and are hereby approved;

(ii) the annual cap amount of HK\$18 million in relation to the Continuing Connected Transaction for each of two years ending 31st December, 2009, be and are hereby approved; and

(iii) any one director of the Company be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Continuing Connected Transaction or any matters in relation thereto."

### SPECIAL RESOLUTION

3. **"THAT** subject to the Agreement becoming unconditional in accordance with its terms, the name of the Company be changed to "China Resources Microelectronics Limited 華潤微電子有限公司".

By order of the Board  
Peter CHEN Cheng-yu  
*Chairman*

Hong Kong, 16th January, 2008

*Registered Office:*  
Scotia Center,  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

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## NOTICE OF EXTRAORDINARY GENERAL MEETING FOR CSMC

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*Principal Place of Business:*

No. 14 Liangxi Road

Wuxi, Jiangsu

214061 China

*Place of Business in Hong Kong Registered  
under Part XI of the Companies Ordinance:*

Rm. 510, 5/F.

IC Development Centre

No. 6, Science Park West Avenue

Hong Kong Science Park, Shatin

N.T., Hong Kong

**Notes:**

1. A form of proxy for use at this meeting is enclosed with the composite circular.
2. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of the Company.
3. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited at Computershare Hong Kong Investor Services Limited, the share registrar and share transfer office of the Company, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding this meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share in the Company, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.