



**華潤微電子有限公司**

**China Resources Microelectronics Limited**

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

**(Stock Code: 597)**

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**HIGHLIGHTS**

- The Group's consolidated turnover and EBITDA decreased by 23.7% and 51.0% to HK\$1,264.52 million and HK\$188.44 million, respectively, when compared with the same period of 2008.
- The Company recorded a loss of HK\$93.00 million for the six months ended 30 June 2009, compared with a net profit of HK\$96.12 million in the same period of 2008.

The board of directors (the “Board”) of CHINA RESOURCES MICROELECTRONICS LIMITED (the “Company” or “CR Micro”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 (the “Period”) as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 June 2009</b> <i>HK\$'000</i> (unaudited)	30 June 2008 <i>HK\$'000</i> (unaudited)
Turnover	3	<b>1,264,521</b>	1,657,160
Cost of sales		<b>(1,117,720)</b>	(1,302,361)
Gross profit		<b>146,801</b>	354,799
Other income		<b>110,505</b>	37,153
Selling and distribution expenses		<b>(35,321)</b>	(38,680)
Administrative expenses		<b>(149,550)</b>	(170,789)
Research and development expenses		<b>(90,366)</b>	(76,210)
Other operating expenses		<b>(50,379)</b>	(27,544)
Finance costs		<b>(25,156)</b>	(47,461)
Gain on disposal of subsidiaries		–	84,972
(Loss) profit before taxation		<b>(93,466)</b>	116,240
Taxation credit (charge)	4	<b>464</b>	(20,119)
(Loss) profit for the period	5	<b>(93,002)</b>	96,121
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		<b>(623)</b>	253,015
Exchange differences arising on disposal of subsidiaries		–	(56,212)
Other comprehensive income for the period (net of tax)		<b>(623)</b>	196,803
Total comprehensive income for the period		<b>(93,625)</b>	292,924
(Loss) profit for the period attributable to:			
Owners of the Company		<b>(83,348)</b>	96,345
Non-controlling interests		<b>(9,654)</b>	(224)
		<b>(93,002)</b>	96,121
Total comprehensive income attributable to:			
Owners of the Company		<b>(83,859)</b>	287,252
Non-controlling interests		<b>(9,766)</b>	5,672
		<b>(93,625)</b>	292,924
		<i>HK Cents</i>	<i>HK Cents</i> (restated)
(Loss) earnings per share	7		
Basic		<b>(1.34)</b>	1.55
Diluted		<b>N/A</b>	1.54

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2009**

		<b>30 June 2009</b>	31 December 2008
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,342,418</b>	3,592,396
Prepaid lease payments		<b>170,500</b>	174,906
Available-for-sale investments		<b>741,092</b>	741,698
Goodwill		<b>21,024</b>	21,024
Technical know-how		<b>1,221</b>	1,629
Deferred tax assets		<b>20,402</b>	18,589
Deposit for acquisition of property, plant and equipment		<b>12,043</b>	21,120
		<b>4,308,700</b>	4,571,362
<b>Current assets</b>			
Inventories		<b>621,262</b>	812,721
Debtors, deposits and prepayments	8	<b>874,478</b>	876,431
Prepaid lease payments		<b>4,187</b>	4,176
Tax recoverable		<b>8,974</b>	9,329
Pledged bank deposits		<b>174</b>	492
Bank balances and cash		<b>839,953</b>	856,877
		<b>2,349,028</b>	2,560,026
<b>Current liabilities</b>			
Creditors and accrued charges	9	<b>1,086,601</b>	1,352,722
Government grants		<b>27,810</b>	26,308
Financial guarantee contracts	10	<b>9,674</b>	10,790
Bank borrowings		<b>706,917</b>	515,891
Provisions		<b>37,877</b>	39,303
Taxation		<b>2,695</b>	5,088
		<b>1,871,574</b>	1,950,102
<b>Net current assets</b>		<b>477,454</b>	609,924
<b>Total assets less current liabilities</b>		<b>4,786,154</b>	5,181,286

	<b>30 June 2009</b>	31 December 2008
<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(unaudited)</b>	(audited)
<b>Capital and reserves</b>		
Share capital	<b>585,523</b>	585,521
Share premium and reserves	<b>2,316,552</b>	2,400,135
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Equity attributable to owners of the Company	<b>2,902,075</b>	2,985,656
Non-controlling interests	<b>88,396</b>	98,162
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<b>Total equity</b>	<b>2,990,471</b>	3,083,818
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<b>Non-current liabilities</b>		
Bank borrowings	<b>1,637,500</b>	1,913,590
Long-term payables	<b>31,468</b>	59,456
Deferred tax liabilities	<b>4,718</b>	4,718
Government grants	<b>121,997</b>	119,704
	<hr/>	<hr/>
	<b>1,795,683</b>	2,097,468
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	<b>4,786,154</b>	5,181,286
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*NOTES:*

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the Group’s accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group’s ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The management is assessing the impact on the results and the financial position of the Group upon application of these standards, amendments or interpretations.

**3. SEGMENT INFORMATION**

The Group determines its operating segments based on resources allocation with reference of products or services, for the purpose of reporting to the chief operating decision maker (the Executive Committee).

The Group’s reportable segments are as follows:

- Open Foundry
- Integrated Circuits (“IC”) Design
- IC Testing and Packaging
- Discrete Devices
- Supporting Function

The segments are managed separately as each division offers different products and services.

The activities of these divisions are as follows:

Open Foundry – open foundry for manufacturing of wafers with technical platforms, such as CMOS, BiCMOS, DMOS, BCD and Bipolar

IC Design – design and development of semiconductor IC products

IC Testing and Packaging – provision of IC assembly and testing foundry services

Discrete Devices – manufacture of discrete device wafers and finished products for energy saving lightings, home appliance, industrial control devices and personal computers

Supporting Function – provision of utilities and other supporting services

**Six months ended 30 June 2009**

	<b>Open Foundry HK\$'000 (unaudited)</b>	<b>IC Design HK\$'000 (unaudited)</b>	<b>IC Testing &amp; Packaging HK\$'000 (unaudited)</b>	<b>Discrete Devices HK\$'000 (unaudited)</b>	<b>Supporting Function HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
Turnover from external customers	399,324	259,616	249,166	329,383	27,032	1,264,521
Intersegment turnover	<u>60,340</u>	<u>2,000</u>	<u>15,651</u>	<u>8,965</u>	<u>138,449</u>	<u>225,405</u>
Segment turnover	459,664	261,616	264,817	338,348	165,481	1,489,926
Segment (loss) profit	(46,556)	7,704	(16,116)	(6,959)	(1,899)	(63,826)
Items included in segment (loss) profit						
Interest income	1,161	15	70	39	2,898	4,183
Finance costs	3,161	–	1,900	1,417	1,931	8,409
Depreciation and amortisation	125,662	7,448	48,972	45,033	29,535	256,650
Impairment loss on property, plant and equipment	<u>8,783</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,783</u>

**Six months ended 30 June 2008**

	<b>Open Foundry HK\$'000 (unaudited)</b>	<b>IC Design HK\$'000 (unaudited)</b>	<b>IC Testing &amp; Packaging HK\$'000 (unaudited)</b>	<b>Discrete Devices HK\$'000 (unaudited)</b>	<b>Supporting Function HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
Turnover from external customers	529,760	372,872	306,285	415,749	32,494	1,657,160
Intersegment turnover	<u>110,197</u>	<u>7,022</u>	<u>34,416</u>	<u>47,765</u>	<u>187,018</u>	<u>386,418</u>
Segment turnover	639,957	379,894	340,701	463,514	219,512	2,043,578
Segment profit (loss)	7,489	(2,040)	3,328	34,053	21,200	64,030
Items included in segment profit (loss)						
Interest income	1,511	33	87	64	3,183	4,878
Finance costs	10,598	–	923	3,084	4,579	19,184
Depreciation and amortisation	118,124	6,619	30,765	37,670	27,766	220,944
Impairment loss on property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

- (a) Reportable segment's profit is profit before taxation, excluding gain on disposal of subsidiaries, unallocated corporate finance costs from borrowings raised by headquarters and other corporate expenses (mainly including staff costs of general management and other general administrative expenses). This is the measure reported to the Executive Committee for the purpose of resource allocation and assessment of segment performance.
- (b) Reconciliation of the reportable segment turnover and profit or loss.

Reportable segment turnover and profit or loss, are reconciled to total turnover and profit or loss of the Group as follows:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Turnover</b>		
Reportable segment turnover	<b>1,489,926</b>	2,043,578
Elimination of intersegment turnover	<b>(225,405)</b>	(386,418)
	<u>1,264,521</u>	<u>1,657,160</u>

Inter-segment sales are charged at cost plus a percentage profit mark-up.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Profit or loss</b>		
Reportable segment (loss) profit	<b>(63,826)</b>	64,030
Unallocated amounts:		
Gain on disposal of subsidiaries	–	84,972
Unallocated corporate finance costs	<b>(16,747)</b>	(28,277)
Unallocated corporate expenses	<b>(12,893)</b>	(4,485)
	<u>(93,466)</u>	<u>116,240</u>

#### 4. TAXATION (CREDIT) CHARGE

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Current tax</b>		
People's Republic of China ("PRC")	<b>2,724</b>	19,807
Hong Kong	<b>79</b>	249
Overprovision in prior year	<b>(1,444)</b>	(2,700)
	<u>1,359</u>	<u>17,356</u>
<b>Deferred tax</b>	<b>(1,823)</b>	2,763
	<u>(464)</u>	<u>20,119</u>

Taxation arising in the PRC is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 16.5% for the periods under review.

Certain subsidiaries obtained approval from the relevant tax bureau and are qualified as High and New Technology Enterprise which would be subject to a tax rate of 15% for both periods.

In addition, certain subsidiaries operating in the PRC were exempted from tax applicable in the PRC for two years starting from the first profit making year after utilisation of the tax losses brought forward, or year ended 31 December 2008, whichever is earlier and were granted a 50% relief for the following three years.

## 5. (LOSS) PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	<b>254,084</b>	216,974
Income from financial guarantee contracts	<b>(1,116)</b>	–
Amortisation of technical know-how	<b>407</b>	2,101
Amortisation of prepaid lease payments	<b>2,258</b>	1,974
Allowance for doubtful debts	<b>207</b>	2,466
Interest expenses on borrowings repayable within five years	<b>25,156</b>	47,461
Interest income	<b>(4,567)</b>	(9,887)
Government grants	<b>(11,660)</b>	(5,961)
Net gain on disposal of property, plant and equipment	<b>(16,004)</b>	(138)
Gain on disposal of available-for-sale investments	<b>(840)</b>	–
Impairment loss on property, plant and equipment	<b>8,783</b>	–
Loss on suspension of production (included in other operating expenses)	<b>42,055</b>	–
Write off of inventories (included in other operating expenses)	–	14,275
Reversal of impairment for other receivable and accrual of severance payment (included in other operating expenses)	<b>(17,368)</b>	–
	<b><u>                    </u></b>	<b><u>                    </u></b>

## 6. DIVIDENDS

No dividends were paid, declared or proposed for both periods. The directors do not recommend the payment of an interim dividend.



## 7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited and restated)</b>
<i>Earnings:</i>		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share		
((loss) profit for the period attributable to owners of the Company)	<b>(83,348)</b>	96,345
<i>Number of shares:</i>		
Weighted average number of shares for the purpose of basic (loss) earnings per share	<b>6,199,650,018</b>	6,235,877,766
Effect of dilutive potential shares:		
Share options – Equity Incentive Plan	–	14,616,605
Share options – Share Option Scheme	–	698,452
Weighted average number of shares for the purpose of diluted (loss) earnings per share	<b>6,199,650,018</b>	6,251,192,823

The weighted average numbers of shares in issue during the periods have been adjusted to reflect the rights issue completed subsequent to the balance sheet date.

No diluted loss per share has been presented for the six months ended 30 June 2009, because the potential ordinary shares in issue during the period would result in decrease in loss per share.

## 8. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on their trade volume and settlement methods. The aged analysis of trade debtors, including notes receivable, net of allowance for doubtful debts presented based on the invoice date, is as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(audited)</b>
0 – 60 days	<b>465,420</b>	339,130
61 – 90 days	<b>97,899</b>	108,013
91 – 180 days	<b>149,120</b>	295,096
Over 180 days	<b>25,455</b>	21,527
	<b>737,894</b>	763,766

Included in the Group's debtors are receivables of HK\$47,173,000 (31 December 2008: HK\$6,384,000) due from fellow subsidiaries arising from transactions carried out in the ordinary course of business of the Group. These amounts were unsecured, interest-free and are repayable within the credit periods similar to those offered to its customers.

## 9. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors which are included in creditors and accrued charges, presented based on the invoice date is as follows:

	<b>30 June 2009</b>	31 December 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
0 – 60 days	<b>413,768</b>	397,681
61 – 90 days	<b>94,333</b>	166,120
91 – 180 days	<b>172,808</b>	313,228
Over 180 days	<b>37,279</b>	33,667
	<b>718,188</b>	910,696

Included in the Group's creditors are payables of HK\$154,224,000 and HK\$15,359,000 (31 December 2008: HK\$182,309,000 and HK\$16,846,000) due to a group company of a non-controlling shareholder of a subsidiary and fellow subsidiaries respectively arising from transactions carried out in the ordinary course of business of the Group. The amounts were unsecured, interest-free and are repayable within the credit periods similar to its suppliers.

## 10. FINANCIAL GUARANTEE CONTRACTS

The Group and China Resources (Holdings) Company Limited issued a financial guarantee to a fellow subsidiary of the Company, CSMC Asia Limited in proportion to their respective shareholding in this entity. As the Group holds 19% of this entity, the Group has agreed to guarantee 19% of a US\$140 million bank loan facility granted to this entity. Accordingly, US\$22.6 million (representing the 19% of the facilities utilised as at 30 June 2009) was guaranteed by the Group. As at 30 June 2009, a liability of HK\$9,674,000 (31 December 2008: HK\$10,790,000) has been recognised in the condensed consolidated statement of financial position as deferred revenue from finance guarantee contract.

## 11. POST BALANCE SHEET EVENT

As announced on 26 June 2009, the Company proposed to raise not less than approximately HK\$439.1 million before expenses by way of a rights issue comprising not less than 2,927,613,557 rights shares at the subscription price of HK\$0.15 per rights share on the basis of one rights share for every two existing shares held. The rights offer commenced in July 2009 and the rights issue became unconditional on 6 August 2009. 2,929,447,319 rights shares were allocated to the shareholders of the Company. Immediately after the completion of the rights issue, the total number of shares of the Company increased to 8,788,341,958.

Pursuant to the terms of Share Option Scheme, the exercise price and the number of outstanding share options would be adjusted upon the completion of the aforementioned rights issue in accordance with the requirements set out in the note to Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005. An independent financial advisor was engaged to provide advice regarding the adjustments in SOS. On 8 September 2009, the Board has accepted the adjustment advice and approved such adjustments as follows:

Date of grant	Before Adjustments		After Adjustments	
	Exercise price of each Share Option (HK\$)	Number of Share Options	Exercise price of each Share Option (HK\$)	Number of Share Options
8-Sep-06	0.36	13,941,000	0.341	14,712,439
28-May-07	0.75	1,287,000	0.711	1,358,217
<b>Total</b>		<b>15,228,000</b>		<b>16,070,656</b>

On 20 August 2009, the authorised share capital of the Company was increased from HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.1 each to HK\$2,000,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.1 each by the creation of additional 10,000,000,000 unissued ordinary shares of HK\$0.1 each.

## MANAGEMENT DISCUSSION AND ANALYSIS

Starting from the fourth quarter last year, the financial crisis and economic downturn affected demands of semiconductor products. Customer's inventory adjustment reduced sales orders received by the Group and thus the goods delivery and manufacturing capacity utilisation rates of the Group dropped substantially, especially in the first quarter this year. However, mitigated by the domestic demand through PRC economic stimulation plan and overseas customers' inventory rebuilding, the manufacturing capacity utilisation rates were smoothly back into the normal track in the second quarter this year.

During the six months ended 30 June 2009 (the "Period"), the Group's consolidated turnover and EBITDA decreased by 23.7% and 51.0% to HK\$1,264.52 million and HK\$188.44 million from HK\$1,657.16 million and HK\$384.75 million in the same period of year 2008, respectively. The Group's net loss for the Period was HK\$93.00 million, while basic loss per share for the Period was 1.34 HK cents (same period in year 2008: net profit of HK\$96.12 million and 1.55 HK cents respectively). Following the same pace as market trend, the Group's recorded a net loss for the first quarter but net profit in the second quarter.

The Group focuses on providing analog products and processes to its customers as they have relatively longer product life cycle. Thus they are relatively immune to volatile price fluctuations and provide stable marginal contribution. The Group will continue to enhance its technical research and development activities to manufacture higher value-added products within this stable-price yet high-growth IC market segment in mainland China. The Group will diligently apply its successful business model of utilising our accumulated technology base and hence optimizing capital expenditure to increase profitability in the growing Chinese analog IC market. The analog products and processes contributed HK\$718.18 million, or 56.8% of total turnover for the Period.

To maintain its competitive niche in the industry, the Group continues to invest in technologies research and development. During the Period, the Group increased its investment in research and development by 19% to HK\$90.4 million, or 7.1% of the Group's consolidated turnover.

In the first half of this year, the Group's open foundry operation reported a turnover of HK\$399.32 million, which decreased by 24.6% from the same period last year. However, beneficial from the enhancement of manufacturing process mix by introducing analog technologies, the average selling prices were maintained at the same level as compared with same period last year. The segment result decrease by 721.7% to a loss of HK\$46.56 million in the first half of this year mainly due to low capacity utilisation rate. Affected by the market softening, the segment losses of both IC testing and packaging and discrete devices businesses were reported to be HK\$16.12 million and HK\$6.96 million, respectively, also due to low capacity utilisation rates.

The capacity utilisation rates in each of open foundry, discrete devices and IC testing and packaging sectors were around 57%, 52% and 60%, respectively, in the Period. In particular, as compared to the same periods of last year, the utilisation rates of the aforementioned three business sectors dropped by approximately 60%, 25% and 38% respectively in the first quarter of 2009 and dropped by approximately 17%, 6% and 18% respectively in the second quarter of 2009.

The Group's IC design houses' performance was also affected by the financial crisis. The overall turnover from the IC design houses decreased by 30.4% to HK\$259.62 million from HK\$372.87 million in the same period last year. But the segment results increased to a profit of HK\$7.70 million from a loss of HK\$2.04 million in the same period last year due to the product mix improvement. In particular, CR Powtech, one of subsidiaries of the Company and a fabless IC house, successfully adopted strategy of analog technologies to focus on LED driver and power management, which resulted a profit of HK\$4.31 million in the Period (same period in year 2008: loss of HK\$5.56 million).

## **PURCHASE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the Period, the Company did not purchase or redeem the Company's listed securities.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES**

Save as disclosed below, in the opinion of the directors, the Group has been in compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period. The Board acknowledges its responsibility for the Group's systems of internal controls and has assumed this responsibility through formalized financial and legal procedures within the Group, the Group's auditors and the Audit Committee.

The Chairman of the Board, Mr. SONG Lin did not attend the Annual General Meeting on 26 June 2009 due to other crucial business on that date. The Chairman is aware that it deviated from the provision E.1.2 of the Code which stipulates that the Chairman should attend the annual general meeting of the Company. However, the Chairman has asked Vice Chairman, Dr. Peter CHEN Cheng-yu to act on behalf. Vice Chairman and the Chairpersons of Audit, Remuneration and Nomination Committees and the Chief Executive Officer attended the meeting. The Company considers that their presence is sufficient for (i) answering questions from and (ii) effective communication with shareholders presented at the AGM.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to all directors, and all directors have confirmed that, for the six months ended 30 June 2009, they have complied with required standard of dealing set out in the Model Code.

## **AUDIT COMMITTEE**

The Audit Committee is responsible for assisting the Board in safeguarding the Group’s assets by providing an independent review of the effectiveness of the financial reporting process and the internal controls and risk management systems of the Group. It also oversees the audit process and performs other duties as assigned by the Board.

All the members of our Audit Committee are Non-executive Directors, with a majority serving as Independent Non-executive Directors.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed, with the management and the Company’s external auditor, the unaudited interim financial report for the six months ended 30 June 2009.

The unaudited interim financial report for six months ended 30 June 2009 was approved by the Board of Directors for issue on 8 September 2009.

On behalf of the Board

**Wang Guoping**

*Executive Director and Chief Executive Officer*

Hong Kong, 8 September 2009

*As at the date hereof, the Board of the Company comprises of eleven directors, Mr. Song Lin, Dr. Peter Chen Cheng-yu and Mr. Wang Guoping, being Executive Directors; Mr. Zhu Jinkun, Mr. Jiang Wei, Mr. Li Fuzuo, Mr. Du Wenmin and Mr. Frank Lai Ni Hium, being Non-executive Directors; and Mrs. Oon Kum Loon, Mr. Ralph Sytze Ybema and Professor Ko Ping Keung, being Independent Non-executive Directors.*