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**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 2010**

**HIGHLIGHTS**

- The Group recorded a historical-highest net profit of HK\$130.37 million for the reporting period, compared with a loss of HK\$93.00 million for the same period of 2009.
- The Group's consolidated turnover and EBITDA increased by 46.6% and 132.9% to HK\$1,854.27 million and HK\$438.97 million, respectively for the reporting period, when compared with the same period of 2009.
- The analog products and processing services contributed HK\$1,166.45 million, or 62.9% of total turnover for the reporting period, which represents an increment of 67.1% to the same period of last year.

The board (the “Board”) of directors (the “Director(s)”) of CHINA RESOURCES MICROELECTRONICS LIMITED (the “Company” or “CR Micro”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 (the “Period”) as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2010**

		<b>Six months ended</b>	
	<i>Notes</i>	<b>30 June 2010</b>	<b>30 June 2009</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover	3	<b>1,854,266</b>	1,264,521
Cost of sales		<b>(1,384,547)</b>	(1,117,720)
Gross profit		<b>469,719</b>	146,801
Other income/gains		<b>99,820</b>	110,505
Selling and distribution expenses		<b>(48,009)</b>	(35,321)
Administrative expenses		<b>(177,072)</b>	(149,550)
Research and development expenses		<b>(119,754)</b>	(90,366)
Other operating expenses		<b>(52,458)</b>	(50,379)
Finance costs		<b>(10,775)</b>	(25,156)
Profit (loss) before taxation		<b>161,471</b>	(93,466)
Taxation (charge) credit	4	<b>(31,102)</b>	464
Profit (loss) for the period	5	<b>130,369</b>	(93,002)
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		<b>37,665</b>	(623)
Total comprehensive income (expenses) for the period		<b>168,034</b>	(93,625)
Profit (loss) for the period attributable to:			
Owners of the Company		<b>125,687</b>	(83,348)
Non-controlling interests		<b>4,682</b>	(9,654)
		<b>130,369</b>	(93,002)
Total comprehensive income attributable to:			
Owners of the Company		<b>162,420</b>	(83,859)
Non-controlling interests		<b>5,614</b>	(9,766)
		<b>168,034</b>	(93,625)
		<b>HK Cents</b>	<b>HK Cents</b>
Earnings (loss) per share	7		
Basic		<b>1.45</b>	(1.34)
Diluted		<b>1.45</b>	(1.34)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 30 JUNE 2010

		<b>30 June 2010</b>	31 December 2009
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,079,803</b>	3,170,864
Prepaid lease payments		<b>168,330</b>	168,570
Available-for-sale investment		<b>573,142</b>	564,092
Loans receivable		<b>279,583</b>	186,248
Derivative financial asset		<b>1,514</b>	–
Goodwill		<b>21,024</b>	21,024
Technical know-how		<b>16,813</b>	815
Deferred tax assets		<b>33,908</b>	26,700
Deposit for acquisition of property, plant and equipment		<b>14,250</b>	13,646
		<b>4,188,367</b>	4,151,959
<b>Current assets</b>			
Inventories		<b>661,700</b>	602,850
Debtors, deposits and prepayments	8	<b>1,040,205</b>	996,165
Prepaid lease payments		<b>4,238</b>	4,191
Tax recoverable		–	187
Restricted bank deposits		<b>192,238</b>	8,603
Bank balances and cash		<b>1,381,797</b>	1,221,089
		<b>3,280,178</b>	2,833,085
<b>Current liabilities</b>			
Creditors and accrued charges	9	<b>1,578,184</b>	1,332,923
Government grants		<b>33,615</b>	29,745
Bank borrowings		<b>536,399</b>	627,535
Provisions		<b>23,935</b>	25,048
Taxation		<b>18,185</b>	16,016
		<b>2,190,318</b>	2,031,267
<b>Net current assets</b>		<b>1,089,860</b>	801,818
<b>Total assets less current liabilities</b>		<b>5,278,227</b>	4,953,777

	<b>30 June 2010</b>	31 December 2009
<i>Notes</i>	<b>HK\$'000</b> <b>(unaudited)</b>	<b>HK\$'000</b> <b>(audited)</b>
<b>Capital and reserves</b>		
Share capital	<b>878,950</b>	878,940
Share premium and reserves	<b>2,516,239</b>	2,353,775
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Equity attributable to owners of the Company	<b>3,395,189</b>	3,232,715
Non-controlling interests	<b>93,772</b>	88,158
	<hr/>	<hr/>
<b>Total equity</b>	<b>3,488,961</b>	3,320,873
	<hr/>	<hr/>
<b>Non-current liabilities</b>		
Bank borrowings	<b>1,612,500</b>	1,475,000
Long-term payables	<b>16,366</b>	15,324
Deferred tax liabilities	<b>4,712</b>	4,712
Government grants	<b>155,688</b>	137,868
	<hr/>	<hr/>
	<b>1,789,266</b>	1,632,904
	<hr/>	<hr/>
	<b>5,278,227</b>	4,953,777
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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 except for certain financial instruments, which are measured at fair values.

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 2009, except as described below.

**(A) Accounting policies applied during the current period which have not been presented in the audited financial statements for the year ended 31 December 2009**

**Financial assets**

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss (“FVTPL”) has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

**Derivative financial instruments and hedging**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**Embedded derivatives**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

## (B) New and revised standards, amendments and interpretations effective during the period

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 HKICPA.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective. The management is in the process of 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 appliances, industrial control devices and personal computers

Supporting Function – provision of utilities and other supporting services

**Six months ended 30 June 2010**

	<b>Open Foundry</b>	<b>IC Design</b>	<b>IC Testing &amp; Packaging</b>	<b>Discrete Devices</b>	<b>Supporting Function</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>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover from external customers	584,489	317,675	379,672	532,077	40,353	1,854,266
Intersegment turnover	<u>94,824</u>	<u>2,312</u>	<u>20,206</u>	<u>12,018</u>	<u>168,946</u>	<u>298,306</u>
Segment turnover	679,313	319,987	399,878	544,095	209,299	2,152,572
Segment profit	57,391	22,314	16,895	74,019	9,571	180,190
Items included in segment profit:						
Interest income	6,201	60	51	19	6,494	12,825
Finance costs	1,186	–	840	711	765	3,502
Depreciation and amortisation	<u>124,505</u>	<u>8,160</u>	<u>55,672</u>	<u>45,113</u>	<u>33,178</u>	<u>266,628</u>

**Six months ended 30 June 2009**

	<b>Open Foundry</b>	<b>IC Design</b>	<b>IC Testing &amp; Packaging</b>	<b>Discrete Devices</b>	<b>Supporting Function</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>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
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>

- (a) Segment's profit is profit before taxation, excluding 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 purposes of resource allocation and assessment of segment performance.

(b) Reconciliation of the segment turnover and profit or loss.

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Turnover</b>		
Total segment turnover	2,152,572	1,489,926
Elimination of intersegment turnover	<u>(298,306)</u>	<u>(225,405)</u>
Turnover per condensed consolidated statement of comprehensive income	<u><b>1,854,266</b></u>	<u><b>1,264,521</b></u>

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Profit or loss</b>		
Total segment profit (loss)	180,190	(63,826)
Unallocated amounts:		
Unallocated corporate finance costs	(7,273)	(16,747)
Unallocated corporate expenses	<u>(11,446)</u>	<u>(12,893)</u>
Profit (loss) before taxation per condensed consolidated statement of comprehensive income	<u><b>161,471</b></u>	<u><b>(93,466)</b></u>

4. TAXATION CHARGE (CREDIT)

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
People's Republic of China ("PRC")	36,679	2,724
Hong Kong	103	79
Under(over)provision in prior year	<u>1,316</u>	<u>(1,444)</u>
Deferred tax	<u>38,098</u>	<u>1,359</u>
	<u><b>(6,996)</b></u>	<u><b>(1,823)</b></u>
	<u><b>31,102</b></u>	<u><b>(464)</b></u>



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.

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.

Certain subsidiaries obtained approval from the relevant PRC 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 2008, and were granted a 50% relief for the following three years.

## 5. PROFIT (LOSS) FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit (loss) for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	<b>264,188</b>	254,084
Income from financial guarantee contracts	–	(1,116)
Amortisation of technical know-how	<b>412</b>	407
Amortisation of prepaid lease payments	<b>2,119</b>	2,258
Allowance for doubtful debts	<b>295</b>	207
Interest expenses on borrowings repayable within five years	<b>10,775</b>	25,156
Interest income on bank deposits	<b>(7,295)</b>	(4,567)
Interest income on loan to a fellow subsidiary	<b>(6,034)</b>	–
Government grants	<b>(17,882)</b>	(11,660)
Loss (gain) on disposal of property, plant and equipment	<b>28,156</b>	(16,004)
Gain on disposal of available-for-sale investments	–	(840)
Impairment loss on property, plant and equipment (included in other operating expenses)	–	8,783
Loss on suspension of production (included in other operating expenses)	–	42,055
Write off of inventories (included in other operating expenses)	<b>6,607</b>	–
Reversal of impairment for other receivable and accrual of severance payment (included in other operating expenses)	–	(17,368)
	<b>–</b>	<b>–</b>

## 6. DIVIDEND

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

## 7. EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<i>Earnings:</i>		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share (profit (loss) for the period attributable to owners of the Company)	<b>125,687</b>	(83,348)
<i>Number of shares:</i>		
Weighted average number of shares for the purpose of basic earnings (loss) per share	<b>8,689,449,836</b>	6,199,650,018
Effect of dilutive potential shares:		
Share options – Equity Incentive Plan	<b>1,443,023</b>	–
Share options – Share Option Scheme	<b>404,192</b>	–
Weighted average number of shares for the purpose of diluted earnings (loss) per share	<b>8,691,297,051</b>	6,199,650,018

The weighted average number of shares shown above has been arrived at after deducting 100,000,000 shares (2009: Nil) held by the trustee of the share award scheme trust under the Restricted Share Award Scheme and accounted for by the Group as treasury shares held by the Group.

Diluted loss per share for the six months ended 30 June 2009 did not assume the exercise of the share options because inclusion of the share options in the calculation of diluted loss per share would result in a 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>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
0 – 60 days	<b>654,292</b>	549,424
61 – 90 days	<b>88,056</b>	103,753
91 – 180 days	<b>186,621</b>	227,562
Over 180 days	<b>6,849</b>	11,115
	<b>935,818</b>	891,854

Included in the Group's debtors are receivables of HK\$1,682,000 (31 December 2009: HK\$14,267,000) 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 2010 HK\$'000 (unaudited)</b>	31 December 2009 HK\$'000 (audited)
0 – 60 days	<b>632,955</b>	632,185
61 – 90 days	<b>162,431</b>	92,278
91 – 180 days	<b>288,037</b>	156,311
Over 180 days	<b>25,389</b>	31,862
	<b><u>1,108,812</u></b>	<b><u>912,636</u></b>

Included in the Group's creditors are payables of HK\$135,404,000 and HK\$11,552,000 (31 December 2009: HK\$152,435,000 and HK\$9,269,000) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

Following the trend of semiconductor industry's recovery from the second quarter of 2009, the Group's businesses were back into normal track. During the first half of 2010, the Group continuously adopted strategy to focus its business in the domestic market and analog segment. Along with the strong growth of the Chinese economy, the increasing market demands drove the Group to maintain its products delivery quantities and high capacity utilisation rates of the Group's manufacturing facilities throughout the first half of 2010.

During the Period, the Group's consolidated turnover increased by 46.6% to HK\$1,854.27 million from HK\$1,264.52 million in the same period of 2009. The Group's total earnings before interest expenses, taxation, depreciation and amortisation ("EBITDA") also increased by 132.9% to HK\$438.97 from HK\$188.44 million in the same period of last year. The Group's net profit for the Period was HK\$130.37 million, while basic earnings per share for the Period was 1.45 HK cents (for the same period in 2009: net loss of HK\$93.00 million and basic loss per share of 1.34 HK cents respectively).

The Group focuses on providing analog products and processing services to its customers. The analog products and processing services contributed HK\$1,166.45 million, or 62.9% of total turnover for the Period, which represents an increment of 67.1% to the same period of last year. The Group also maintains a healthy geographical mix to balance the market differentiation, growth potential as well as concentration risks. The Group generated a turnover of HK\$1,361.21 million, or 73.4% to the consolidated turnover from mainland China and Hong Kong.

During the Period, the Group demonstrated the outcome on its product and application focus from consistently investment in recent years. The Group's turnover from green lighting application business increased 66.8% to HK\$414.27 million from the same period of last year. Meanwhile, the Group's power management business contributed HK\$209.13 million turnover for the Group, which represented a 49.5% increase over the same period of last year.

From the business segments' prospect, our four business segments' performance all recorded substantial growth in turnover and results.

- During the Period, the Group's open foundry operation reported a turnover of HK\$584.49 million, which increased by 46.4% from the same period of last year. The segment profit was HK\$57.39 million in the first half of this year mainly due to the high capacity utilisation rate and process technology mix improvement, while it was a segment loss of HK\$46.56 million in the same period of last year. The capacity utilisation rate increased substantially to 91% from 57% in the first half of last year.
- The Group's IC design houses' performance was beneficial from the economy recovery. The overall turnover from the IC design houses increased by 22.4% to HK\$317.68 million from HK\$259.62 million in the same period of last year, as well as the segment profit increased 189.7% to a profit of HK\$22.31 million from HK\$7.70 million in the same period of last year.
- The Group's testing and packaging segment booked turnover of HK\$379.67 million, an increment of 52.4% when comparing with the same period of last year, and recorded a segment profit of HK\$16.90 million, mainly due to the improvement in process technology mix and customer portfolio in the previous years. As a result, the capacity utilisation rate increased to 85% during the Period while in same period of last year it was about 60%.
- Moreover, the Group's discrete device business's turnover and segment profit hit historical high as to HK\$532.08 million and HK\$74.02 million, respectively, due to the strong demands for discrete products from green lighting and power saving market. The capacity utilisation rate was approximately 80% in the Period, while in same period of last year it was 53% only.

## **PROSPECTS**

The Group will continue to enhance its technical research and development activities to design and manufacture higher value-added products to serve the high-growth IC market segment in mainland China. The analog ICs have relatively longer product life cycle, and enable more stable marginal contribution. The Group will diligently apply its successful business model of utilising our accumulated technology base and hence optimizing the capital expenditure to increase profitability in the growing Chinese analog semiconductor market. The Group has developed various capabilities to supply analog semiconductor products and services to its customers. Benefiting from the Group's focus on analog products and Chinese economy's growing prospects, the Group believe the synergy arising from the model of Virtual Industry Chain will enable the Group to better capture broader opportunities in the future.

## **SUBSEQUENT EVENTS**

The Directors believe that there are no significant subsequent events to be disclosed.

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

During the Period, the Company did not sell, 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 then Chairman of the Board, Mr. SONG Lin did not attend the Annual General Meeting (the “AGM”) on 2 June 2010 due to other crucial business on that date which required his attention. Mr. Song was aware the above deviation from the provision E.1.2 of the Code which stipulates that the Chairman should attend the annual general meeting of the Company and had arranged the Vice Chairman, Dr. Peter CHEN Cheng-yu to attend the AGM. The Chairpersons of Audit, Remuneration and Nomination Committees also attended the AGM. The Company considers that their presence was sufficient for (i) answering questions from and (ii) ensuring effective communication with shareholders present at the AGM.

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer of a listed issuer should be separate and should not be performed by the same individual. With effect from 4 June 2010, Mr. Song Lin resigned as an executive Director and the Chairman of the Board of the Company in order to concentrate on overall strategies and business of China Resources (Holdings) Company Limited as its Chairman, and Mr. Wang Guoping, an executive director and the Chief Executive Officer of the Company, was appointed as the Chairman of the Board effective on the same date. The Board decided that Mr. Wang would continue to hold the office of Chief Executive Officer of the Company notwithstanding his appointment as Chairman, while the Company was processing the appointment of the successor of Chief Executive Officer. Accordingly, Mr. Wang Guoping held the offices of Chairman and Chief Executive Officer of the Company. On 24 August, 2010, the Board appointed Mr. Elvis Deng Mao-song as the Chief Executive Officer of the Company with effect from the conclusion of the meeting of the Board held on 24 August 2010.

Code provision E.1.3 stipulates that notice of an annual general meeting to shareholders of a listed issuer should be sent at least 20 clear business days before the meeting. The Company sent notice of its annual general meeting held on 2 June 2010 to its shareholders on 10 May 2010, which was less than 20 clear business days before the meeting. Though the Company was unable to comply with the foregoing code provision, the requirement of the Company’s articles of association to give not less than 21 clear days notice for the annual general meeting was complied with.

## **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 2010.

The unaudited interim financial report for six months ended 30 June 2010 was approved by the Board of Directors for issue on 24 August 2010.

On behalf of the Board  
**Wang Guoping**  
*Chairman*

Hong Kong, 24 August 2010

*Prior to the conclusion of the Board meeting held on the date hereof, the Board of the Company comprises of ten Directors, Mr. Wang Guoping and Dr. Peter Chen Cheng-yu, 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.*