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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Resources Microelectronics Limited, you should at once hand this document and the accompanying forms to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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### CRH (Microelectronics) Limited

*(incorporated in the British Virgin Islands  
with limited liability)*



華潤微電子有限公司  
China Resources Microelectronics Limited

*(incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 597)

**PROPOSAL TO PRIVATISE  
CHINA RESOURCES MICROELECTRONICS LIMITED  
BY WAY OF A  
SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE  
COMPANIES LAW OF THE CAYMAN ISLANDS  
PROPOSED WITHDRAWAL OF LISTING OF  
CHINA RESOURCES MICROELECTRONICS LIMITED  
PROPOSED CONDITIONAL OPTION PAYMENT TO THE  
OPTIONHOLDERS FOR CANCELLATION OF ALL  
OUTSTANDING OPTIONS**

**Financial adviser to China Resources (Holdings) Company Limited  
and CRH (Microelectronics) Limited**



**Independent financial adviser to the independent board committee of  
China Resources Microelectronics Limited**



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All capitalised terms used in this document have the same meanings as set out in the section headed "Definitions" on pages 1 to 6 of this document.

A letter from the Board is set out on pages 11 to 24 of this document. An Explanatory Statement regarding the Proposal and Option Payment is set out on pages 56 to 88 of this document. A letter from the Independent Board Committee is set out on pages 28 to 29 of this document. A letter from First Shanghai, being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee, is set out on pages 30 to 55 of this document.

The action to be taken by the Shareholders and the Optionholders is set out on pages 85 to 88 of this document.

Notices convening the Court Meeting and the EGM to be held at China Resources Banquet Hall, 50/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 28 September 2011 at 10:00 a.m. and 10:30 a.m. respectively, or in the case of the EGM immediately after the conclusion or adjournment of the Court Meeting, are set out on pages 260 to 264 of this document. Whether or not you are able to attend the Court Meeting and, or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the share registrar of China Resources Microelectronics Limited in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under the section headed "Action to be taken" set out on pages 85 to 88 of this document. The pink form of proxy in respect of the Court Meeting may be returned by facsimile at number (852) 2865 0990 (marked for the attention of the "Company Secretary") not later than the time and date stated in the section headed "Action to be taken" set out on pages 85 to 88 of this document, or may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This document is jointly issued by CRH (Microelectronics) Limited and China Resources Microelectronics Limited.

5 September 2011

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## DEFINITIONS

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*In this document, the following expressions have the meanings set out below unless the context requires otherwise. For the avoidance of doubt, the meanings of these expressions in this section do not apply to the Scheme of Arrangement set out on pages 251 to 259 of this document.*

“acting in concert”	has the meaning given to it in the Takeovers Code
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, the financial adviser to CRH and CRH (Microelectronics) Limited, and a corporation licensed to carry on business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
“Announcement”	the announcement dated 18 July 2011 issued jointly by CRH (Microelectronics) Limited and CRM in relation to the Proposal and the proposed conditional Option Payment to the Optionholders for cancellation of all outstanding Options
“Associate(s)”	has the meaning ascribed thereto in the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals in connection with the Proposal or the implementation of the Scheme of Arrangement
“Beneficial Owner”	any beneficial owner of Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
“Board”	board of directors of CRM
“Business Day”	a day other than a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“BVI”	British Virgin Islands
“Cash Alternative”	HK\$0.48 per Share in cash
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Companies Law”	Companies Law (2010 Revision) (as amended) of the Cayman Islands
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of Independent Shareholders to be convened at the direction of the Court at which the Scheme of Arrangement will be voted upon

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## DEFINITIONS

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“CRC Bluesky”	CRC Bluesky Limited, a company incorporated in the BVI
“CRCL”	華潤股份有限公司 (China Resources Co., Limited), a company incorporated in the PRC, a wholly-owned subsidiary of CRNC
“CRG”	China Resources Gas Group Limited, a company incorporated in Bermuda with limited liability on 20 September 1994, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1193), an indirect non wholly-owned subsidiary of CRH and its issued share capital is held as to approximately 70.84% by CRH. A director of CRH, namely, Mr. Ma Guoan, is also a director of China Resources Gas Group Limited
“CRH”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong on 8 July 1983, the holding company of CRH (Microelectronics) Limited and CRM and an indirect wholly-owned subsidiary of CRCL
“CRH Group”	CRH and its subsidiaries, other than the CRM Group
“CRH (Microelectronics) Limited”	a company incorporated in the BVI on 8 July 2011 with limited liability and a wholly-owned subsidiary of CRH
“CRM” or “Company”	China Resources Microelectronics Limited, a company incorporated in the Cayman Islands on 28 January 2003 with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 597)
“CRM Group”	CRM and its subsidiaries
“CRNC”	中國華潤總公司(China Resources National Corporation), a state owned enterprise established in the PRC on 31 December 1986, is the parent company of CRCL, which in turn is the parent company of CRC Bluesky, which is in turn the parent company of CRH. CRNC, CRCL and CRC Bluesky each is deemed to be interested in the 5,326,855,822 Shares indirectly held by CRH
“CSMC Asia”	CSMC Asia Limited, a private company incorporated in Hong Kong with limited liability. It is a joint venture company between the CRM Group and the CRH Group and indirectly owns the entire issued share capital of CSMC Technologies Fab 2 Co., Ltd, an 8-inch wafer fabrication facility operator in Wuxi, Jiangsu Province, the PRC. CRH and CRM indirectly hold 81% and 19% in CSMC Asia respectively

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## DEFINITIONS

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“Director(s)”	the director(s) of CRM, including non-executive directors and independent non-executive directors
“Effective Date”	the date on which the Scheme of Arrangement, if sanctioned by the Court, becomes effective in accordance with the Companies Law and which date will in accordance with the expected timetable be 2 November 2011
“EGM”	an extraordinary general meeting of CRM to be held immediately following the Court Meeting to consider and vote on the proposed share capital reduction as part of the Scheme of Arrangement
“Election Form”	the blue form of election despatched together with this document and to be completed by the Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative, for electing the Share Alternative or a combination of the Cash Alternative and the Share Alternative
“Equity Incentive Plan”	the equity incentive plan of CRM as approved by its Shareholders on 8 May 2004
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out on pages 56 to 88 of this document and issued in compliance with the rules of the Court
“First Shanghai”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee in respect of the Proposal, the Option Payment and as to voting, and a corporation licensed to carry on business in type 6 (advising on corporate finance) of the regulated activities under the SFO
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Holding Announcement”	the announcement made by CRM dated 30 June 2011 which referred to the consideration being given by CRH to putting forward a privatisation proposal incorporating a cash consideration of not less than HK\$0.48 per Share and an option to retain a proportionate indirect interest in CRM following the implementation of the Proposal
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee of CRM, comprising one non-executive Director, being Dr. Peter Chen Cheng-yu, and all three independent non-executive Directors, being Professor Ko Ping Keung, Mr. Luk Chi Cheong and Mr. Wong Tak Shing, which has been established for the purpose of advising the Independent Shareholders in respect of the Proposal and the Optionholders in respect of the Option Payment
“Independent Shareholders”	Shareholders other than CRH and parties acting in concert with it
“Last Trading Date”	27 June 2011, being the last day on which the Shares were traded before the suspension of the Shares pending the publication of the Holding Announcement
“Latest Practicable Date”	2 September 2011, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“New Share(s)”	share(s) of par value US\$0.01 each in the capital of CRH (Microelectronics) Limited
“Offer Period”	the period from the date of the Holding Announcement until the later of (i) the Effective Date; or (ii) the date when the Scheme of Arrangement lapses; or (iii) an announcement is made of the withdrawal of the Scheme of Arrangement
“Option(s)”	Share(s) awarded (but not yet allotted or issued) to Optionholders under the Equity Incentive Plan and option(s) granted to Optionholders under the Share Option Scheme. The number of Options outstanding as referred to in this document represents the total number of Shares falling to be issued on the exercise of all Options in full
“Option Payment”	the cash payment by CRH (Microelectronics) Limited to an Optionholder who will be entitled to receive a sum for the cancellation of his or her Options
“Optionholders”	holders of Options
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

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## DEFINITIONS

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“Proposal”	the proposed privatisation of CRM by CRH through CRH (Microelectronics) Limited under the Scheme of Arrangement
“Record Date”	28 October 2011, being the date on which the entitlements of the Shareholders under the Scheme of Arrangement are determined
“Record Time”	4:30 p.m. (Hong Kong time) on the Record Date
“Registered Owner”	a Shareholder who/that has his, her or its name entered on the register of members of CRM, including any nominee, trustee, depository or any other authorised custodian or third party who is the registered owner of Shares
“Relevant Authorities”	appropriate governments or governmental bodies, regulatory bodies, courts or institutions including the SFC and the Stock Exchange
“Relevant Period”	the period commencing on the date falling six months prior to the date of the Holding Announcement and ending on the Latest Practicable Date
“Scheme of Arrangement”	a scheme of arrangement between CRM, the Shareholders and CRH (Microelectronics) Limited under Section 86 of the Companies Law, involving the cancellation of all Shares in issue except one new Share to be allotted and issued to CRH (Microelectronics) Limited on the Effective Date
“SFC”	the Securities and Futures Commission
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	Share(s) of par value HK\$0.10 each in the capital of CRM
“Shareholder(s)”	holder(s) of the Share(s)
“Share Alternative”	one New Share which will be credited as fully paid and ranking pari passu with other New Shares then in issue per Share held

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## DEFINITIONS

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“Share Option Scheme”	the share option scheme of CRM as approved by its shareholders on 27 May 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent

*Unless otherwise specified in this document, amount denominated in US\$ have been converted, for the purposes of illustration only, into HK\$ at the rate of HK\$7.8 = US\$1.*



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## EXPECTED TIMETABLE

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*Hong Kong time*  
(unless otherwise stated)

Latest time for lodging transfers of Shares to qualify for attending and voting at the Court Meeting and the EGM .....	4:30 p.m. on Friday, 23 September 2011
Closure of the register of members of CRM for determination of entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM ( <i>Note 1</i> ) .....	Monday, 26 September 2011 to Wednesday, 28 September 2011 (both days inclusive)
Latest time for lodging forms of proxy in respect of	
Court Meeting ( <i>Note 2</i> ) .....	10:00 a.m. on Monday, 26 September 2011
EGM ( <i>Note 2</i> ) .....	10:30 a.m. on Monday, 26 September 2011
Suspension of dealings in the Shares .....	9:00 a.m. on Wednesday, 28 September 2011
Court Meeting ( <i>Note 3</i> ) .....	10:00 a.m. on Wednesday, 28 September 2011
EGM ( <i>Note 3</i> ) .....	10:30 a.m. on Wednesday, 28 September 2011
Announcement of the results of the Court Meeting and the EGM published on the websites of the Stock Exchange and CRM .....	No later than 7:00 p.m. on Wednesday, 28 September 2011
Resumption of dealings in the Shares .....	9:00 a.m. on Thursday, 29 September 2011
Despatch of the letter to Optionholders in respect of the Option Payment .....	Thursday, 29 September 2011
Last day of dealing in the Shares .....	Friday, 21 October 2011
Latest time for dealing in the Shares and exercise of Options in order to participate in the Scheme of Arrangement .....	4:00 p.m. on Friday, 21 October 2011

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## EXPECTED TIMETABLE

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Latest time for lodging transfers of Shares to qualify for entitlements under the Scheme of Arrangement .....	4:30 p.m. on Wednesday, 26 October 2011
Closure of the register of members of CRM for determination of entitlements of the Shareholders under the Scheme of Arrangement ( <i>Note 5</i> ) .....	Thursday, 27 October 2011 to Friday, 28 October 2011 (both days inclusive)
Record Time .....	4:30 p.m. on Friday, 28 October 2011
Latest time for lodging the Election Form by Shareholders who are qualified for entitlements under the Scheme of Arrangement ( <i>Note 6</i> ) .....	4:30 p.m. on Friday, 28 October 2011
Latest time for lodging forms of acceptance in relation to the Option Payment ( <i>Note 7</i> ) .....	4:30 p.m. on Friday, 28 October 2011
Court hearing of the petition to sanction the Scheme of Arrangement and to confirm the share capital reduction ( <i>Note 4 and Note 8</i> ) .....	Friday, 28 October 2011
Announcement of, inter alia, (i) the results of the Court hearing, (ii) the expected Effective Date and (iii) the expected date of withdrawal of the listing of the Shares from the Stock Exchange . . . .	Monday, 31 October 2011
Effective Date ( <i>Note 8</i> ) .....	Wednesday, 2 November 2011
Announcement of, inter alia, (i) the results of Cash Alternative and Share Alternative, (ii) the Effective Date and (iii) the withdrawal of the listing of the Shares from the Stock Exchange .....	Wednesday, 2 November 2011
Withdrawal of the listing of the Shares on the Stock Exchange becomes effective .....	9:00 a.m. on Wednesday, 2 November 2011
Cheques for cash entitlements and share certificates for share entitlements (if applicable) to be despatched on or before ( <i>Note 9</i> ) .....	Wednesday, 9 November 2011

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## EXPECTED TIMETABLE

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**Shareholders and Optionholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.**

*Notes:*

1. The register of members of CRM will be closed during such period for the purpose of determining entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM. This book close period is not for determining entitlements under the Scheme of Arrangement.
2. Forms of proxy should be lodged, by hand or by post, with Computershare Hong Kong Investor Services Limited, the share registrar of CRM in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event no later than the times and dates stated above. The pink form of proxy in respect of the Court Meeting may be returned by facsimile at number (852) 2865 0990, marked for the attention of "the Company Secretary", not later than the time and date stated in the section headed "Action to be taken" set out on pages 85 to 88 of this document, or may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the EGM must be lodged no later than the times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Shareholder from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

In the case of any Beneficial Owner whose Shares are held by, and registered in the name of, a Registered Owner, such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and, or the EGM. Such instructions and, or arrangements should be given or made in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its form of proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant, contact their broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the investor participants and other CCASS participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

3. The Court Meeting and the EGM will be held at China Resources Banquet Hall, 50/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out on pages 260 and 261 and the notice of the EGM set out on pages 262 to 264 of this document for details.
4. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court hearing of the petition to sanction the Scheme of Arrangement and to confirm the share capital reduction, which are the relevant times and dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.

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## EXPECTED TIMETABLE

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5. The register of members of CRM will be closed during such period for the purpose of determining Shareholders who are qualified for entitlements under the Scheme of Arrangement. Entitlements under the Scheme of Arrangement will be based on the actual number of Shares held by the Shareholders as at the Record Time i.e. 4:30 p.m. on 28 October 2011.
6. The Election Form, duly completed in accordance with the instructions on them, must be lodged with the share registrar of CRM in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, so as to reach them no later than the Record Time or such later date and time as may be notified through announcement, failing which the Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, will receive the Cash Alternative in respect of their entire holding of Shares if the Scheme of Arrangement becomes effective.

If you have sold or transferred all your Shares, you should at once hand this document, the accompanying forms of proxy and the Election Form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. Copies of the forms of proxy and the Election Form can also be obtained from the CRM's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at any time before the Record Time.

7. The form of acceptance in relation to the offer of the Option Payment, which will be appended to the letter to the Optionholders in respect of the offer of the Option Payment, duly completed in accordance with the instructions thereon must be returned to the company secretary of CRM, Tim Ngan Siu Hung, HKICPA, ACCA, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, so as to reach CRM no later than the Record Time or such later date and time as may be notified through announcement, failing which the Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Payment will automatically lapse upon the Effective Date and the Options granted under the Equity Incentive Plan that are not exercised or cancelled pursuant to the acceptance of the Option Payment will lapse if the conditions referred to in the Equity Incentive Plan are not satisfied after the Effective Date. Copies of the letter and the form of acceptance in relation to the offer of the Option Payment can also be obtained from the company secretary of CRM, Tim Ngan Siu Hung, HKICPA, ACCA, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, subsequent to the despatch of the same and at any time before the Record Time.
8. The Scheme of Arrangement shall become effective upon all the conditions set out in the section headed "Conditions of the Scheme of Arrangement" in the Explanatory Statement on pages 61 to 63 of this document having been fulfilled or waived, as applicable.
9. Cheques for the amount in respect of the cash entitlements or share certificates of CRH (Microelectronics) Limited under the Scheme of Arrangement and the payment of the Option Payment to the Optionholders will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of CRM and to the last known addresses of the Optionholders as notified by the Optionholders to CRM on or before 9 November 2011.

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

WANG Guoping (*Chairman*)

Elvis DENG Mao-song (*Chief Executive Officer*)

*Non-Executive Directors:*

Peter CHEN Cheng-yu

DU Wenmin

WEI Bin

SHI Shanbo

ZHANG Haipeng

*Registered Office:*

Scotia Centre, P.O. Box 2804GT

George Town, Grand Cayman

Cayman Islands

British West Indies

*Principal Place of Business:*

No.14 Liangxi Road

Wuxi, Jiangsu

214061

China

*Independent Non-Executive Directors:*

KO Ping Keung

LUK Chi Cheong

WONG Tak Shing

5 September 2011

*To the Shareholders and Optionholders*

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE  
CHINA RESOURCES MICROELECTRONICS LIMITED  
BY WAY OF A  
SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE  
COMPANIES LAW OF THE CAYMAN ISLANDS**

**PROPOSED WITHDRAWAL OF LISTING OF  
CHINA RESOURCES MICROELECTRONICS LIMITED**

**PROPOSED CONDITIONAL OPTION PAYMENT TO THE  
OPTIONHOLDERS FOR CANCELLATION OF ALL  
OUTSTANDING OPTIONS**

**INTRODUCTION**

On 18 July 2011, CRH (Microelectronics) Limited and CRM jointly announced that CRH through CRH (Microelectronics) Limited had requested the Board to put forward to (i) the Shareholders the

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## LETTER FROM THE BOARD

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Proposal which, if implemented, would result in CRM becoming a wholly-owned subsidiary of CRH (Microelectronics) Limited; and (ii) the Optionholders receiving the Option Payment. The privatisation of CRM will be implemented by way of a Scheme of Arrangement under Section 86 of the Companies Law. The Option Payment to the Optionholders will be conditional upon the Scheme of Arrangement becoming effective. The Board has agreed to put forward the Proposal to the Shareholders and the Option Payment to the Optionholders as it considers them to be appropriate for consideration by the Shareholders and Optionholders respectively.

CRH and CRH (Microelectronics) Limited have appointed Anglo Chinese as their financial adviser in connection with the Proposal to the Shareholders and the Option Payment to the Optionholders.

An Independent Board Committee of CRM has been formed comprising one non-executive Director, being Dr. Peter Chen Cheng-yu, and all three independent non-executive Directors, being Professor Ko Ping Keung, Mr. Luk Chi Cheong and Mr. Wong Tak Shing, to advise the Independent Shareholders and the Optionholders. Mr. Wong Tak Shing and Mr. Luk Chi Cheong are also independent non-executive directors of CRG. Professor Ko Ping Keung and Mr. Luk Chi Cheong, were interested in 458 Shares and 1,165,912 Shares respectively, representing approximately 0.001% and 0.01% of the issued Shares as at the Latest Practicable Date. Their respective shareholdings in CRM are immaterial and should not affect their independence as being members of the Independent Board Committee. Dr. Peter Chen Cheng-yu, Mr. Du Wenmin, Mr. Wei Bin, Mr. Shi Shanbo and Dr. Zhang Haipeng are the non-executive Directors. Dr. Peter Chen Cheng-yu was interested in 39,623,200 Shares, representing approximately 0.45% of the issued Shares as at the Latest Practicable Date. He does not hold any office in CRH and his shareholding in CRM is immaterial which should not affect his independence as being a member of the Independent Board Committee. Mr. Du Wenmin is currently a vice president and the chief human resources officer of CRH. Mr. Wei Bin is the chief financial officer of CRH and the general manager of its finance department. Mr. Shi Shanbo is the audit director of CRH. Dr. Zhang Haipeng is the general manager of the strategy management department of CRH. The Board, after taking into consideration the offices held by the non-executive Directors in CRH and their possible conflict of interest in respect of the Proposal, approved the formation of the Independent Board Committee comprising only Dr. Peter Chen Cheng-yu and the three independent non-executive Directors to advise the Independent Shareholders and the Optionholders. The Independent Board Committee has approved the appointment of First Shanghai as the independent financial adviser to advise the Independent Board Committee in respect of the Proposal, the Option Payment and as to voting.

The purpose of this document is to provide you with further information regarding the Proposal and the Option Payment and to give you notices of the Court Meeting and the EGM together with the forms of proxy and the Election Form. Your attention is also drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this document, the letter from First Shanghai, being the independent financial adviser to the Independent Board Committee, set out on pages 30 to 55 of this document, the Explanatory Statement set out on pages 56 to 88 of this document and the Scheme of Arrangement set out on pages 251 to 259 of this document.

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## LETTER FROM THE BOARD

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### THE PROPOSAL

Under the Scheme of Arrangement, the Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, will receive from CRH (Microelectronics) Limited in consideration for the cancellation of their Shares:

- the Cash Alternative:** Cash of HK\$0.48 for every Share held; or
- the Share Alternative:** One New Share for every Share held.

The CRH Group has undertaken to elect the Share Alternative only and the Shareholders, other than the CRH Group, may elect either the Cash Alternative or the Share Alternative or a combination of both. If no election is made, such Shareholders will receive the Cash Alternative. The Share Alternative offers an opportunity for the existing Shareholders to retain indirect interest in CRM after withdrawal of listing of the Shares from the Stock Exchange. Any Shareholder who elects to receive the Share Alternative only will retain indirectly through his shareholding in CRH (Microelectronics) Limited the same proportional interest in CRM as such Shareholder held immediately before the implementation of the Scheme of Arrangement. The Cash Alternative will not include any dividends which may be declared by CRM prior to the Effective Date. No dividends have been or will be declared by CRM from the date of the Holding Announcement up to the earlier of the Effective Date, the date on which the Scheme of Arrangement lapses or is withdrawn, both dates inclusive.

As part of the Proposal and assuming no changes in the issued share capital of CRM as at the Latest Practicable Date, save for one Share to be allotted and issued to CRH (Microelectronics) Limited on the Effective Date, all 8,789,651,708 Shares in issue, comprising 5,326,855,822 Shares held by the CRH Group, representing approximately 60.6% of the issued share capital of CRM, and 3,462,795,886 Shares held by other Shareholders, representing approximately 39.4% of the issued share capital of CRM, will be cancelled, and the same number of Shares as cancelled less one Share to be allotted and issued to CRH (Microelectronics) Limited on the Effective Date will be issued, credited as fully paid, to CRH (Microelectronics) Limited. Please refer to the section headed "Reorganisation" on pages 60 to 61 in this document for further details. The CRH Group has undertaken to elect the Share Alternative only and 5,326,855,822 New Shares less the one New Share already held by CRH will be issued, credited as fully paid and ranking pari passu with other New Shares then in issue, to CRH or such party or parties as CRH may direct in consideration for the cancellation of 5,326,855,822 Shares held by the CRH Group. In order to fund the Cash Alternative, the CRH Group will subscribe for the same number of New Shares as the number of Shares in respect of which the Cash Alternative is to be paid, in addition to the New Shares to be issued in consideration for the cancellation of the Shares held by the CRH Group as at the Record Time, at HK\$0.48 per New Share. Assuming all Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, elect the Share Alternative, 3,462,795,886 New Shares will be issued to them, credited as fully paid and ranking pari passu with other New Shares then in issue, and the shareholding of the CRH Group and other Shareholders in CRH (Microelectronics) Limited will be the same as that in CRM before the Scheme of Arrangement becoming effective, being approximately 60.6% and 39.4%, respectively. Assuming all Shareholders, other than the CRH Group elect the Cash Alternative, CRH (Microelectronics) Limited will be 100% owned by the CRH Group.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, a total of 5,326,855,822 Shares, representing approximately 60.6% of the issued share capital of CRM, were held directly by Gold Touch Enterprises Inc. and Commotra Company Limited as to 5,326,850,822 and 5,000 Shares, respectively. Gold Touch Enterprises Inc. and Commotra Company Limited are wholly-owned subsidiaries of CRH.

As at the Latest Practicable Date, Mr. Song Lin, Mr. Jiang Wei and Mr. Zhu Jinkun, who are directors of CRH, held 1,245,533, 537,614 and 79,150 Shares, respectively, representing approximately 0.01%, 0.01% and 0.001% of the issued share capital of CRM, respectively.

Save as disclosed above, none of CRH, CRH (Microelectronics) Limited and parties acting in concert with any of them held any Shares as at the Latest Practicable Date.

Upon implementation of the Scheme of Arrangement, CRM will become a wholly-owned subsidiary of CRH (Microelectronics) Limited and the listing of the Shares is expected to be withdrawn from the Stock Exchange on 2 November 2011 in compliance with Rule 6.15(2) of the Listing Rules.

### **The Cash Alternative**

The cash consideration of HK\$0.48 per Share under the Cash Alternative represents:

- a premium of approximately 5.5% over the closing price of HK\$0.455 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 10.3% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on 18 July 2011, being the last day on which the Shares were traded before the publication of the Announcement;
- a premium of approximately 43.3% over the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 40.4% over the 5-day average closing price of approximately HK\$0.342 per Share during the period ended the Last Trading Date;
- a premium of approximately 40.4% over the 10-day average closing price of approximately HK\$0.342 per Share during the period ended the Last Trading Date;
- a premium of approximately 29.7% over the 30-day average closing price of approximately HK\$0.370 per Share during the period ended the Last Trading Date;
- a premium of approximately 24.4% over the 60-day average closing price of approximately HK\$0.386 per Share during the period ended the Last Trading Date;
- a premium of approximately 21.8% over the 90-day average closing price of approximately HK\$0.394 per Share during the period ended the Last Trading Date;



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## LETTER FROM THE BOARD

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- a premium of approximately 16.2% on the value of the audited consolidated net assets attributable to Shareholders as at 31 December 2010 of approximately HK\$0.413 per Share; and
- a premium of approximately 13.2% on the value of the unaudited consolidated net assets attributable to Shareholders as at 30 June 2011 of approximately HK\$0.424 per Share.

### **The Share Alternative**

The shares of CRH (Microelectronics) Limited are shares of a newly incorporated unlisted company in the BVI.

CRH (Microelectronics) Limited is a BVI business company incorporated in the BVI with limited liability on 8 July 2011, whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI and a wholly-owned subsidiary of CRH. The number of authorised and issued shares of CRH (Microelectronics) Limited are 10,000,000,000 New Shares, and one New Share issued to the CRH Group, respectively. The New Shares to be issued pursuant to the Proposal will be credited as fully paid and will rank *pari passu* with all the New Shares then in issue. The one New Share already issued to the CRH Group will also be credited as fully paid upon the Scheme of Arrangement becoming effective. Shareholders of CRH (Microelectronics) Limited are entitled to receive notice of general meetings of CRH (Microelectronics) Limited and shall have the right to one vote per New Share at such meetings. There is no dividend policy and no guarantee that any dividends will be paid nor is there any dividend payment schedule in respect of the shares of CRH (Microelectronics) Limited. Payment of dividends (if any) is dependent solely on whether such payment is recommended or declared by the board of CRH (Microelectronics) Limited. Shareholders of CRH (Microelectronics) Limited will have their rights and obligations in relation to CRH (Microelectronics) Limited governed by the provisions of the BVI Business Companies Act, 2004 (as amended from time to time) and other applicable laws in the BVI. CRH (Microelectronics) Limited shall, on receipt of an instrument of transfer, enter the name of the transferee of the New Share in the register of shareholders in accordance with and subject to the provisions of its articles of association. Shareholders of CRH (Microelectronics) Limited may also find it more difficult to find a purchaser for the New Shares if they intend to sell their shares, as there is less likely a ready market for them.

As at the Latest Practicable Date, the directors of CRH (Microelectronics) Limited were Mr. Yan Biao and Mr. Wei Bin. Mr. Yan Biao, aged 49, is a director of CRH and CRNC and the Director of Legal Affairs of the China Resources group. Mr. Yan is a non-executive director of China Resources Enterprise, Limited and China Resources Land Limited and a supervisor of China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. Mr. Yan has a Bachelor of Laws degree from the Peking University, China and an MBA degree from the University of San Francisco, the United States of America. Mr. Wei Bin, aged 41, is the chief financial officer of CRH and the general manager of its finance department, a non-executive director of CRM, China Resources Enterprise, Limited, China Resources Power Holdings Company Limited, China Resources Land Limited, China Resources Cement Holdings Limited and CRG, and a director of China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. Mr. Wei holds a Bachelor's degree in Auditing from Zhongnan University of Economics in the PRC and a Master's degree in Finance from Jinan University in the PRC and is a senior accountant and a senior auditor in the PRC. Mr. Wei is also a non-practising member of The Chinese Institute of Certified Public Accountants.

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## LETTER FROM THE BOARD

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CRH (Microelectronics) Limited is not a listed company and there is no plan for a listing of CRH (Microelectronics) Limited or CRM elsewhere after this privatisation, and therefore the shareholders of CRH (Microelectronics) Limited are not afforded the protection currently given to the Shareholders under the Listing Rules, the constitution of CRM and the laws of the Cayman Islands. However, in the event any Shareholder, other than the CRH Group, has elected the Share Alternative and conditional on the Scheme of Arrangement becoming effective, the articles of association of CRH (Microelectronics) Limited will be amended to include provisions which deal with certain transactions among CRH (Microelectronics) Limited and its interested shareholders so that certain protection will be afforded to disinterested shareholders. Pursuant to such amendments:

- (1) Save for the transactions described in paragraph (2) below, any transaction which falls under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules and are not exempt from the independent shareholders’ approval requirements under the relevant provisions of the Listing Rules as if CRH (Microelectronics) Limited were a listed issuer, shall be made conditional on prior approval by the independent shareholders.
- (2) The following transactions do not require the approval of the independent shareholders of CRH (Microelectronics) Limited:
  - (a) A shareholder of CRH (Microelectronics) Limited who has provided a shareholder’s loan has the right to subscribe for New Shares, which shall be issued and credited as fully paid by way of capitalising all or any part of the shareholder’s loan, provided that the number of New Shares to be issued will be determined by the amount of the shareholder’s loan to be capitalised and a capitalisation price per New Share equivalent to the higher of (i) the par value of a New Share and (ii) the unaudited consolidated net asset value per New Share.
  - (b) The directors of CRH (Microelectronics) Limited may approve the acquisition of the 81% interest in the 8-inch wafer fabrication line owned by CRH Group on the basis that the cost of acquisition will be the investment cost of CRH’s 81% interest which will be satisfied by the issue of New Shares at the net asset value of CRH (Microelectronics) Limited as shown in the then latest management accounts, adjusted for any provisions made by CRM for its investment in the 8-inch wafer fabrication line.
  - (c) The directors of CRH (Microelectronics) Limited may approve any provision of services or supply of goods, from or to CRH (Microelectronics) Limited or any of its subsidiaries, in which a shareholder or its associate is interested, provided that such transaction is on normal commercial terms, which are terms that a party could obtain on an arm’s length basis or terms no less favourable to the company than terms available to or from independent third parties in the ordinary course of business of the company.

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## LETTER FROM THE BOARD

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- (d) The directors of CRH (Microelectronics) Limited may approve any financial assistance, which includes granting credit, lending money, providing security for or guaranteeing a loan, provided by a shareholder or its associate, for the benefit of CRH (Microelectronics) Limited or any of its subsidiaries on normal commercial terms, which are terms that a party could obtain on an arm's length basis or terms no less favourable to the company than terms available to or from independent third parties, whether or not there is security to be granted over the assets of CRH (Microelectronics) Limited or its subsidiaries in respect of the financial assistance.

Immediately following the implementation of the Scheme of Arrangement CRM will be a wholly-owned subsidiary of CRH (Microelectronics) Limited and on a consolidated basis the assets and liabilities of CRH (Microelectronics) Limited will be the same as those of the CRM Group save for the costs and expenses CRH (Microelectronics) Limited may incur in connection with the Proposal. The number of issued New Shares immediately after the implementation of the Scheme of Arrangement will be the same as the number of the issued Shares in CRM immediately before the implementation.

A letter from Anglo Chinese is set out on pages 25 to 27 of this document in respect of an estimated value of the New Shares, which is provided to the directors of CRH and CRH (Microelectronics) Limited solely for the purposes of paragraph 30 of Schedule I to the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever.

### **Conditions of the Scheme of Arrangement**

Conditions of the Scheme of Arrangement are set out in the subsection headed "Conditions of the Scheme of Arrangement" in the Explanatory Statement on pages 61 to 63 of this document.

### **Cash offer to Optionholders and the Option Payment**

As at the Latest Practicable Date, there were 14,534,223 outstanding Options held by Optionholders, of which 1,629,575 Options under the Equity Incentive Plan have an exercise price of HK\$0.078 per Option, 11,546,430 Options under the Share Option Scheme have an exercise price of HK\$0.341 and the remaining 1,358,218 Options have an exercise price of HK\$0.711 which is above the Cash Alternative. A total of 14,534,223 Shares may fall to be issued if such 14,534,223 outstanding Options are exercised by the Optionholders in full. Save as disclosed above, CRM does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares. There are no Options held by the Directors or the directors of CRH. None of CRH, CRH (Microelectronics) Limited or any person acting in concert with any of them holds any convertible securities, warrants or options of CRM. Pursuant to Rule 13 of the Takeovers Code, a cash offer will be made by CRH (Microelectronics) Limited to cancel all the outstanding Options conditionally upon the Scheme of Arrangement becoming effective.

If the Proposal is approved by the relevant majorities at the Court Meeting and the EGM, a letter together with the form of acceptance in relation to the Option Payment will be sent to all Optionholders, as soon as practicable and pursuant to the terms and conditions of the Equity Incentive Plan and the Share Option Scheme, informing them that if they wish to participate in the Scheme of

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## LETTER FROM THE BOARD

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Arrangement, they may exercise their Options, whether or not these have otherwise vested and become exercisable, at any time up to 21 October 2011 by giving notice in writing to the company secretary of CRM, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, together with the certificate for such Options and, where necessary pursuant to the terms of grant of the Options, payment for the aggregate amount of the exercise price of such Options multiplied by the number of Shares which may fall to be issued pursuant to the exercise of such Options.

In order to accept the Option Payment, each Optionholder will be required to duly complete the form of acceptance appended to the letter to be sent to Optionholders in accordance with the instructions contained therein and to return it to the company secretary of CRM, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong no later than the Record Time or such later date and time as may be notified through announcement.

The cash offer to cancel each Option will be calculated on a “see-through” basis, pursuant to which each Optionholder will be entitled to receive a sum for his or her Options equivalent to the amount by which the Cash Alternative exceeds the exercise price of those Options, being HK\$0.402 or HK\$0.139, calculated by subtracting the exercise price of HK\$0.078 or HK\$0.341 from the Cash Alternative of HK\$0.48. For the Options with an exercise price higher than the Cash Alternative, a cash payment of a nominal amount of HK\$1 for every 5,000 Options or part thereof will be made. On the basis of all Optionholders accepting the cash offer for cancellation of the outstanding Options, the total maximum Option Payment is approximately HK\$2.3 million.

In the event that any Options are exercised after the Latest Practicable Date and Shares are consequently issued prior to the Record Time, any such Shares shall participate in the Scheme of Arrangement. Any Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Payment will automatically lapse upon the Scheme of Arrangement becoming effective and the Options granted under the Equity Incentive Plan that are not exercised or cancelled pursuant to the acceptance of the Option Payment will lapse if the conditions referred to in the Equity Incentive Plan are not satisfied after the Scheme of Arrangement has become effective.

### **Confirmation of financial resources**

On the basis of all Shareholders, other than the CRH Group, electing to receive the Cash Alternative and all Optionholders accepting the Option Payment, the total maximum cash consideration payable under the Proposal and the Option Payment is approximately HK\$1,664.4 million. On the basis of all Shareholders, other than the CRH Group, electing to receive the Cash Alternative and all Optionholders exercising all outstanding Options before the Record Time and accepting the Cash Alternative, the total maximum cash consideration payable under the Proposal is approximately HK\$1,669.1 million. New Shares are being offered as the Share Alternative under the Scheme of Arrangement and no financing is required for the Share Alternative. There is no intention for CRH (Microelectronics) Limited to pay any interest on, or to repay or secure any of its liabilities, that will depend on any significant extent on the business of the CRM Group.

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## LETTER FROM THE BOARD

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Anglo Chinese, the financial adviser to CRH and CRH (Microelectronics) Limited, is satisfied that sufficient financial resources are available to CRH (Microelectronics) Limited to implement the Proposal and the cancellation of the Options in full.

### **Funding of the CRM Group's operations if the Proposal is not implemented**

Notwithstanding the more difficult trading conditions experienced in the first half of the current financial year when compared to the same period in 2010 and 2010 generally, the CRM Group continued to generate net cash from its operating activities amounting to some HK\$55.0 million in the six months ended 30th June, 2011, a decline of approximately HK\$480.4 million from the first half of 2010. The net cash from operations was not sufficient to cover the investment in property, plant and equipment and the additional contribution for its 19% interest in the new 8-inch wafer fabrication line amounting in aggregate to HK\$584.0 million. In addition loan repayments during the period amounted to some HK\$218.8 million.

Capital expenditure is anticipated to continue at a comparatively high level with planned capital expenditure over the next year or so amounting to approximately HK\$730.9 million. The 8-inch wafer fabrication line continues to incur losses and, while no further commitments have been made to provide additional finance for its operation in proportion to the CRM Group's equity interest, further expenditure can be anticipated. During this period a substantial portion of the CRM Group's bank borrowings will fall due for repayment. As at 30 June 2011, the CRM Group recorded net current liabilities of approximately HK\$150.8 million.

Although the CRM Group has borrowed and continues to borrow from commercial banks to finance its business operations on the strength of its own financial position with the proviso that CRH remains its majority shareholder, increasingly it has required the support of CRH in the form of guarantees in order to raise sufficient funds to meet its capital investment requirements. While CRH will continue to support its subsidiary, it has informed CRM that as a publicly listed company it should place less reliance on financial support from its parent and instead have a sufficiently large capital base to support itself without a disproportionate share of the risk of the investment being borne by CRH. As at the Latest Practicable Date, CRM had borrowings of approximately HK\$812.5 million which were guaranteed by CRH, of which HK\$162.5 million are repayable in September 2011 and the remaining HK\$650.0 million are repayable in March 2012. In view of this, were the Proposal not to be implemented consideration will be given by CRM to refinance all or a portion of maturing debts which are guaranteed by CRH by way of an open offer to all shareholders, although the amount of the open offer has not been determined yet nor has its timing.

### **Potential acquisition of the 81% interest in the 8-inch wafer fabrication line from the CRH Group**

When CRH acquired an 81% interest in the 8-inch wafer fabrication line in 2008, with the balance of 19% being held by the CRM Group, it was always intended that the 81% interest would be acquired by the CRM Group when the operation had achieved sufficient capacity utilisation as it has always been managed by the CRM Group. Presently, the operation continues to be loss-making. This remains the intention and Shareholders in assessing the Share Alternative should take this potential acquisition into account. Although the timing of the acquisition has not been determined, should the

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## LETTER FROM THE BOARD

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Proposal be implemented, it is intended that CRH (Microelectronics) Limited will, through its then subsidiary, CRM or its wholly-owned subsidiary, subsequently acquire the 81% interest in the 8-inch wafer fabrication line owned by the CRH Group, on the basis that the cost of acquisition will be the investment cost of CRH's 81% interest which will be satisfied by the issue of New Shares at the net asset value of CRH (Microelectronics) Limited as shown in the then latest management accounts, adjusted for any provisions made by CRM for its investment in the 8-inch wafer fabrication line. On the assumption that the Proposal is implemented and on the basis of an investment cost of CRH of approximately HK\$4,440 million, the net asset value attributable to Shareholders of approximately HK\$3,630 million and impairment provisions made by CRM of approximately HK\$190 million as shown in CRM's audited consolidated annual accounts for the year ended 31 December 2010, this would result in the issue of approximately 10,214 million New Shares and increase the shareholding of the CRH Group in CRH (Microelectronics) Limited from not less than 60.6% to not less than 81.8%.

Shareholders who elect the Share Alternative should be aware of the potential dilutive effect on their interest in CRH (Microelectronics) Limited as a result of such potential acquisition. Shareholders are advised to refer to Appendix II to this document for the financial information on CSMC Asia and the section headed "Potential acquisition of the 8-inch fabrication line by CRH (Microelectronics) Limited from the CRH Group" under the Explanatory Statement on pages 75 to 76 as part of the consideration for the Proposal, in particular for the Share Alternative.

### **Reasons for the Proposal**

In the light of the continuing requirement for CRH to provide financial support to the CRM Group through the provision of guarantees and its commitment to the 8-inch wafer fabrication line, CRH believes that it is more appropriate that CRM ceases to be a listed company on the Stock Exchange. There will be greater flexibility in the provision of financial support to the CRM Group by CRH as this will not be constrained by the requirements of the Listing Rules. In addition, this will enable all the CRH Group's and the CRM Group's interests in semiconductor manufacturing to be consolidated under one holding company, which is anticipated to result in significant cost savings, without constraints arising from the minimum public float requirements under the Listing Rules. As indicated above, the alternative to this is for CRM to continue to be listed but with a substantially increased equity base to enable it to finance its operations unassisted by CRH, including the repayment of bank borrowing due shortly next year, the fulfilment of capital expenditure for the CRM Group and continuing financial support to the loss making 8-inch wafer fabrication line. The Proposal also offers public Shareholders an opportunity to realise their investment for cash at a price which is higher than the price that has ever traded for the last three years and which is at a substantial premium to the price at which the Shares have traded in recent months or which would be supported by its current trading performance, its financing requirements and the immediate prospects of the semiconductor industry both in China and internationally.

While CRH considers that the development of the CRM Group would be best managed if it were not to be listed, it appreciates that some Shareholders with a longer term investment perspective may wish to retain an interest in CRM. Accordingly, Shareholders will be able to retain their proportionate interest in CRM, albeit indirectly and, therefore, participate in the CRM Group's future development.



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## **LETTER FROM THE BOARD**

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It is the intention of CRH (Microelectronics) Limited to continue to operate the existing business of the CRM Group and to remain an investor in the 8-inch wafer fabrication facility upon the successful privatisation of CRM. Save as disclosed in this document, in particular the possibility of acquiring the balance of the shares in the 8-inch wafer fabrication line for an issue of New Shares, CRH (Microelectronics) Limited does not have any intention to introduce any significant changes to the existing operations and management of the CRM Group, nor does it have any intention to make any changes to the continued employment of the employees of the CRM Group. Consequently, there should be no material change to the CRM Group's businesses or personnel as a result of the Proposal becoming effective.

The Directors, other than members of the Independent Board Committee whose views are set out in their letter to the Independent Shareholders and Optionholders on pages 28 to 29 of this document, after taken into account the intention of CRH, agreed to set out CRH's view in this section headed "Reasons for the Proposal".

### **FUTURE INTENTIONS AND WITHDRAWAL OF LISTING OF THE SHARES**

Your attention is drawn to the paragraph headed "Future intentions and withdrawal of listing of the Shares" in the Explanatory Statement.

### **INFORMATION ON CRM, CRH AND CRH (MICROELECTRONICS) LIMITED**

Your attention is drawn to the paragraphs headed "Information on CRM", "Information on CRH" and "Information on CRH (Microelectronics) Limited" in the Explanatory Statement set out in this document. Your attention is also drawn to the financial information on CRM Group and CSMC Asia set out in Appendices I and II to this document.

### **INTERESTS OF DIRECTORS IN THE SCHEME OF ARRANGEMENT AND EFFECTS THEREON**

Your attention is drawn to the paragraph headed "Interests of Directors in the Scheme of Arrangement and effects thereon" in the Explanatory Statement.

### **SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT**

Your attention is drawn to the paragraphs headed "Share certificates, dealings and listing" and "Registration, payment and despatch of CRH (Microelectronics) Limited's share certificates" in the Explanatory Statement.

### **OVERSEAS INDEPENDENT SHAREHOLDERS AND OPTIONHOLDERS**

Your attention is drawn to the paragraph headed "Overseas Independent Shareholders and Optionholders" in the Explanatory Statement.

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## LETTER FROM THE BOARD

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### TAXATION

Your attention is drawn to the paragraph headed “Taxation” in the Explanatory Statement.

It is emphasised that none of CRH, CRH (Microelectronics) Limited, CRM, Anglo Chinese, First Shanghai or any of their respective directors or Associates or any other person involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

### COURT MEETING AND EGM

In accordance with the direction of the Court, the Court Meeting will be held on 28 September 2011 for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme of Arrangement, with or without modifications. The Scheme of Arrangement will be subject to the approval of the Independent Shareholders at the Court Meeting, at which CRH and parties acting in concert with it will abstain from voting in compliance with the requirements of the Takeovers Code, in the manner referred to in the paragraph headed “Conditions of the Scheme of Arrangement” in the Explanatory Statement. The resolution will be passed if a majority in number representing not less than 75% of the votes attaching to the Shares owned by the Independent Shareholders present and voting at the Court Meeting either in person or by proxy, vote in favour of the resolution.

In addition, the Scheme of Arrangement will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all disinterested Shares, namely, the Shares held by the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 3,460,933,589 Shares. 10% of the votes attached to all disinterested Shares represented approximately 346,093,359 Shares as at the Latest Practicable Date.

The EGM will be held on 28 September 2011, immediately following the Court Meeting, for the purpose of considering and, if thought fit, passing a special resolution to approve the share capital reduction resulting from the cancellation of the Shares (save for the one Share issued to CRH (Microelectronics) Limited) and an ordinary resolution to approve the immediate increase of CRM’s issued share capital to its former amount (taking into account the one Share issued to CRH (Microelectronics) Limited) and the application of the credit arising in CRM’s books of account as a result of the share capital reduction in paying up in full and issuing to CRH (Microelectronics) Limited a number of new Shares equal to the number of Shares cancelled less one Share already issued to CRH (Microelectronics) Limited and crediting such one Share already issued to CRH (Microelectronics) Limited as fully paid. The special resolution will be passed provided that it is approved by at least 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM. The ordinary resolution will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM.



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## **LETTER FROM THE BOARD**

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Under the Takeovers Code and the Listing Rules, no Shareholder is required to abstain from voting on the special resolution and ordinary resolution at the EGM. The CRH Group has indicated that if the Scheme of Arrangement is approved at the Court Meeting, it will vote in favour of the special resolution and the ordinary resolution to be proposed at the EGM.

Notice of the Court Meeting is set out on pages 260 to 261 of this document. The Court Meeting will be held at 10:00 a.m. on 28 September 2011. A pink form of proxy for the Court Meeting is enclosed with this document.

Notice of the EGM is set out on pages 262 to 264 of this document. The EGM will be held at 10:30 a.m. or as soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned on 28 September 2011. A white form of proxy for the EGM is enclosed with this document.

### **ACTION TO BE TAKEN**

Your attention is drawn to the paragraph headed “Action to be taken” in the Explanatory Statement.

### **COSTS OF THE SCHEME OF ARRANGEMENT**

Your attention is drawn to the paragraph headed “Costs of the Scheme of Arrangement” in the Explanatory Statement.

### **RECOMMENDATION**

Your attention is drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Option Payment as set out in the letter from the Independent Board Committee on pages 28 to 29 of this document and the letter from First Shanghai set out on pages 30 to 55 of this document.

### **FURTHER INFORMATION**

You are advised to read carefully the letter from the Independent Board Committee set out on pages 28 to 29 of this document, the letter from First Shanghai, being the independent financial adviser to the Independent Board Committee, set out on pages 30 to 55 of this document, the Explanatory Statement set out on pages 56 to 88 of this document, the appendices to this document including the Scheme of Arrangement set out on pages 251 to 259 of this document, the Notice of Court Meeting set out on pages 260 to 261 of this document, the Notice of EGM set out on pages 262 to 264 of this document, the proxy form in respect of the Court Meeting enclosed with this document, the proxy form in respect of the EGM enclosed with this document and the Election Form enclosed with this document. Optionholders are advised to read carefully the letter which will be sent separately to them following the approval of the Proposal by the requisite majorities at the Court Meeting and the EGM.

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## LETTER FROM THE BOARD

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Shareholders and potential investors should note that the implementation of the Proposal is subject to the conditions set out in this document being fulfilled or waived, as applicable. The Proposal may or may not become effective. The Option Payment to Optionholders may or may not become unconditional. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Yours faithfully,  
For and on behalf of the Board  
**WANG Guoping**  
*Chairman*

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## LETTER FROM ANGLO CHINESE

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*The following is the text of a letter of advice from Anglo Chinese, the financial adviser to CRH and CRH (Microelectronics) Limited relating to an estimated value of the New Shares payable under the Share Alternative.*



5 September 2011

The board of directors of each of  
China Resources (Holdings) Company Limited and  
CRH (Microelectronics) Limited

Dear Sirs,

**PROPOSAL TO PRIVATISE  
CHINA RESOURCES MICROELECTRONICS LIMITED  
BY WAY OF A  
SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE  
COMPANIES LAW OF THE CAYMAN ISLANDS  
  
PROPOSED WITHDRAWAL OF LISTING OF  
CHINA RESOURCES MICROELECTRONICS LIMITED  
  
PROPOSED CONDITIONAL OPTION PAYMENT TO THE  
OPTIONHOLDERS FOR CANCELLATION OF ALL  
OUTSTANDING OPTIONS**

### INTRODUCTION

We refer to the document of even date jointly issued by CRM and CRH (Microelectronics) Limited (the "Document") of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires.

CRH through CRH (Microelectronics) Limited has requested the Board to put forward to (i) the Shareholders the Proposal which, if implemented, would result in CRM becoming a wholly-owned subsidiary of CRH (Microelectronics) Limited; and (ii) the Optionholders receiving the Option Payment. The privatisation of the Company will be implemented by way of a Scheme of Arrangement under Section 86 of the Companies Law. The Option Payment to the Optionholders will be conditional upon the Scheme of Arrangement becoming effective. The Board has agreed to put forward the Proposal to the Shareholders and the Option Payment to Optionholders as it considers them to be appropriate for consideration by the Shareholders and Optionholders respectively.

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## LETTER FROM ANGLO CHINESE

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CRH and CRH (Microelectronics) Limited have appointed Anglo Chinese as their financial adviser in connection with the Proposal to the Shareholders and the Option Payment to the Optionholders.

The purpose of this letter is solely to provide, in compliance with paragraph 30 of Schedule I to the Takeovers Code, an estimated value of the New Shares which is the consideration payable under the Share Alternative as described more fully below. Such estimated value shall not be used or relied upon for any other purpose whatsoever.

### THE PROPOSAL

Under the Scheme of Arrangement, the Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, will receive from CRH (Microelectronics) Limited in consideration for the cancellation of their Shares:

**the Cash Alternative:** cash of HK\$0.48 for every Share held; or

**the Share Alternative:** one New Share for every Share held.

The CRH Group has undertaken to elect the Share Alternative only and Shareholders, other than the CRH Group, may elect either the Cash Alternative or the Share Alternative or a combination of both. If no election is made, such Shareholders will receive the Cash Alternative. The Share Alternative offers an opportunity for the existing Shareholders to retain indirect interest in CRM after withdrawal of listing of the Shares from the Stock Exchange. Immediately after the implementation of the Scheme of Arrangement, any Shareholder who elects to receive the Share Alternative will retain indirectly through his shareholding in CRH (Microelectronics) Limited the same proportional interest in CRM as such Shareholder held immediately before the implementation of the Scheme of Arrangement.

### ESTIMATED VALUE OF THE NEW SHARES

Upon completion of the Proposal, the listing of the Shares on the Stock Exchange will be withdrawn and CRM will become a wholly-owned subsidiary of CRH (Microelectronics) Limited, the shares in which are not listed on any stock exchange. CRH (Microelectronics) Limited was established for the purpose of the Proposal and has not yet commenced business. At the time the Scheme of Arrangement becomes effective, CRH (Microelectronics) Limited will be the holding company of CRM and its turnover, profits, assets and liabilities on a consolidated basis will be the same as those of the CRM Group, save for costs and expenses incurred in connection with the Proposal. In this regard, the section headed "Financial Information on the CRM Group" in Appendix I to the Document gives information on the financial position and performance of the CRM Group. The value of New Shares, had they been listed, would be the same as the Shares and an indication of that value would be the traded price of the Shares before the Proposal was announced. The share price chart on pages 67 to 69 in the Explanatory Statement of the Document and the share price information in Appendix III to the Document under the heading "Market Prices during the Relevant Period" give information on the historic share price performance of the Shares. Since the New Shares are not listed and there will be no established market for them, it can be expected that the New Shares will trade at a material

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## LETTER FROM ANGLO CHINESE

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discount to an equivalent listed security to reflect their lack of marketability. It is not possible to give a precise measure for the discount to reflect the lack of marketability as no published information of this kind is available. While no methodological analysis can be taken for the purpose of estimating such a discount, based on our experience we believe that a 25% discount is an appropriate assumption to use for this purpose. It must, however, be emphasised that this is an estimate of the value of the New Shares and is not a valuation of such shares.

Yours faithfully,  
For and on behalf of  
**Anglo Chinese Corporate Finance, Limited**  
**Michael Fok**  
*Director*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

5 September 2011

*To the Shareholders and the Optionholders,  
other than CRH and parties acting in concert with it*

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE  
CHINA RESOURCES MICROELECTRONICS LIMITED  
BY WAY OF A  
SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE  
COMPANIES LAW OF THE CAYMAN ISLANDS  
  
PROPOSED WITHDRAWAL OF LISTING OF  
CHINA RESOURCES MICROELECTRONICS LIMITED  
  
PROPOSED CONDITIONAL OPTION PAYMENT TO THE  
OPTIONHOLDERS FOR CANCELLATION OF ALL  
OUTSTANDING OPTIONS**

We refer to the document of even date jointly issued by CRM and CRH (Microelectronics) Limited (the “Document”) of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders and Optionholders in respect of the Proposal and the Option Payment respectively.

Having considered the terms of the Proposal and the Option Payment and taken into account the advice of First Shanghai, in particular the factors, reasons and recommendations as set out in the letter from First Shanghai set out on pages 30 to 55 of the Document, we consider that the terms of the Proposal and the Option Payment are fair and reasonable. Accordingly, we recommend that the Independent Shareholders vote in favour of the Scheme of Arrangement to be considered at the Court Meeting and the special resolution and ordinary resolution to be proposed at the EGM to approve and implement the Scheme of Arrangement. We further recommend that the Independent Shareholders elect the Cash Alternative rather than the Share Alternative. We also recommend the Optionholders to accept the offer in respect of the outstanding Options.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee draws the attention of the Independent Shareholders and Optionholders to (i) the letter from the Board; (ii) the Explanatory Statement; and (iii) the letter from First Shanghai which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, each contained in the Document.

Yours faithfully,

**Peter Chen Cheng-yu**

**Ko Ping Keung**

**Luk Chi Cheong**

**Wong Tak Shing**

*Independent Board Committee*

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## LETTER FROM FIRST SHANGHAI

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*Set out below is the text of the letter of advice from First Shanghai, the independent financial adviser to the Independent Board Committee of China Resources Microelectronics Limited, prepared for inclusion in this document.*



### FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

5 September 2011

*To the Independent Board Committee*

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE  
CHINA RESOURCES MICROELECTRONICS LIMITED  
BY WAY OF A  
SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE  
COMPANIES LAW OF THE CAYMAN ISLANDS  
PROPOSED WITHDRAWAL OF LISTING OF  
CHINA RESOURCES MICROELECTRONICS LIMITED  
PROPOSED CONDITIONAL OPTION PAYMENT TO THE  
OPTIONHOLDERS FOR CANCELLATION OF ALL  
OUTSTANDING OPTIONS**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, which in turn provide recommendation to the Independent Shareholders and Optionholders, in respect of the Proposal and the Option Payment. Details of the Proposal and the Option Payment are set out in the document jointly issued by CRH (Microelectronics) Limited (“**CRH Micro**”) and CRM dated 5 September 2011 (the “**Scheme Document**”) of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document.

CRH is a controlling shareholder of CRM, where CRH held approximately 60.6% of the issued share capital of CRM as at the Latest Practicable Date. As disclosed in the Holding Announcement published by CRM dated 30 June 2011, CRH informed the directors of CRM that CRH was considering placing a privatisation proposal incorporating a cash consideration of not less than HK\$0.48 per Share



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## LETTER FROM FIRST SHANGHAI

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with an opportunity to retain interest in CRM. Subsequently, as disclosed in the Announcement jointly issued by CRH Micro and CRM dated 18 July 2011, CRH, through its wholly-owned subsidiary, CRH Micro, requested the Board to put forward to the Shareholders the Proposal regarding the proposed privatisation and withdrawal of listing of CRM.

The Proposal will be implemented by way of the Scheme of Arrangement, where the Independent Shareholders may elect either the Cash Alternative or the Share Alternative or a combination of both. Upon completion of the Scheme of Arrangement, CRM will become a wholly-owned subsidiary of CRH Micro and the listing of the Shares will be withdrawn from the Stock Exchange. In addition, conditional on the Scheme of Arrangement becoming effective, the Option Payment will be offered to the Optionholders to cancel all the outstanding Options.

The Independent Board Committee, comprising a non-executive Director, being Dr. Peter Chen Cheng-yu, and all three independent non-executive Directors, namely Professor Ko Ping Keung, Mr. Luk Chi Cheong and Mr. Wong Tak Shing, has been established to advise the Independent Shareholders in respect of the Proposal and to advise the Optionholders in respect of the Option Payment. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Proposal and the Option Payment.

In formulating our opinion with regard to the Proposal and the Option Payment, we have relied on the information, opinions and facts supplied, and representations made, to us by the management of the CRM Group (including those contained or referred to in the Holding Announcement, the Announcement and the Scheme Document). We have assumed that the information, opinions, facts and representations which have been provided to us by the management of the CRM Group, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the management of the CRM Group that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Holding Announcement, the Announcement and the Scheme Document untrue or misleading. We have also assumed that statements and representations made or referred to in the Holding Announcement, the Announcement and the Scheme Document were true, accurate and complete at the time they were made and continue to be true, accurate and complete until the date of the Scheme Document. Should there be any subsequent major changes which occur during the Offer Period and would affect or alter our opinion, we will notify the Independent Board Committee, the Independent Shareholders and the Optionholders as soon as practicable. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the CRM Group, the CRH Group or associates of any of them, nor have we carried out any independent verification of the information supplied.

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## LETTER FROM FIRST SHANGHAI

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We have not considered the tax, regulatory and other legal implications on the Independent Shareholders and the Optionholders in respect of their acceptance or non-acceptance of the Proposal and the Option Payment, respectively, since these depend on their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### PRINCIPAL TERMS OF THE PROPOSAL AND THE OPTION PAYMENT

(i) *Principal terms of the Proposal*

Pursuant to the Scheme of Arrangement, CRM shall allot and issue one Share to CRH Micro on the Effective Date. Thereafter, save for the aforesaid one Share issued to CRH Micro and assuming no changes in the issued share capital of CRM as at the Latest Practicable Date, all 8,789,651,708 Shares in issue, comprising 5,326,855,822 Shares held by the CRH Group, representing approximately 60.6% of the issued share capital of CRM, and 3,462,795,886 Shares held by other Shareholders, representing approximately 39.4% of the issued share capital of CRM, will be cancelled. Subsequently, the same number of Shares as cancelled, less one Share already issued to CRH Micro, will be issued to CRH Micro and CRM will become a wholly-owned subsidiary of CRH Micro.

Under the Scheme of Arrangement, for the abovementioned cancellation of the Shares of the Independent Shareholders, CRH Micro will offer the Independent Shareholders to elect either (or a combination of both):

**the Cash Alternative:** cash of HK\$0.48 for every Share held (the “**Cash Consideration**”); or

**the Share Alternative:** one New Share in CRH Micro for every Share held.

The CRH Group has undertaken to elect the Share Alternative only and 5,326,855,822 New Shares less the one New Share already held by CRH will be issued, credited as fully paid and ranking pari passu with other New Shares then in issue, to CRH or such party or parties as CRH may direct in consideration for the cancellation of 5,326,855,822 Shares held by the CRH Group. In order to fund the Cash Alternative, the CRH Group will subscribe for same number of New Shares as the number of Shares in respect of which the Cash Alternative is to be paid, in addition to the New Shares to be issued in consideration for the cancellation of the Shares held by the CRH Group as at the Record Time, at HK\$0.48 per New Share.

Shareholders, other than the CRH Group, may elect either the Cash Alternative or the Share Alternative or a combination of both. If no election is made, such Shareholders will receive the Cash Consideration. The Share Alternative offers an opportunity for the existing Shareholders to retain an indirect interest, at the same proportional interest in CRM as such Shareholder held immediately before the implementation of the Scheme of Arrangement, after withdrawal of listing of the Shares from the Stock Exchange.

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## LETTER FROM FIRST SHANGHAI

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Assuming all Shareholders, other than the CRH Group, elect the Cash Alternative, CRH Micro will be 100% owned by the CRH Group. On the other hand, assuming all Shareholders, other than the CRH Group, elect the Share Alternative, 3,462,795,886 New Shares will be issued to them and the shareholding of the CRH Group and other Shareholders in CRH Micro will be the same as that in CRM before the Scheme of Arrangement becoming effective, being approximately 60.6% and 39.4%, respectively.

The Scheme of Arrangement is conditional upon the fulfilment or waiver, as applicable, of the conditions described in the Explanatory Statement of the Scheme Document, including amongst others, the approval of the Independent Shareholders at the Court Meeting and the sanction by the Court. If the conditions are not fulfilled or, if applicable, waived on or before 31 December 2011, or such other date as CRH Micro and CRM may agree and the Court may allow, the Proposal and the Option Payment to the Optionholders will lapse.

(ii) *Principal terms of the Option Payment*

As at the Latest Practicable Date, there were 14,534,223 outstanding Options held by Optionholders, of which 1,629,575 Options under the Equity Incentive Plan have an exercise price of HK\$0.078 per Option, 11,546,430 Options under the Share Option Scheme have an exercise price of HK\$0.341 and the remaining 1,358,218 Options have an exercise price of HK\$0.711 which is above the Cash Consideration. A total of 14,534,223 Shares may fall to be issued if such 14,534,223 outstanding Options are exercised by the Optionholders in full. Save as disclosed above, CRM does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares. Pursuant to Rule 13 of the Takeovers Code, a cash offer will be made by CRH Micro conditional on the Scheme of Arrangement becoming effective to cancel all the outstanding Options.

For Options with exercise prices lower than the Cash Consideration, the cash offer to cancel the outstanding Options is calculated on a “see-through” basis, being the amount by which the Cash Consideration of HK\$0.48 per Share exceeds the exercise price of those Options. Hence, holders of the Options with an exercise price of HK\$0.078 per Option and HK\$0.341 per Option will receive HK\$0.402 per Option and HK\$0.139 per Option, respectively. We understand that such “see-through” principle is normally adopted in Hong Kong for privatisation proposals. For Options with exercise prices higher than the Cash Consideration, the cash offer for cancellation of the outstanding Options is a nominal amount, being HK\$1 for every 5,000 Options or part thereof.

Further details of the terms of the Proposal and the Option Payment are disclosed in the letter from the Board and the Explanatory Statement of the Scheme Document. Independent Shareholders and Optionholders are urged to read the relevant sections in the Scheme Document in full.

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## LETTER FROM FIRST SHANGHAI

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Proposal and the Option Payment, we have taken into consideration the following principal factors and reasons:

#### 1. Business and financial information on CRM

CRM is an investment holding company which, through its subsidiary companies, is engaged in open foundry operations as well as integrated circuit (“IC”) design, discrete devices and IC testing and packaging. Its operations are located primarily in Wuxi, Shenzhen, Shanghai, Beijing and Hong Kong. The Shares of CRM have been listed on the Main Board of the Stock Exchange since August 2004.

##### (i) *Historical financial performance of CRM*

The following table summarises the income statement of the CRM Group for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, details of which are set out in Appendix I to the Scheme Document:

	For the year ended 31 December			For the six months ended 30 June	
	2008 (HK\$ million) (Audited)	2009 (HK\$ million) (Audited)	2010 (HK\$ million) (Audited)	2010 (HK\$ million) (Unaudited)	2011 (HK\$ million) (Unaudited)
<b>Turnover</b>	3,119	3,037	3,874	1,854	1,878
<b>Gross profit</b>	581	552	973	476	387
<b>(Loss)/Profit before tax</b>	(366)	(169)	320	161	61
<b>(Loss)/Profit for the period</b>	(383)	(182)	280	130	48
<b>Dividend</b>	nil	nil	44	nil	nil

##### (a) *For the year ended 31 December 2008*

Turnover for the year ended 31 December 2008 amounted to approximately HK\$3,119 million, representing an annual increase of approximately 4%. As stated in the annual report of CRM for the year ended 31 December 2008, the increase in turnover was mainly attributable to the expansion in the IC testing and packaging business. Despite the slight increase in turnover, gross margin decreased from approximately 26% for the year ended 31 December 2007 to approximately 19% for the year ended 31 December 2008 mainly due to the increase in the cost of raw materials, labour and utilities, as well as decrease in capacity utilisation rate. Further, the financial performance deteriorated from achieving profit after tax of approximately HK\$232 million for the year ended 31 December 2007 to loss after tax of approximately HK\$383 million for the year ended 31 December 2008 mainly due to the global financial crisis, significant decline in the demand of consumable electronics devices and loss arising from the closure of a manufacturing facility of approximately HK\$314 million.

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## LETTER FROM FIRST SHANGHAI

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(b) *For the year ended 31 December 2009*

Turnover for the year ended 31 December 2009 amounted to approximately HK\$3,037 million, representing an annual decrease of approximately 3%. As stated in the annual report of CRM for the year ended 31 December 2009, the decrease in turnover was mainly due to the decline in average selling prices of each business segment amid the global financial crisis and economic downturn. Gross margin also decreased from approximately 19% for the year ended 31 December 2008 to approximately 18% for the year ended 31 December 2009 mainly due to the decline in average selling prices and low capacity utilisation rates in the first quarter of 2009 amid severe market condition. Despite recording an impairment loss on available-for-sale investment of approximately HK\$190 million, given that the loss arising from the closure of a manufacturing facility was an one-off event for the year ended 31 December 2008, loss after tax narrowed from approximately HK\$383 million for the year ended 31 December 2008 to approximately HK\$182 million for the year ended 31 December 2009.

(c) *For the year ended 31 December 2010*

Turnover for the year ended 31 December 2010 amounted to approximately HK\$3,874 million, representing an annual increase of approximately 28%. As stated in the annual report of CRM for the year ended 31 December 2010 (the “**2010 Annual Report**”), the increase in turnover was mainly due to the increase in sales orders with the semiconductor business recovery and improved demands in the PRC market. Gross margin also increased from approximately 18% for the year ended 31 December 2009 to approximately 25% for the year ended 31 December 2010 mainly due to the continuous improvement in product and process mix as well as the increase in capacity utilisation rates with the industry recovery. Given the strong growth of the economy in the PRC, the improved capacity utilisation rate and that no impairment loss on available-for-sale investment was recorded for the year ended 31 December 2010, financial performance turned around from loss after tax of approximately HK\$182 million for the year ended 31 December 2009 to profit after tax of approximately HK\$280 million for the year ended 31 December 2010.

Apart from the payment of final dividend of 0.5 Hong Kong cent per Share totalling approximately HK\$44 million for the year ended 31 December 2010 as approved by way of poll at the annual general meeting held on 24 June 2011, no dividend was declared or paid during each of the years ended 31 December 2008, 2009 and 2010.

(d) *For the six months ended 30 June 2011*

Turnover for the six months ended 30 June 2011 amounted to approximately HK\$1,878 million, representing a year-on-year increase of approximately 1%. As stated in the interim report of CRM for the six months ended 30 June 2011 (the “**2011 Interim Report**”), the increase in turnover was mainly attributable to the increase in turnover of testing and packaging sector and discrete device sector. Despite the slight increase in turnover, gross margin decreased from approximately 26% for the six months ended 30 June 2010 to approximately 21% for the six months ended 30 June 2011. We are advised that the decrease in gross margin was mainly attributable to low capacity utilisation rates and increasing costs of, in particular, raw wafer, electricity, gold and copper as well as local labour. Further, profit after tax deteriorated from approximately HK\$130 million for the six months ended 30

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## LETTER FROM FIRST SHANGHAI

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June 2010 to approximately HK\$48 million for the six months ended 30 June 2011, representing a substantial year-on-year decrease of approximately 63%. We are advised that the decrease in profit margin from approximately 7% for the six months ended 30 June 2010 to approximately 3% for the six months ended 30 June 2011 was primarily attributable to the deterioration in gross margin. Interim dividend was not recommended for the six months ended 30 June 2011.

(ii) *Historical financial position of CRM*

The following table summarises the statement of financial position of the CRM Group as at 31 December 2009 and 2010 and 30 June 2011, which are set out in full in Appendix I to the Scheme Document:

	<b>As at 31 December 2009</b>	<b>As at 31 December 2010</b>	<b>As at 30 June 2011</b>
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Non-current assets	4,152	4,271	4,543
Current assets	<u>2,833</u>	<u>3,252</u>	<u>2,637</u>
<b>Total assets</b>	6,985	7,523	7,180
Non-current liabilities	1,133	1,202	560
Current liabilities	<u>2,531</u>	<u>2,592</u>	<u>2,788</u>
<b>Total liabilities</b>	3,664	3,794	3,348
Net assets attributable to Shareholders	3,233	3,630	3,729
Minority interests	<u>88</u>	<u>99</u>	<u>103</u>
<b>Net assets</b>	<u><u>3,321</u></u>	<u><u>3,729</u></u>	<u><u>3,832</u></u>

(a) *As at 31 December 2010*

Net assets increased from approximately HK\$3,321 million as at 31 December 2009 to approximately HK\$3,729 million as at 31 December 2010, representing an annual increase of approximately 12% which was mainly driven by the increase in current assets.

Non-current assets amounted to approximately HK\$4,271 million as at 31 December 2010, which primarily comprised property, plant and equipment of approximately HK\$3,139 million and available-for-sale investment of approximately HK\$573 million. Current assets amounted to approximately HK\$3,252 million, which primarily comprised bank balances and cash of approximately HK\$1,272 million and debtors, deposits and prepayments, which increased from approximately HK\$996 million as at 31 December 2009 to approximately HK\$1,232 million as at 31 December 2010.

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## LETTER FROM FIRST SHANGHAI

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Non-current liabilities amounted to approximately HK\$1,202 million as at 31 December 2010, which primarily comprised bank borrowings of approximately HK\$950 million and government grants of approximately HK\$248 million. Current liabilities amounted to approximately HK\$2,592 million, which primarily comprised creditors and accrued charges of approximately HK\$1,676 million and bank borrowings of approximately HK\$854 million.

(b) *As at 30 June 2011*

Net assets increased from approximately HK\$3,729 million as at 31 December 2010 to approximately HK\$3,832 million as at 30 June 2011, representing an increase of approximately 3%. Nonetheless, the financial position worsened from recording net current assets of approximately HK\$660 million as at 31 December 2010 to net current liabilities of approximately HK\$151 million as at 30 June 2011 due to the decrease in current assets and increase in current liabilities.

Non-current assets amounted to approximately HK\$4,543 million as at 30 June 2011, which primarily comprised property, plant and equipment of approximately HK\$3,185 million and available-for-sale investment of approximately HK\$596 million. Current assets decreased from approximately HK\$3,252 million as at 31 December 2010 to approximately HK\$2,637 million as at 30 June 2011, which was primarily attributable to the decrease in bank balances and cash from approximately HK\$1,272 million as at 31 December 2010 to approximately HK\$551 million as at 30 June 2011. We are advised that the reduction in bank balances and cash was mainly attributable to the acquisition of property, plant and equipment and the settlement of borrowings.

Non-current liabilities decreased from approximately HK\$1,202 million as at 31 December 2010 to approximately HK\$560 million as at 30 June 2011 and we are advised that the decrease was primarily attributable to the reclassification of bank borrowings due March 2012 as current liabilities. Current liabilities amounted to approximately HK\$2,788 million, which primarily comprised creditors and accrued charges of approximately HK\$1,392 million and bank borrowings of approximately HK\$1,313 million.



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## LETTER FROM FIRST SHANGHAI

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### (iii) *Prospects of CRM*

We have reviewed financial statements published by CRM and we noted that the business of CRM relies on the PRC (including Hong Kong) market, which contributed to a majority portion of the turnover generated by the CRM Group for each of the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011. Details of the PRC (including Hong Kong) market segment of the CRM Group are set out in the following table.

	<b>For the year ended</b>		<b>For the six</b>
	<b>31 December</b>		<b>months ended</b>
	<b>2009</b>	<b>2010</b>	<b>30 June</b>
			<b>2011</b>
<b>Turnover generated in the PRC</b>			
<b>(including Hong Kong) (HK\$ million)</b>	2,272	2,848	1,377
<b>- year on year (decrease)/increase</b>	(9)%	25%	1%
<b>- as a percentage of total turnover</b>	75%	74%	73%

We note that turnover generated from the PRC (including Hong Kong) market was volatile. As illustrated in the above table, turnover generated in the PRC (including Hong Kong) recorded an annual decrease of approximately 9% for the year ended 31 December 2009, which subsequently recovered to an annual increase of approximately 25% for the year ended 31 December 2010. We understand that CRM will continue to focus on the semiconductor market in the PRC and therefore the performance of CRM will continue to be dependent on the performance of the semiconductor market in the PRC. We note that the PRC government has recently announced new stimulus policies to boost the development of the software and IC industries in the PRC, which may stimulate the growth of the semiconductor industry in the PRC. Nonetheless, we also note from the 2010 Annual Report that, despite the significant growth in the semiconductor market recently, such kind of cross-product and cross-application rebounding growth trend throughout the industry has come to an end. Further, we wish to draw the attention of the Independent Shareholders that the gross margin and profit margin of the CRM Group deteriorated for the six months ended 30 June 2011 and we understand the deterioration was primarily attributable to low capacity utilisation rates and increasing costs of, in particular, raw wafer, electricity, gold and copper as well as local labour. As stated in the 2011 Interim Report, the uncertainties of the global financial environment and the inflation expectation, especially in the PRC, limit the demand growth for the second half of 2011.

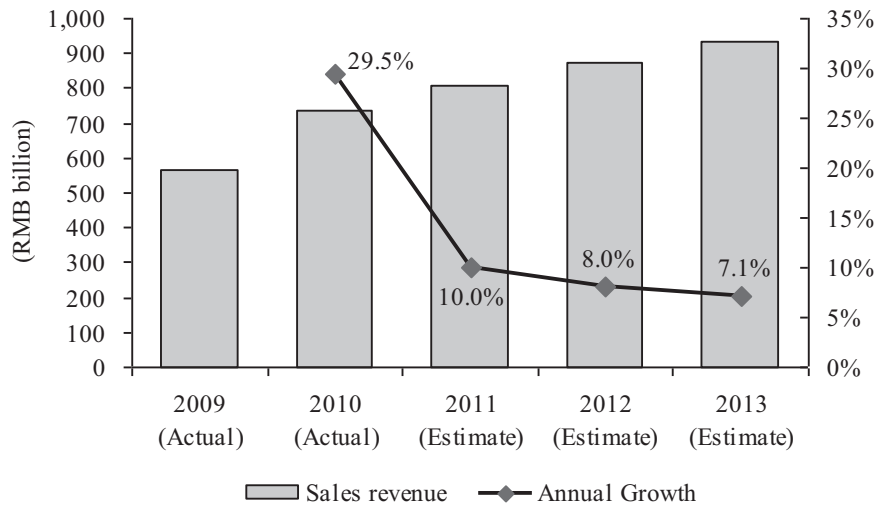


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## LETTER FROM FIRST SHANGHAI

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In respect of the prospects of the IC industry, we have reviewed information published on the website of China Market Intelligence Center (賽迪中國市場情報中心) (“**CMIC**”), which is committed to provide customers with professional comprehensive reports. We understand that CMIC is affiliated to China Center for Information Industry Development (CCID) and is under the Ministry of Industry and Information Technology of the PRC. The following chart sets out the growth trend of sales revenue of the IC industry in the PRC as published on the website of CMIC in 2011.



Source: CMIC

As illustrated in the above chart, we understand that the sales revenue of the IC industry in the PRC is expected to grow from approximately RMB568 billion for the year ended 31 December 2009 to approximately RMB935 billion for the year ending 31 December 2013, representing a compound annual growth rate of approximately 13% during the period. We also noted that the annual growth rate of sales revenue of the IC industry in the PRC reached approximately 30% for the year ended 31 December 2010, which was primarily attributable to the exceptionally low sales revenue for the year ended 31 December 2009 due to the recession caused by the global financial crisis. Nonetheless, the annual growth rate is expected to slow down to approximately 10%, 8% and 7% for each of the years ending 31 December 2011, 2012 and 2013, respectively. We believe a substantial decline in the IC industry growth rate may exert pressure to the financial performance of the CRM Group and the CRM Group may require more capital to maintain its core competitiveness in the market.

In view of the historical volatility of the PRC (including Hong Kong) market segment of the CRM Group, the deterioration of financial performance of the CRM Group for the six months ended 30 June 2011, the possible decline in industry growth and the unpredictability as to whether CRM can continue to grasp favourable business opportunity in the PRC, Independent Shareholders should note that the sustainability of the recent improvement in financial performance of the CRM Group is uncertain. Further, although a final dividend was distributed for the year ended 31 December 2010, there is also no certainty as to whether the CRM Group will continue to declare dividends.

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## LETTER FROM FIRST SHANGHAI

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### 2. Background of CRH and CRH Micro and their intentions regarding CRM

#### (i) *Background of CRH and CRH Micro*

The principal activity of CRH is investment holding and CRH is a controlling shareholder of various companies listed in Hong Kong. The parent company of CRH is CRNC, which is a state owned enterprise in the PRC.

CRH Micro is a wholly-owned subsidiary of CRH and is principally engaged in investment holding. CRH Micro was incorporated in the BVI with limited liability in July 2011.

#### (ii) *Intentions regarding CRM*

As set out in the letter from the Board of the Scheme Document, CRH Micro intends to continue to operate the existing business of the CRM Group and to remain invested in CSMC Asia upon the successful privatisation of CRM. Save as disclosed in the letter from the Board of the Scheme Document, in particular the possibility of the acquisition of equity interests in CSMC Asia, CRH Micro does not have any intention to introduce any significant changes to the existing operations and management of the CRM Group, nor does it have any intention to make any changes to the continued employment of the employees of the CRM Group. Consequently, there should be no material change to the CRM Group's businesses or personnel as a result of the Proposal becoming effective.

CRM will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules with effect from the date on which the Scheme of Arrangement becoming effective.

### 3. Reasons of the Proposal

We are advised by the management of the CRM Group that CRM requires additional capital to support its continuous development as well as to finance the operation of CSMC Asia, which operates the loss making 8-inch wafer fabrication facility.

As disclosed in the letter from the Board of the Scheme Document, the CRM Group has borrowed and continues to borrow from commercial banks to finance its business operations, but the CRM Group has required the support of CRH in the form of guarantees in order to raise sufficient funds to meet its own capital investment requirements. While CRH will continue to support its subsidiary, CRH has informed CRM that CRM, as a publicly listed company, should place less reliance on financial support from its parent and should have a sufficiently large capital base to support itself.

We have reviewed the 2011 Interim Report and noted the CRM Group had bank balances and cash of only approximately HK\$551 million as at 30 June 2011, but had total bank borrowings of approximately HK\$1,613 million, of which approximately HK\$1,313 million was current liabilities and approximately HK\$300 million was non-current liabilities. As at the Latest Practicable Date, CRM had borrowings of approximately HK\$813 million which were guaranteed by CRH, of which approximately HK\$163 million would be repayable in September 2011 and the remaining HK\$650 million would be repayable in March 2012. As mentioned in the letter from the Board of the Scheme

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Document, if the Proposal were not implemented, CRM would consider to refinance all or a portion of maturing debts by way of an open offer, which we understand might dilute the shareholding of the Independent Shareholders should the Independent Shareholders do not further invest in CRM and subscribe for Shares in such open offer.

Further, according to the 2011 Interim Report, short-term bank borrowings carried interest at rates ranging from 0.84% to 0.91% per annum and long-term borrowings carried interest at rates ranging from 1.25% to 1.29% per annum as at 30 June 2011. As such, we have reviewed relevant information, which included but not limited to, the Hong Kong Dollar Best Lending Rate as stated on the website of the Hongkong and Shanghai Banking Corporation Limited of approximately 5% and the RMB benchmark one-year loan rate as published on the website of the People's Bank of China of approximately 7%. We also noted from the website of the People's Bank of China that the reserve requirement ratio of financial institutions in the PRC has been increasing in the past several years, which may reduce the lending capacity of financial institutions in the PRC as they may need to maintain more capital to meet the increased reserve requirement. Based on the above, we understand that the bank borrowings of CRM are getting close to their maturity and the contraction in the recent credit conditions is likely to create a challenging environment for CRM to renew the high amount of credit facilities at the same level of interest rates.

Hence, in light of the continuing requirement for CRH to provide financial support to the CRM Group through the provision of guarantees and the commitment of the CRM Group to further develop its business, CRH believes that it is more appropriate that CRM ceases to be a listed company on the Stock Exchange via the implementation of the Proposal, such that CRH will have greater flexibility to provide financial support to the CRM Group without being constrained by the requirements of the Listing Rules. In addition, the Proposal offers the Independent Shareholders an opportunity to realise their investment for cash by electing the Cash Alternative, where the Cash Consideration is higher than the price ever traded for the last three years and represents substantial premium to the price at which the Shares have been traded in recent months prior to the publication of the Holding Announcement. Nonetheless, while CRH considers that the development of the CRM Group would be best managed if it were not listed, it appreciates that certain Independent Shareholders with a longer term investment perspective may wish to retain an interest in CRM. Accordingly, Independent Shareholders are given a choice to retain their proportionate interest in CRM by electing the Share Alternative and continue to participate in the future development of the CRM Group.

#### **4. Evaluation of the Cash Alternative under the Scheme of Arrangement**

Under the Scheme of Arrangement, the Independent Shareholders can undertake to elect the Cash Alternative, where the Cash Consideration of HK\$0.48 will be offered for every Share held.

##### **(i) Historical price performance of the Shares**

Having reviewed the historical closing prices of the Shares, we noted that the Cash Consideration of HK\$0.48 per Share represents:

- (a) a premium of approximately 5% over the closing price as quoted on the Stock Exchange as at the Latest Practicable Date of HK\$0.455 per Share;

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- (b) a premium of approximately 43% over the closing price as quoted on the Stock Exchange on the Last Trading Date of HK\$0.335 per Share;
- (c) a premium of approximately 40% over the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date of approximately HK\$0.342 per Share;
- (d) a premium of approximately 30% over the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date of approximately HK\$0.370 per Share;
- (e) a premium of approximately 22% over the average of the closing prices as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Date of approximately HK\$0.394 per Share; and
- (f) a premium of approximately 16% over the audited consolidated net assets attributable to Shareholders as at 31 December 2010 of approximately HK\$0.413 per Share.

The chart below depicts the closing prices of the Shares from 1 June 2010 (approximately 12 months prior to the publication of the Holding Announcement) up to and including the Latest Practicable Date (the “**Review Period**”):



*Source: Bloomberg and the website of the Stock Exchange*

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On 6 July 2010, CRM published an announcement in relation to positive profit alert for the six months ended 30 June 2010 and the closing price of the Shares increased from HK\$0.305 on 5 July 2010 to HK\$0.330 on 7 July 2010. Since then, the closing prices of the Shares were all within the range of HK\$0.3 and HK\$0.4 until the end of 2010.

A joint announcement regarding a proposal involving lending arrangement among CRCL, CRH and their respective member companies was published on 22 November 2010. Despite the intra-group lending proposal was approved by the then independent shareholders of CRM at the extraordinary general meeting held on 28 December 2010, the intra-group lending proposal was disapproved by the then independent shareholders of China Resources Power Holdings Company Limited and CRG. Moreover, as stated in the joint announcement, the intra-group advances are for short-term working capital purposes only and will not be used as a substitute for long-term or permanent financing. Further, as discussed above, CRH considered that CRM should place less reliance on financial support from its parent and should have sufficiently large capital base to support itself, therefore the intra-group lending proposal may not lessen the long-term financing reliance of CRM on CRH. The closing price of the Shares surged to HK\$0.455 on 10 February 2011 but subsequently dropped to HK\$0.370 on 24 February 2011.

The annual results announcement for the year ended 31 December 2010 and the 2010 Annual Report were published on 22 March 2011 and 6 April 2011, respectively, and the closing price of the Shares rebounded to HK\$0.435 on 11 May 2011. Nonetheless, the closing price of the Shares gradually decreased to HK\$0.330 on 17 June 2011. The trading of the Shares was suspended on 28 June 2011 and the trading of the Shares resumed on 4 July 2011 following the publication of the Holding Announcement, where the closing price of the Shares surged from HK\$0.335 on 27 June 2011 to HK\$0.435 on 4 July 2011. Subsequently, the closing prices of the Shares were relatively stable up to the Latest Practicable Date.

The lowest closing price of the Shares during the Review Period of HK\$0.305 was recorded on 5 July 2010. On the other hand, the highest closing price of the Shares during the Review Period of HK\$0.460 was recorded on 31 August 2011. We note that the Cash Consideration of HK\$0.48 per Share has been higher than the closing prices of the Shares during the Review Period. We believe that the recent surge of the price of the Shares was mainly attributable to the market reaction to the publication of the Holding Announcement and Independent Shareholders should note that the sustainability of the current price level is uncertain.

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### (ii) Liquidity of the Shares

The following table sets out the total trading volume per month and the average daily trading volume per month of the Shares during the Review Period:

	<b>Total monthly trading volume of the Shares</b> <i>(million Shares)</i>	<b>Average daily trading volume of the Shares during the month</b> <i>(million Shares)</i>	<b>% of average daily trading volume of the Shares to average total issued Shares</b>	<b>% of average daily trading volume of the Shares to average public float</b>
<b>2010</b>				
May	343.85	17.19	0.20%	0.58%
June	206.64	9.84	0.11%	0.33%
July	170.71	8.13	0.09%	0.27%
August	277.70	12.62	0.14%	0.42%
September	326.30	15.54	0.18%	0.52%
October	673.74	33.69	0.38%	1.14%
November	557.30	25.33	0.29%	0.85%
December	177.26	8.06	0.09%	0.27%
<b>2011</b>				
January	619.52	29.50	0.34%	0.99%
February	822.21	45.68	0.52%	1.54%
March	401.92	17.47	0.20%	0.59%
April	197.39	10.97	0.12%	0.37%
May	626.19	31.31	0.36%	1.05%
June	165.06	9.17	0.10%	0.31%
July	809.97	40.50	0.46%	1.36%
August	585.07	25.44	0.29%	0.85%
September ( <i>up to the Latest Practicable Date</i> )	59.58	29.79	0.34%	1.00%

Source: Bloomberg

We note from the above table that the trading volume of the Shares has been generally very thin during the Review Period, where the percentages of average daily trading volume of the Shares to the average total issued Shares and average public float during the Review Period were mainly below 0.5% and 1.0%, respectively. We also note that the trading volume of the Shares surged substantially in July 2011, which we believe was mainly attributable to the market reaction to the Proposal, and Independent Shareholders should note that the sustainability of the recent growth in trading volume is uncertain. Hence, Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares. Accordingly, we consider that the Cash Alternative provides an alternative exit for the Independent Shareholders to realise their investments in CRM.

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### (iii) Comparison with market comparables

For the purpose of assessing the Cash Consideration, we have identified an exhaustive list of comparable companies (the “**Comparable Companies**”), which are listed on the Stock Exchange and principally engaged in businesses comparable to those of CRM, including businesses related to IC, wafers and discrete devices, with principal operations in the PRC or Hong Kong. Set out in the following table is the price to earnings ratio (the “**P/E Ratio**”) and the price to book value ratio (the “**P/B Ratio**”) of the Comparable Companies based on information obtained from the website of the Stock Exchange.

Company name (stock code)	Principal business	P/E Ratio <sup>(1)</sup> <i>(times)</i>	P/B Ratio <sup>(2)</sup> <i>(times)</i>
Advanced Semiconductor Manufacturing Corporation Limited (3355 HK)	Manufacture and sale of 5-inch, 6-inch and 8-inch semiconductor wafers	3.81	0.59
Shanghai Fudan Microelectronics Group Company Limited (8102 HK)	Designing, developing and selling products of application-specific IC	10.76	2.88
China Electronics Corporation Holdings Company Limited (85 HK)	Design, research and development and sale of IC	20.32	2.12
Solomon Systech (International) Limited (2878 HK) (“ <b>Solomon</b> ”)	Design, development and sales of proprietary IC products and system solutions	64.50	0.52
Semiconductor Manufacturing International Corporation (981 HK) (“ <b>SMIC</b> ”)	Provide IC foundry and technology services	117.07	0.63
	Maximum:	117.07	2.88
	Mean:	43.29	1.35
	Median:	20.32	0.63
	Minimum:	3.81	0.52
	Adjusted maximum <sup>(3)</sup> :	20.32	
	Adjusted mean <sup>(3)</sup> :	11.63	
	Adjusted median <sup>(3)</sup> :	10.76	
	Adjusted minimum <sup>(3)</sup> :	3.81	
	<b>The Cash Alternative<sup>(4)</sup>:</b>	<b>15.48</b>	<b>1.13</b>

Source: the website of the Stock Exchange

Notes:

- (1) The P/E Ratio is derived from dividing the market capitalisation (based on the number of shares as disclosed in the latest monthly return or relevant disclosures and share price as at the Latest Practicable Date) by profit attributable to shareholders for the latest full financial year.

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- (2) The P/B Ratio is derived from dividing the market capitalisation (based on the number of shares as disclosed in the latest monthly return or relevant disclosures and share price as at the Latest Practicable Date) by net assets attributable to shareholders as disclosed in the latest published financial statement.
- (3) The calculation of adjusted statistics has excluded the P/E Ratios of Solomon and SMIC due to their extreme values.
- (4) The P/E Ratio and the P/B Ratio of the Cash Alternative are derived from dividing the Cash Consideration of HK\$0.48 per Share by the earnings per Share of approximately HK\$0.031 for the year ended 31 December 2010 and net assets per Share of approximately HK\$0.424 as at 30 June 2011, respectively.
- (5) Unless otherwise specified, currencies used in deriving information in the above table are converted on the basis of RMB0.85 to HK\$1 and US\$1.00 to HK\$7.80 for illustrative purposes.

As illustrated in the above table, despite the P/E Ratio of the Cash Alternative is lower than the mean and median of those of the Comparable Companies, it is within the range of those of the Comparable Companies. Given that Solomon and SMIC recorded exceptionally high P/E Ratios of approximately 64.50 times and 117.07 times respectively, which may be attributable to their low amount of earnings for the latest full financial year, we have excluded their extreme values to calculate the adjusted statistics of the Comparable Companies. After the exclusion of extreme values, we noted that the P/E Ratio of the Cash Alternative is well above the adjusted mean and adjusted median of those of the Comparable Companies. Despite the P/B Ratio of the Cash Alternative is lower than the mean of those of the Comparable Companies, it is within the range and above the median of those of the Comparable Companies.



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### (iv) Comparison with recent privatisation proposals

For the purpose of assessing the Cash Consideration, we have also identified an exhaustive list of privatisation proposals (the “**Comparable Transactions**”) which (i) the privatisation proposals were first announced from 1 January 2009 up to the Latest Practicable Date; and (ii) the subject companies have already successfully withdrawn listing on the Stock Exchange as a result of the completion of the privatisation proposals. Set out in the following table are the pricing details of the Comparable Transactions.

Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation			
			Last trading day (%)	10 trading days (%)	30 trading days (%)	90 trading days (%)
12 March 2009	Delta Networks, Inc. (722 HK)	Design and manufacture of a wide range of networking products, such as ethernet switches, broadband access products, wireless adaptors and routers	43.8	62.7	80.7	95.7
19 May 2009	Nam Tai Electronic & Electrical Products Limited (2633 HK) (“ <b>NTEEP</b> ”) <sup>(1)</sup>	Manufacturing and marketing of consumer electronic and communication products, telecommunication component assembly and liquid crystal display products	2.0	3.5	6.3	68.2
22 May 2009	The Ming An (Holdings) Company Limited (1389 HK)	Provision of a variety of property and casualty insurance products in Hong Kong and the PRC	44.4	48.6	55.1	60.8
25 May 2009	Stone Group Holdings Limited (409 HK)	Distributes a range of healthcare products, and manufactures, distributes and sells electronic and electrical products, office equipment and operates an internet café chain in the PRC	39.1	43.9	48.1	69.5

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Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation			
			<i>Last trading day</i> (%)	<i>10 trading days</i> (%)	<i>30 trading days</i> (%)	<i>90 trading days</i> (%)
16 November 2009	Meadville Holdings Limited (3313 HK) (“ <b>Meadville</b> ”) <sup>(2)</sup>	Manufacturing and distributing printed circuit boards, including circuit design, quick-turn-around services and drilling and routing services	61.4	35.3	51.6	83.8
8 January 2010	Hutchison Telecommunications International Limited (2332 HK)	Provides telecommunication services	36.6	38.9	38.5	37.2
27 April 2010	Wheelock Properties Limited (49 HK)	Ownership of properties for development and letting as well as investment holding	143.9	150.5	162.3	162.2
19 May 2010	Denway Motors Limited (203 HK)	Manufacturing, assembly and trading of motor vehicles, the manufacturing and trading of automotive equipment and parts in the PRC and the manufacturing and trading of audio equipment in Hong Kong	18.9	25.7	27.4	21.5
10 August 2010	Industrial and Commercial Bank of China (Asia) Limited (349 HK)	Provision of banking, financial and other financial related services with a focus on retail banking, commercial banking as well as corporate banking business	27.8	37.6	41.2	48.8
12 August 2010	Integrated Distribution Services Group Limited (2387 HK)	Provision of logistics services, distribution of fast moving consumer goods and healthcare products, and manufacturing	36.2	41.4	45.1	51.1

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Date of announcement	Company	Principal business	Premium of offer/cancellation price over the average closing share price prior to the announcement of privatisation			
			Last trading day (%)	10 trading days (%)	30 trading days (%)	90 trading days (%)
10 January 2011	Fubon Bank (Hong Kong) Limited (636 HK)	Provision of a wide range of financial services encompassing wealth management, consumer and wholesale banking, financial markets, securities brokerage and investment services	37.6	43.1	43.2	39.3
20 January 2011	Shanghai Forte Land Co., Ltd. (2337 HK)	Development and sale of high quality commercial and residential properties in the PRC	25.4	24.8	34.3	43.0
		Maximum:	143.9	150.5	162.3	162.2
		Mean:	43.1	46.3	52.8	65.1
		Median:	37.1	40.2	44.2	56.0
		Minimum:	2.0	3.5	6.3	21.5
		<b>The Cash Alternative<sup>(3)</sup>:</b>	<b>43.3</b>	<b>40.4</b>	<b>29.7</b>	<b>21.8</b>

*Source: Bloomberg and the website of the Stock Exchange*

*Notes:*

- (1) Nam Tai Electronics, Inc. announced its first proposal to privatise NTEEP in February 2009, but the first proposed privatisation was lapsed in April 2009.
- (2) The dividend of approximately HK\$3.47 per share of Meadville to be distributed by Meadville in conjunction with a proposal to withdraw the listing of the shares of Meadville on the Stock Exchange as announced by Meadville on 16 November 2009 is, together with other relevant transactions and corporate actions of Meadville, considered by the Executive as a proposal to privatise Meadville. Accordingly, we have used HK\$3.47 as the implied offer/cancellation price for the purpose of our analysis.
- (3) The premiums of the Cash Alternative are derived from dividing the Cash Consideration of HK\$0.48 per Share by the closing price on the Last Trading Date and the relevant average closing price prior to the publication of the Holding Announcement.

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As illustrated in the above table, despite the premiums represented by the Cash Alternative over the average closing prices for 10, 30 and 90 consecutive trading days prior to the publication of the Holding Announcement are mainly below the mean and median of those of the Comparable Transactions, we note that (i) the premium represented by the Cash Alternative over the closing price on the Last Trading Date is above the mean and the median of those of the Comparable Transactions; and (ii) the premiums represented by the Cash Alternative over the average closing prices for 10, 30 and 90 consecutive trading days prior to the publication of the Holding Announcement are within the range of those of the Comparable Transactions. Independent Shareholders should note that the subject companies in the Comparable Transactions are engaged in different nature of businesses, therefore their premiums may be affected by different factors. We consider our above analysis is only a general overview of offer prices involving privatisation proposals announced and completed recently and is one of the factors for our assessment of the Cash Consideration but should not be used in isolation in determining the fairness and reasonableness of the Cash Alternative.

As disclosed in the announcements of CRM dated 23 February 2009 and 18 March 2009, CRH had proposed to privatise CRM (the “**Previous Proposal**”) by way of a scheme of arrangement at a price of HK\$0.30 per Share. The Previous Proposal was lapsed as the scheme was not approved by the requisite majority of 75% of the then independent shareholders of CRM. Given that the Previous Proposal was lapsed, the Previous Proposal is not included in our above analysis.

### (v) Analysis of the Cash Alternative

Having taken into account the principal factors set out above, in particular, the following:

- the Cash Consideration represents substantial premium over the closing price on the Last Trading Date, the average closing prices for 10, 30 and 90 consecutive trading days prior to the publication of the Holding Announcement and premium over the latest audited consolidated net assets per Share;
- the premium represented by the Cash Alternative over the closing price on Last Trading Date is above the mean and the median of those of the Comparable Transactions;
- the P/E Ratio of the Cash Alternative is well above the adjusted mean and adjusted median of those of the Comparable Companies and the P/B Ratio of the Cash Alternative is above the median of those of the Comparable Companies;
- the recent surge of the price and trading volume of the Shares was mainly attributable to the market reaction to the publication of the Holding Announcement and Independent Shareholders should note that the sustainability of the current price level and trading volume is uncertain;
- the trading volume of the Shares have been generally thin during the Review Period and Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares;

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- the sustainability of the improvement in financial performance of the CRM Group for the year ended 31 December 2010 is uncertain given (i) the historical volatility of the PRC (including Hong Kong) market segment of the CRM Group; (ii) the deterioration of profit of the CRM Group for the six months ended 30 June 2011, which was mainly due to low capacity utilisation rates and increasing costs of, in particular, raw wafer, electricity, gold and copper as well as local labour; (iii) the possible decline in industry growth; and (iv) the unpredictability as to whether CRM can continue to grasp favourable business opportunity in the PRC;
- although a final dividend was distributed for the year ended 31 December 2010, no dividend was recommended for each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 and 2011 and there is also no certainty as to whether the CRM Group will continue to declare dividends; and
- if the Proposal were not implemented, CRM would consider to refinance all or a portion of maturing debts by way of an open offer, which might dilute the shareholding of the Independent Shareholders should the Independent Shareholders do not further invest in CRM and subscribe for Shares in such open offer,

we consider the Cash Alternative provides an opportunity for the Independent Shareholders to realise their investments in CRM and the terms of the Cash Alternative are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Evaluation of the Share Alternative under the Scheme of Arrangement**

Apart from the Cash Alternative, Independent Shareholders are allowed to elect the Share Alternative under the Scheme of Arrangement, where Independent Shareholders will receive one New Share in CRH Micro per Share.

Immediately following the implementation of the Scheme of Arrangement, CRM will be a wholly-owned subsidiary of CRH Micro, which is newly incorporated in the BVI. The number of issued New Shares immediately after the implementation of the Scheme of Arrangement will be the same as the number of the issued Shares in CRM immediately before the implementation. As detailed in the letter from the Board of the Scheme Document, Shareholders who elect the Share Alternative only will indirectly retain the same proportional interest in CRM, as such Shareholders held immediately before the implementation of the Scheme of Arrangement, through the holdings of the New Shares in CRH Micro.

The New Shares to be issued pursuant to the Proposal will be credited as fully paid and will rank *pari passu* with all the New Shares then in issue. Shareholders of CRH Micro are entitled to receive notice of general meetings of CRH Micro and shall have the right to one vote per New Share at such meetings. Shareholders of CRH Micro will have their rights and obligations in relation to CRH Micro governed by the provisions of the BVI Business Companies Act, 2004 (as amended from time to time) and other applicable laws in the BVI. In addition, the articles of association of CRH Micro will be amended to include provisions which deal with certain transactions among CRH Micro and its interested shareholders so that certain protection will be afforded to the Independent Shareholders. Details of the amendments are set out in the letter from the Board of the Scheme Document.

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Nonetheless, Independent Shareholders should note that CRH Micro is not a listed company and there is no plan for a listing of CRH Micro or CRM elsewhere after the implementation of the Scheme of Arrangement, therefore Independent Shareholders of CRM may also find it more difficult to find a purchaser for the New Shares if they intend to sell their shares, as there is less likely a ready market for them. In addition, the independent shareholders of CRH Micro are not afforded the protection currently given to the Independent Shareholders under the Listing Rules, the constitution of CRM and the laws of the Cayman Islands. We wish to draw the attention of the Independent Shareholders that certain transactions do not require the approval of independent shareholders of CRH Micro, such as the acquisition of CSMC Asia by the issue of New Shares and the subscription of New Shares by a shareholder of CRH Micro who has provided a shareholder's loan.

Independent Shareholders should also note that there is no dividend policy and there is no guarantee that any dividends will be paid nor there is any dividend payment schedule in respect of the shares of CRH Micro. Payment of dividends (if any) is solely dependent on whether such payment is recommended or declared by the board of CRH Micro. As at the Latest Practicable Date, the directors of CRH Micro are Mr. Yan Biao and Mr. Wei Bin, where Mr. Yan Biao is also a director of CRH and Mr. Wei Bin is also a director of CRM. Details of the biographies of Mr. Yan Biao and Mr. Wei Bin are included in the letter from the Board of the Scheme Document.

Further, we wish to draw the attention of the Independent Shareholder that CRH acquired an 81% interest in CSMC Asia, which operates the 8-inch wafer fabrication line, in 2008 with the balance of 19% held by the CRM Group. As stated in the letter from the Board of the Scheme Document, it has always been intended that the 81% interest would be acquired by the CRM Group when the operation had achieved sufficient capacity utilisation as CSMC Asia has always been managed by the CRM Group. We understand from the 2011 Interim Report that CSMC Asia had finished its phase one construction and capacity installation with manufacturing capacity reached 30,000 8-inch wafers per month in the first half of 2011. In addition, as disclosed in Appendix II to the Scheme Document, we note that CSMC Asia, together with its subsidiaries, (collectively, the “**CSMC Asia Group**”) recorded turnover of approximately HK\$47 million and HK\$340 million for each of the years ended 31 December 2009 and 2010, respectively. Despite the CSMC Asia Group has been loss making, loss for the year narrowed from approximately HK\$1,960 million for the year ended 31 December 2009 to approximately HK\$666 million for the year ended 31 December 2010 and we are not certain as to whether the financial performance of CSMC Asia Group will turn around in near future. According to the letter from the Board of the Scheme Document, although the timing of the acquisition of CSMC Asia has not been determined, should the Proposal be implemented, the acquisition is expected to take place and the consideration of the acquisition is expected to be satisfied by the issue of New Shares, where the completion of the acquisition is estimated to increase the shareholding of the CRH Group in CRH Micro from not less than 60.6% to not less than 81.8% based on the assumptions as stated in the letter from the Board of the Scheme Document.

We consider that the Share Alternative does offer the Independent Shareholders a choice if they wish, according to their own strategic reasons, to remain invested in CRM. However, having considered, in particular, (i) CRH Micro is an unlisted company and its shares are lack of marketability; (ii) the shareholders of CRH Micro are not afforded the protection currently given to the Shareholders under the Listing Rules, the constitution of CRM and the laws of the Cayman Islands;

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and (iii) the potential dilution effect on the shareholders of CRH Micro as a result of the implementation of the proposed acquisition of CSMC Asia from the CRH Group, we consider the Share Alternative to be less attractive as compared to the Cash Alternative so far as the Independent Shareholders are concerned.

### 5. Evaluation of the Option Payment

The Option Payment will be offered to the Optionholders to cancel all the outstanding Options, which is conditional on the Scheme of Arrangement becoming effective.

For Options with exercise prices lower than the Cash Consideration, the cash offer to cancel the outstanding Options is calculated on a “see-through” basis, being the amount by which the Cash Consideration of HK\$0.48 per Share exceeds the exercise price of those Options. Hence, holders of the Options with an exercise price of HK\$0.078 per Option and HK\$0.341 per Option will receive HK\$0.402 per Option and HK\$0.139 per Option, respectively. We understand that such “see-through” principle is normally adopted in Hong Kong for privatisation proposals.

For Options with exercise prices higher than the Cash Consideration, the cash offer for cancellation of the outstanding Options is a nominal amount, being HK\$1 for every 5,000 Options or part thereof. As the Options with exercise prices higher than the Cash Consideration are considered out-of-money based on both the Cash Consideration and the recent market prices of the Shares, by accepting the offer for such Options, the Optionholders will be better off than exercising their Options.

Having considered, in particular (i) the “see-through” principle is adopted for Options with exercise prices lower than the Cash Consideration; and (ii) the Optionholders will be better off than exercising their Options for Options with exercise prices higher than the Cash Consideration, we consider the terms of the Option Payment are fair and reasonable so far as the Optionholders are concerned.

### DISCUSSION AND ADVICE

Having considered the above principal factors and reasons, in particular, the following:

- the sustainability of the improvement in financial performance of the CRM Group for the year ended 31 December 2010 is uncertain given (i) the historical volatility of the PRC (including Hong Kong) market segment of the CRM Group; (ii) the deterioration of profit of the CRM Group for the six months ended 30 June 2011, which was mainly due to low capacity utilisation rates and increasing costs of, in particular, raw wafer, electricity, gold and copper as well as local labour; (iii) the possible decline in industry growth; and (iv) the unpredictability as to whether CRM can continue to grasp favourable business opportunity in the PRC;
- although a final dividend was distributed for the year ended 31 December 2010, no dividend was recommended for each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 and 2011 and there is also no certainty as to whether the CRM Group will continue to declare dividends;

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## LETTER FROM FIRST SHANGHAI

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- the P/E Ratio, the P/B Ratio and the offer price premium over the Last Trading Date of the Cash Alternative were all within the range of those of their respective comparables;
- the Cash Consideration is higher than the price ever traded for the last three years and represents premium over the recent closing prices of the Shares and the terms of the Cash Alternative are fair and reasonable. Further, the recent surge of the price and trading volume of the Shares was mainly attributable to the market reaction to the publication of the Holding Announcement and Independent Shareholders should note that the sustainability of the current price level and trading volume is uncertain;
- the trading volume of the Shares have been generally very thin during the Review Period and Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market without exerting downward pressure on the price of the Shares;
- the CRM Group has required the support of CRH in the form of guarantees in order to raise sufficient funds to meet its capital investment requirements, where the bank borrowings of CRM are getting close to their maturity and the contraction in the recent credit conditions is likely to create a challenging environment for CRM to renew the existing credit facilities at the same level of interest rates. Further, if the Proposal were not implemented and CRM decided to obtain financing by way of an open offer, the shareholding of the Independent Shareholders might be diluted should the Independent Shareholders do not further invest in CRM and subscribe for Shares in such open offer;
- apart from the Cash Alternative, Independent Shareholders are allowed to elect the Share Alternative under the Scheme of Arrangement according to their own strategic reasons, where Independent Shareholders can remain invested in CRM via the holding of New Share in CRH Micro; and
- CRH Micro is an unlisted company and therefore the New Shares obtained by electing the Share Alternative may suffer a price discount due to the lack of marketability of the New Shares and the shareholding of the Independent Shareholders may be diluted by the acquisition of CSMC Asia. Further, the independent shareholders of CRH Micro are not afforded the protection currently given to the Independent Shareholders under the Listing Rules. Hence the Share Alternative is less attractive as compared to the Cash Alternative,

we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to (i) vote in favour of the resolution to approve the Scheme of Arrangement at the Court Meeting; and (ii) vote in favour of the special resolution and ordinary resolution to approve and implement the Scheme of Arrangement at the EGM. In addition, we further advise the Independent Board Committee to recommend the Independent Shareholders to elect the Cash Alternative rather than the Share Alternative.



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## LETTER FROM FIRST SHANGHAI

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As discussed above, having considered, in particular, (i) the “see-through” principle is adopted for Options with exercise prices lower than the Cash Consideration; and (ii) the Optionholders will be better off than exercising their Options for Options with exercise prices higher than the Cash Consideration, we consider the terms of the Option Payment are fair and reasonable so far as the Optionholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Optionholders to accept the offer in respect of the outstanding Options.

Nonetheless, in view of the recent fluctuation in the trading price of the Shares, Independent Shareholders who would like to realise part or all of their investments in CRM are reminded to closely monitor the market price of the Shares during the Offer Period. Should the Independent Shareholders are concerned that the Share prices may fall back to lower levels under the circumstances where the Proposal not become effective, Independent Shareholders may, instead of accepting the Proposal, consider selling their Shares in the open market.

In any case, Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, Independent Shareholders should consult their own professional advisers for professional advice. Further, Independent Shareholders who wish to accept the Proposal are recommended to read carefully the procedures for accepting the Proposal as detailed in the Scheme Document.

Yours faithfully,

For and on behalf of

**First Shanghai Capital Limited**

**Eric Lee**

*Managing Director*

**Fanny Lee**

*Managing Director*

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## EXPLANATORY STATEMENT

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*This explanatory statement constitutes the statement required under Order 102, rule 20(4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).*

**SCHEME OF ARRANGEMENT  
TO CANCEL ALL THE SHARES  
IN CHINA RESOURCES MICROELECTRONICS LIMITED  
IN CONSIDERATION OF CRH (MICROELECTRONICS) LIMITED  
AGREEING TO OFFER HK\$0.48 AND, OR ONE SHARE  
IN CRH (MICROELECTRONICS) LIMITED FOR EACH SHARE HELD AND  
PROPOSED CONDITIONAL CASH PAYMENT TO THE OPTIONHOLDERS FOR  
CANCELLATION OF ALL OUTSTANDING OPTIONS**

### INTRODUCTION

On 18 July 2011, CRH (Microelectronics) Limited and CRM jointly announced that CRH through CRH (Microelectronics) Limited had requested the Directors to put forward to (i) the Shareholders the Proposal which, if implemented, would result in CRM becoming a wholly-owned subsidiary of CRH (Microelectronics) Limited; and (ii) the Optionholders receiving the Option Payment. The Option Payment will be conditional upon the Scheme of Arrangement becoming effective. The Board has agreed to put forward the Proposal and the Option Payment.

The purpose of this Explanatory Statement is to explain the terms and effects of the Scheme of Arrangement and the Option Payment, and to provide Shareholders and Optionholders with other relevant information in relation to the Scheme of Arrangement and the Option Payment, and in particular, to state any material interest of the Directors, whether as Directors or as members or as creditors of CRM or otherwise.

The particular attention of Shareholders and Optionholders is drawn to the following sections of this document: (a) a letter from the Board set out on pages 11 to 24 of this document; (b) a letter from Anglo Chinese in connection with the estimated value of the New Shares set out on pages 25 to 27 of this document; (c) a letter from the Independent Board Committee set out on pages 28 to 29 of this document; (d) a letter from First Shanghai set out on pages 30 to 55 of this document; (e) the Scheme of Arrangement set out on pages 251 to 259 of this document; (e) the notice of the Court Meeting and the notice of the EGM set out on pages 260 to 264 of this document; (f) proxy forms in respect of the Court Meeting and the EGM enclosed with this document; and (g) the Election Form enclosed with this document. Optionholders are advised to read carefully the letter which will be sent separately to them following the approval of the Proposal by the requisite majorities at the Court Meeting and the EGM.

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## EXPLANATORY STATEMENT

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### THE PROPOSAL

Under the Scheme of Arrangement, the Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, will receive from CRH (Microelectronics) Limited in consideration for the cancellation of their Shares:

**the Cash Alternative:** Cash of HK\$0.48 for every Share held; or

**the Share Alternative:** One New Share for every Share held.

The CRH Group has undertaken to elect the Share Alternative only and Shareholders, other than the CRH Group, may elect either the Cash Alternative or the Share Alternative or a combination of both. If no election is made, such Shareholders will receive the Cash Alternative. The Share Alternative offers an opportunity for the existing Shareholders to retain indirect interest in CRM after withdrawal of listing of the Shares from the Stock Exchange. Any Shareholder who elects to receive the Share Alternative only will retain indirectly through his shareholding in CRH (Microelectronics) Limited the same proportional interest in CRM as such Shareholder held immediately before the implementation of the Scheme of Arrangement.

As part of the Proposal and assuming no changes in the issued share capital of CRM as at the Latest Practicable Date, save for one Share to be allotted and issued to CRH (Microelectronics) Limited on the Effective Date, all 8,789,651,708 Shares in issue, comprising 5,326,855,822 Shares held by the CRH Group, representing approximately 60.6% of the issued share capital of CRM, and 3,462,795,886 Shares held by other Shareholders, representing approximately 39.4% of the issued share capital of CRM, will be cancelled, and the same number of Shares as cancelled less one Share to be allotted and issued to CRH (Microelectronics) Limited on the Effective Date will be issued, credited as fully paid, to CRH (Microelectronics) Limited. The CRH Group has undertaken to elect the Share Alternative only and 5,326,855,822 New Shares less the one New Share already held by CRH will be issued, credited as fully paid and ranking pari passu with other New Shares then in issue, to CRH or such party or parties as CRH may direct in consideration for the cancellation of 5,326,855,822 Shares held by the CRH Group. In order to fund the Cash Alternative, the CRH Group will subscribe for same number of New Shares as the number of Shares in respect of which the Cash Alternative is to be paid, in addition to the New Shares to be issued in consideration for the cancellation of the Shares held by the CRH Group as at the Record Time, at HK\$0.48 per New Share. Assuming all Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, elect the Share Alternative, 3,462,795,886 New Shares will be issued to them, credited as fully paid and ranking pari passu with other New Shares then in issue, and the shareholding of the CRH Group and other Shareholders in CRH (Microelectronics) Limited will be the same as that in CRM before the Scheme of Arrangement becoming effective, being approximately 60.6% and 39.4%, respectively. Assuming all Shareholders, other than the CRH Group, elect the Cash Alternative, CRH (Microelectronics) Limited will be 100% owned by the CRH Group.

As at the Latest Practicable Date, a total of 5,326,855,822 Shares, representing approximately 60.6% of the issued share capital of CRM, were held directly by Gold Touch Enterprises Inc. and Commotra Company Limited as to 5,326,850,822 and 5,000 Shares, respectively. Gold Touch Enterprises Inc. and Commotra Company Limited are wholly-owned subsidiaries of CRH.

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## EXPLANATORY STATEMENT

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CRH (Microelectronics) Limited is a BVI business company incorporated in the BVI with limited liability on 8th July, 2011, whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI and a wholly-owned subsidiary of CRH. The number of authorised and issued shares of CRH (Microelectronics) Limited are 10,000,000,000 New Shares, and one New Share issued to the CRH Group, respectively. The New Shares to be issued pursuant to the Proposal will be credited as fully paid and will rank pari passu with all the New Shares then in issue. The one New Share already issued to the CRH Group will also be credited as fully paid upon the Scheme of Arrangement becoming effective. Shareholders of CRH (Microelectronics) Limited are entitled to receive notice of general meetings of CRH (Microelectronics) Limited and shall have the right to one vote per New Share at such meetings. There is no dividend policy and no guarantee that any dividends will be paid nor is there any dividend payment schedule in respect of the shares of CRH (Microelectronics) Limited. Payment of dividends (if any) is dependent solely on whether such payment is recommended or declared by the board of CRH (Microelectronics) Limited. Shareholders of CRH (Microelectronics) Limited will have their rights and obligations in relation to CRH (Microelectronics) Limited governed by the provisions of the BVI Business Companies Act, 2004 (as amended from time to time) and other applicable laws in the BVI. CRH (Microelectronics) Limited shall, on receipt of an instrument of transfer, enter the name of the transferee of the New Share in the register of shareholders in accordance with and subject to the provisions of its articles of association. Shareholders of CRH (Microelectronics) Limited may also find it more difficult to find a purchaser for the New Shares if they intend to sell their shares, as there is less likely a ready market for them.

As at the Latest Practicable Date, the directors of CRH (Microelectronics) Limited were Mr. Yan Biao and Mr. Wei Bin. CRH (Microelectronics) Limited is not a listed company and therefore its shareholders are not afforded the protection currently given to the Shareholders under the Listing Rules, the constitution of CRM and the laws of the Cayman Islands. However, in the event any Shareholder, other than the CRH Group, has elected the Share Alternative and conditional on the Scheme of Arrangement becoming effective, the articles of association of CRH (Microelectronics) Limited will be amended to include provisions which deal with certain transactions among CRH (Microelectronics) Limited and its interested shareholders so that certain protection will be afforded to disinterested shareholders. Pursuant to such amendments:

- (1) Save for the transactions described in paragraph (2) below, any transaction which falls under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules and are not exempt from the independent shareholders’ approval requirements under the relevant provisions of the Listing Rules as if CRH (Microelectronics) Limited were a listed issuer, shall be made conditional on prior approval by the independent shareholders.
- (2) The following transactions do not require the approval of the independent shareholders of CRH (Microelectronics) Limited:-
  - (a) A shareholder of CRH (Microelectronics) Limited who has provided a shareholder’s loan has the right to subscribe for New Shares, which shall be issued and credited as fully paid by way of capitalising all or any part of the shareholder’s loan, provided

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## EXPLANATORY STATEMENT

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that the number of New Shares to be issued will be determined by the amount of the shareholder's loan to be capitalised and a capitalisation price per share equivalent to the higher of (i) the par value of a New Share and (ii) the unaudited consolidated net asset value per New Share.

- (b) The directors of CRH (Microelectronics) Limited may approve the acquisition of the 81% interest in the 8-inch wafer fabrication line owned by CRH Group on the basis that the cost of acquisition will be the investment cost of CRH's 81% interest which will be satisfied by the issue of New Shares at the net asset value of CRH (Microelectronics) Limited as per the then latest management accounts, adjusted for any provisions made by CRM for its investment in the 8-inch wafer fabrication line.
- (c) The directors of CRH (Microelectronics) Limited may approve any provision of services or supply of goods, from or to CRH (Microelectronics) Limited or any of its subsidiaries, in which a shareholder or its associate is interested, provided that such transaction is on normal commercial terms, which are terms that a party could obtain on an arm's length basis or terms no less favourable to the company than terms available to or from independent third parties in the ordinary course of business of the company.
- (d) The directors of CRH (Microelectronics) Limited may approve any financial assistance, which includes granting credit, lending money, providing security for or guaranteeing a loan, provided by a shareholder or its associate, for the benefit of CRH (Microelectronics) Limited or any of its subsidiaries on normal commercial terms, which are terms that a party could obtain on an arm's length basis or terms no less favourable to the company than terms available to or from independent third parties, whether or not there is security to be granted over the assets of CRH (Microelectronics) Limited or its subsidiaries in respect of the financial assistance.

Immediately following the implementation of the Scheme of Arrangement CRM will be a wholly-owned subsidiary of CRH (Microelectronics) Limited and on a consolidated basis the assets and liabilities of CRH (Microelectronics) Limited will be the same as those of the CRM Group save for the costs and expenses CRH (Microelectronics) Limited may incur in connection with the Proposal. The number of issued New Shares immediately after the implementation of the Scheme of Arrangement will be the same as the number of the issued Shares in CRM immediately before the implementation. A letter from Anglo Chinese is set out on pages 25 to 27 of this document in respect of an estimated value of the New Shares, which is provided to the directors of CRH and CRH (Microelectronics) Limited solely for the purpose of paragraph 30 of Schedule I to the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever.

Other than the Options that are described in the letter from the Board, CRM does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

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## EXPLANATORY STATEMENT

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The Proposal is conditional upon the fulfillment or waiver, as applicable, of the conditions as described in the section headed “Conditions of the Scheme of Arrangement” below. Following the Effective Date, the listing of the Shares on the Stock Exchange is expected to be withdrawn on 2 November 2011 and CRM will become a wholly-owned subsidiary of CRH (Microelectronics) Limited.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal does not become unconditional or lapses.

Assuming that the Scheme of Arrangement becomes effective on 2 November 2011, cheques for cash entitlements under the Cash Alternative and share certificates for New Shares under the Share Alternative are expected to be despatched to the relevant Shareholders on or before 9 November 2011. Please refer to the paragraph headed “Registration, Payment and Despatch of CRH (Microelectronics) Limited’s share certificates” below for further details.

Settlement of the consideration to which the Shareholders, other than the CRH Group, are entitled under the Scheme of Arrangement will be implemented in full in accordance with the terms of the Scheme of Arrangement without regard to any lien, right of set-off, counterclaim or other analogous right to which CRH and, or, CRH (Microelectronics) Limited may otherwise be, or claim to be, entitled against any such Shareholder.

### REORGANISATION

CRH (Microelectronics) Limited and CRM have undertaken and will undertake the following reorganisation steps to implement the Scheme of Arrangement:

- CRH (Microelectronics) Limited was incorporated in the BVI on 8th July, 2011 and was authorised to issue 10,000,000,000 New Shares;
- one New Share of CRH (Microelectronics) Limited has been allotted and issued to CRH, credited as nil paid;
- pursuant to the Scheme of Arrangement, on its effective date, CRM shall allot and issue one Share to CRH (Microelectronics) Limited. Thereafter, save for the aforesaid one Share issued to CRH (Microelectronics) Limited, all 8,789,651,708 Shares in issue, comprising 5,326,855,822 Shares held by the CRH Group, representing approximately 60.6% of the issued share capital of CRM, and 3,462,795,886 Shares held by other Shareholders, representing approximately 39.4% of the issued share capital of CRM, will be reduced, extinguished and cancelled on the Effective Date;

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## EXPLANATORY STATEMENT

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- immediately after the cancellation of all the issued Shares (save for the one Share issued to CRH (Microelectronics) Limited) as described above, the issued share capital of CRM shall be increased back to the amount prior to the cancellation of the issued Shares by the allotment and issue of 8,789,651,708 Shares less one Share already issued to CRH (Microelectronics) Limited, credited as fully paid, to CRH (Microelectronics) Limited, and CRM will become a wholly-owned subsidiary of CRH (Microelectronics) Limited and the reserve created as a result of the cancellation described above shall be used to pay up in full at par the Share already issued to CRH (Microelectronics) Limited and the aforesaid 8,789,651,708 Shares less one Share already issued to CRH (Microelectronics) Limited;
- the CRH Group has undertaken to elect the Share Alternative only and 5,326,855,822 New Shares less the one New Share already held by CRH will be issued, credited as fully paid and ranking pari passu with other New Shares then in issue, to CRH or such party or parties as CRH may direct and the one New Share already held by CRH shall be paid up at par both in consideration for the cancellation of 5,326,855,822 Shares held by the CRH Group;
- Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, can elect either the Cash Alternative or the Share Alternative, or a combination of both. In order to fund the Cash Alternative, the CRH Group will subscribe for same number of New Shares as the number of Shares in respect of which the Cash Alternative is to be paid, in addition to the New Shares to be issued in consideration for the cancellation of the Shares held by the CRH Group as at the Record Time, at HK\$0.48 per New Share; and
- assuming all Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, elect the Share Alternative, 3,462,795,886 New Shares will be issued to them, credited as fully paid and ranking pari passu with other New Shares then in issue, and the shareholding of the CRH Group and other Shareholders in CRH (Microelectronics) Limited will be the same as that in CRM, being approximately 60.6% and 39.4%, respectively. Assuming all Shareholders, other than the CRH Group, elect the Cash Alternative, CRH (Microelectronics) Limited will be 100% owned by the CRH Group.

### CONDITIONS OF THE SCHEME OF ARRANGEMENT

As at the Latest Practicable Date, a total of 5,326,855,822 Shares, representing approximately 60.6% of the issued share capital of CRM, were held directly by Gold Touch Enterprises Inc. and Commotra Company Limited as to 5,326,850,822 and 5,000 Shares, respectively. Gold Touch Enterprises Inc. and Commotra Company Limited are wholly-owned subsidiaries of CRH.

As at the Latest Practicable Date, Mr. Song Lin, Mr. Jiang Wei and Mr. Zhu Jinkun, who are directors of CRH, held 1,245,533, 537,614 and 79,150 Shares, respectively, representing approximately 0.01%, 0.01% and 0.001% of the issued share capital of CRM, respectively.



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## EXPLANATORY STATEMENT

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CRH, CRH (Microelectronics) Limited and parties acting in concert with any of them, including Gold Touch Enterprises Inc., Commotra Company Limited, Mr. Song Lin, Mr. Jiang Wei and Mr. Zhu Jinkun shall, in compliance with the Takeovers Code, abstain from voting at the Court Meeting. The Scheme of Arrangement will become effective and binding on CRM, CRH (Microelectronics) Limited and all Shareholders subject to the fulfillment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement, by way of a poll, by a majority in number representing not less than 75% of the votes attaching to the Shares other than those owned by CRH and parties acting in concert with it present and voting either in person or by proxy at the Court Meeting;
- (b) the number of votes cast at the Court Meeting against the resolution to approve, by way of a poll, the Scheme of Arrangement being not more than 10% of the votes attaching to the Shares, other than those held by CRH and parties acting in concert with it;
- (c) (i) the passing of a special resolution to approve and give effect to the reduction of the issued share capital of CRM by cancelling all of the issued Shares (other than one new Share issued to CRH (Microelectronics) Limited) by a majority of at least 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM; (ii) the passing of an ordinary resolution to immediately thereafter increase the issued share capital of CRM to the amount prior to the cancellation of the issued Shares of CRM and to apply the reserve created as a result of the aforesaid cancellation to pay up in full at par the one new Share issued to CRH (Microelectronics) Limited and such number of new Shares as is equal to the number of issued Shares cancelled less one new Share issued to CRH (Microelectronics) Limited as described above, credited as fully paid up, for issuance to CRH (Microelectronics) Limited;
- (d) the sanction of the Scheme of Arrangement with or without modifications by the Court, and the Court's confirmation of the reduction of the share capital of CRM and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;
- (e) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of CRM;
- (f) all Authorisations having been obtained in connection with the Scheme of Arrangement from the Relevant Authorities in the Cayman Islands, and, or Hong Kong and, or any other relevant jurisdictions;
- (g) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents including circulars or things relating thereto, in each aforesaid case up to and at the time when the Scheme of Arrangement becomes effective;



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## EXPLANATORY STATEMENT

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- (h) all necessary consents from third parties, other than, for avoidance of doubt, any that may be required from any members of the CRH Group or any of their respective associates, which may be required under any existing contractual obligations of CRM or its subsidiaries being obtained and remaining in full force and effect without modification; and
- (i) no government, governmental, quasi-government, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme of Arrangement or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material or adverse conditions or obligations with respect to the Proposal or the Scheme of Arrangement or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal liability of CRH (Microelectronics) Limited to proceed with the Proposal or the Scheme of Arrangement.

In the event that any of condition (f), condition (g), condition (h) or condition (i) is not fulfilled, CRH (Microelectronics) Limited reserves the right to assess the materiality of such non-fulfillment and to waive the fulfilment of any such condition to such extent as it considers appropriate. Save for the relevant approvals and consents from the Court, it is expected that no other material Authorisations are required under conditions (f) to (i). Conditions (a) to (e) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31 December 2011, or such other date as CRH (Microelectronics) Limited and CRM may agree and the Court may allow, otherwise the Proposal and the Option Payment to the Optionholders will lapse.

Assuming that the above conditions are fulfilled or, as applicable, waived, it is expected that the Scheme of Arrangement will become effective on 2 November 2011 and the listing of the Shares on the Stock Exchange will be withdrawn on 2 November 2011 pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by CRH, CRH (Microelectronics) Limited and CRM if the Scheme of Arrangement lapses. Further announcements regarding the Proposal will be made as and when appropriate.

### **SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND COURT MEETING**

According to section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

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## **EXPLANATORY STATEMENT**

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It is provided in section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, summoned as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Court, be binding on all members or class of members, as the case may be, and also on the company.

### **THE ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying any requirements imposed by law as summarised above, but except with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme of Arrangement may only be implemented if:

- (a) the Scheme of Arrangement is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy by poll at a duly convened meeting of the holders of the disinterested Shares, such holders being the Shareholders other than CRH and parties acting in concert with it; and
- (b) the number of votes cast against the resolution to approve the Scheme of Arrangement at such meeting is not more than 10% of the votes attaching to all disinterested Shares, namely the Shares held by the Shareholders other than CRH and parties acting in concert with it.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 3,460,933,589 Shares. 10% of the votes attached to all disinterested Shares referred to in paragraph (b) above therefore represent approximately 346,093,359 Shares as at the Latest Practicable Date.

### **BINDING EFFECT OF THE SCHEME OF ARRANGEMENT**

Notwithstanding the fact that there may be a dissenting minority, if the Scheme of Arrangement is approved at the Court Meeting by a majority in number of Independent Shareholders present and voting in person or by proxy, representing not less than 75% in nominal value of the Shares of the Independent Shareholders, and provided that the Scheme of Arrangement is not disapproved by Independent Shareholders at the Court Meeting holding more than 10% in nominal value of all the Shares held by the Independent Shareholders, the Scheme of Arrangement will, so long as it is sanctioned by the Court, become binding on CRM, CRH (Microelectronics) Limited and all the Shareholders.

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## EXPLANATORY STATEMENT

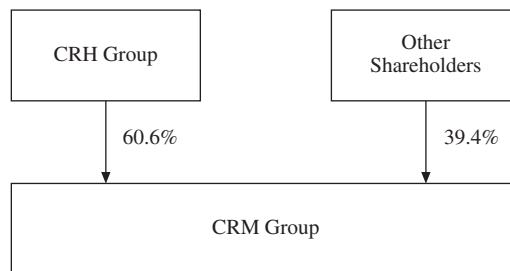
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### EFFECTS OF THE SCHEME OF ARRANGEMENT

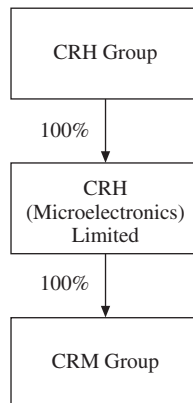
#### Shareholding structure

The charts below set out the simplified shareholding structure of CRM immediately before the Scheme of Arrangement becomes effective and immediately upon successful implementation of the Scheme of Arrangement:

#### Immediately before the Scheme of Arrangement becomes effective



#### Immediately after the Scheme of Arrangement becomes effective, assuming that all Shareholders, other than the CRH Group, elect to receive the Cash Alternative



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## EXPLANATORY STATEMENT

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### Comparison of value

The Cash Alternative represents:

- a premium of approximately 5.5% over the closing price of HK\$0.455 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 10.3% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on 18 July 2011, being the last day on which the Shares traded before the publication of the Announcement;
- a premium of approximately 43.3% over the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 40.4% over the 5-day average closing price of approximately HK\$0.342 per Share during the period ended the Last Trading Date;
- a premium of approximately 40.4% over the 10-day average closing price of approximately HK\$0.342 per Share during the period ended the Last Trading Date;
- a premium of approximately 29.7% over the 30-day average closing price of approximately HK\$0.370 per Share during the period ended the Last Trading Date;
- a premium of approximately 24.4% over the 60-day average closing price of approximately HK\$0.386 per Share during the period ended the Last Trading Date;
- a premium of approximately 21.8% over the 90-day average closing price of approximately HK\$0.394 per Share during the period ended the Last Trading Date;
- a premium of approximately 16.2% on the value of the audited consolidated net assets attributable to Shareholders as at 31st December, 2010 of approximately HK\$0.413 per Share; and
- a premium of approximately 13.2% on the value of the unaudited consolidated net assets attributable to Shareholders as at 30 June 2011 of approximately HK\$0.424 per Share.

## EXPLANATORY STATEMENT

On the basis of the Cash Alternative, the table below illustrates the change in capital value for the Shareholders, assuming that the Scheme of Arrangement is implemented.

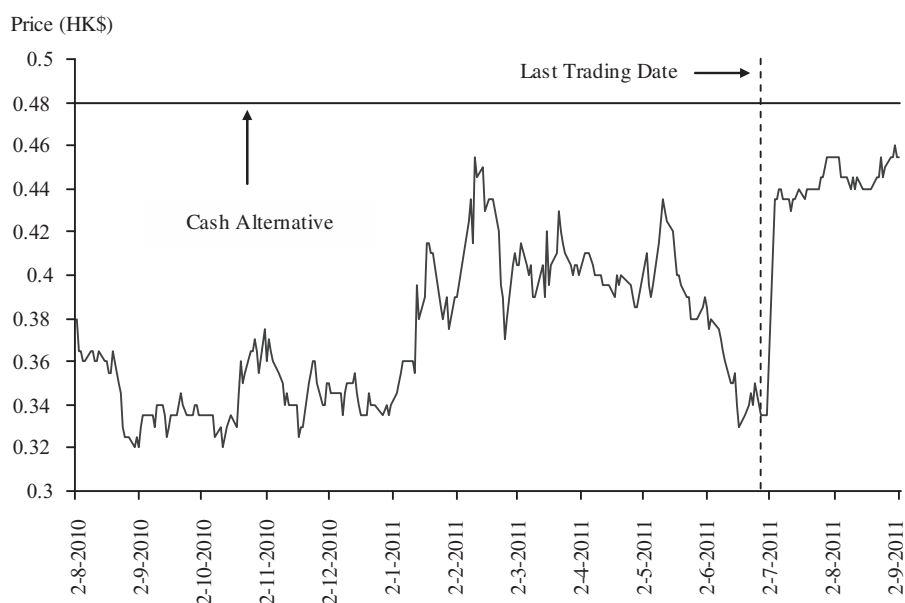
	On the Last Trading Date HK\$	On the Latest Practicable Date HK\$
Consideration receivable (per 5,000 Shares) under the Cash Alternative	2,400	2,400
Value of 5,000 Shares ( <i>Note 1</i> )	1,675	2,275
Difference	725	125
This represents an increase of	43.3%	5.5%

*Note 1:* Based on the closing price of the Shares as quoted on the Stock Exchange on the respective dates.

### Price of the Shares

The following three charts headed “Chart I”, “Chart II” and “Chart III” show the daily closing prices of the Shares since 2 August 2010 and the relative performance of the Shares measured against the Hang Seng Index and the Hang Seng Commerce and Industrial Index up to the Latest Practicable Date.

**Chart I — the performance of the Shares since 2 August 2010**



Source: Bloomberg

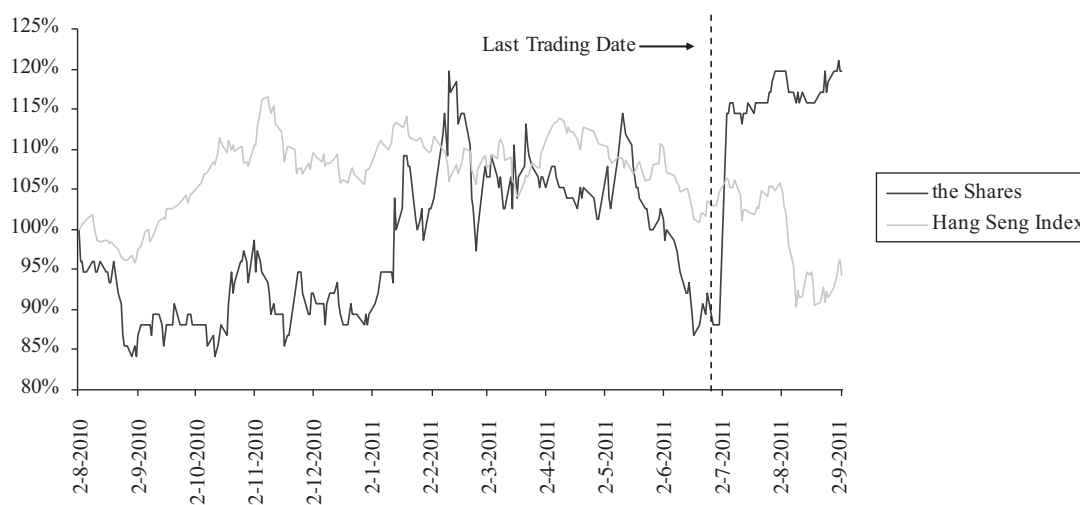
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## EXPLANATORY STATEMENT

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For the greater part of the period since 2 August 2010 and up to the Last Trading Date, the Shares have traded at a price substantially lower than the price of HK\$0.48 per Share offered under the Cash Alternative. The average price of the Shares since 2 August 2010 and up to the Last Trading Date was approximately HK\$0.38 per Share, representing some 20.47% lower than the offer price of HK\$0.48 per Share. The highest closing price during this period was HK\$0.46 on 31 August 2011 and the lowest closing price was HK\$0.32 on 30 August 2010, 1 September 2010 and 12 October 2010. The offer price of HK\$0.48 is approximately 4.35% higher than the highest closing price of the Shares and 50% higher than the lowest price.

**Chart II — the performance of the Shares against the Hang Seng Index since 2 August 2010**



Source: Bloomberg

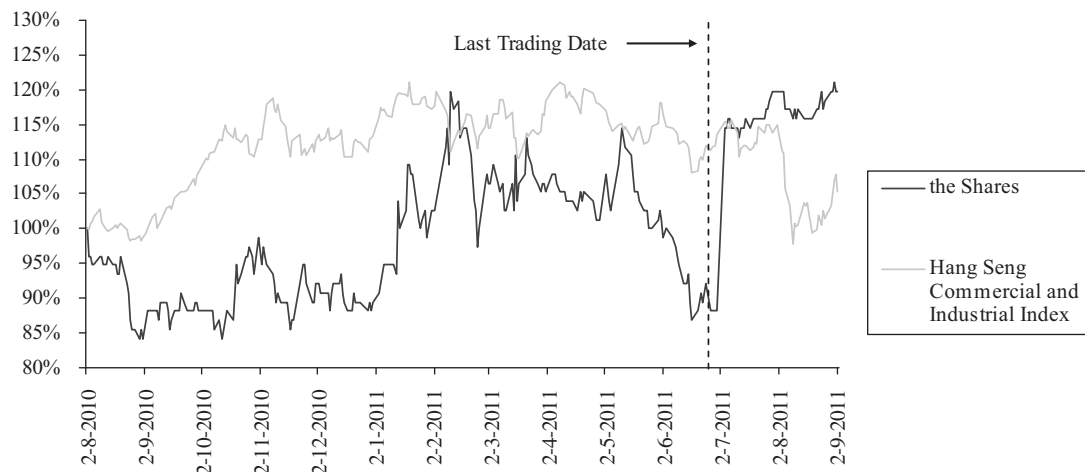
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## EXPLANATORY STATEMENT

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For the greater part of the period since 2 August 2010 and up to the Last Trading Date, the Shares have underperformed the Hang Seng Index by a substantial margin.

**Chart III — the performance of the Shares  
against the Hang Seng Commercial and Industrial Index since 2 August 2010**



Source: Bloomberg

For the greater part of the period since 2 August 2010 and up to the Last Trading Date, the Shares have underperformed the Hang Seng Commercial and Industrial Index by a substantial margin.

A summary of the closing prices of the Shares on the Stock Exchange on (i) the last Business Day of each of the six calendar months preceding the date of the Holding Announcement; (ii) the Last Trading Date; and (iii) the Latest Practicable Date, are set out in the subsection headed “3. Market prices during the Relevant Period” in the Appendix III on pages 231 of this document.

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## EXPLANATORY STATEMENT

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### Price movement of semiconductor companies listed on the Stock Exchange

The following table shows the share price movement of the comparable companies listed on the Stock Exchange from the Last Trading Date up to the Latest Practicable Date. For the purpose of comparison, we have selected comparable companies which are listed on the Stock Exchange, operate in the semiconductor industry and are engaged in similar activities to those of the CRM Group are selected. Based on such criteria, an exhaustive list of five companies has been identified.

Comparables	Stock code	Closing price	Closing price	Share price change C = (B-A)/A %
		on the Last Trading Date A HK\$	on the Latest Practicable Date B HK\$	
Shanghai Fudan Microelectronics Company Limited	8102	2.90	2.40	-17.24
Advanced Semiconductor Manufacturing Corporation Limited	3355	0.435	0.35	-19.54
Solomon Systech (International) Limited	2878	0.375	0.213	-43.20
Semiconductor Manufacturing International Corporation	981	0.63	0.43	-31.75
China Electronics Corporation Holdings Company Limited	85	0.75	0.72	-4.00
<b>Average of the comparables</b>				-23.15
<b>CRM</b>	<b>597</b>	<b>0.335</b>	<b>0.455</b>	<b>35.82</b>
<b>Hang Seng Index</b>		<b>22,041.77 points</b>	<b>20,212.91 points</b>	<b>-8.30</b>
<b>Hang Seng Commercial and Industrial Index</b>		<b>12,748.34 points</b>	<b>12,049.95 points</b>	<b>-5.48</b>

Source: Bloomberg



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## EXPLANATORY STATEMENT

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### Book value of the Shares

The following table shows the price to book ratios of the comparable companies listed on the Stock Exchange calculated on the basis of their closing prices as at the Last Trading Date divided by their value of the audited consolidated net asset attributable to shareholders as at 31 December 2010.

Comparables	Stock code	Net asset value		Price to book ratio C = A/B times
		Closing price per share as at on the Last Trading Date A HK\$	31 December 2010 B HK\$	
Shanghai Fudan Microelectronics Company Limited	8102	2.90	0.8415	3.45
Advanced Semiconductor Manufacturing Corporation Limited	3355	0.435	0.5802	0.75
Solomon Systech (International) Limited	2878	0.375	0.4291	0.87
Semiconductor Manufacturing International Corporation	981	0.63	0.6191	1.02
China Electronics Corporation Holdings Company Limited	85	0.75	0.2795	2.68
<b>Average of the comparables</b>				<b>1.75</b>
<b>CRM</b>	<b>597</b>	<b>0.48</b>	<b>0.4130</b>	<b>1.16</b>

Source: Bloomberg and website of the Stock Exchange

Exchange rate: US\$1=HK\$7.8, RMB1=HK\$1.18

As at 30 June 2011, the unaudited consolidated net assets of CRM attributable to Shareholders amounted to approximately HK\$3,728.5 million or approximately HK\$0.424 per Share. The price of HK\$0.48 offered for every Share held under the Cash Alternative represents a premium of approximately 13.2% on the value of the unaudited consolidated net asset attributable to Shareholders as at 30 June 2011 of approximately HK\$0.424 per Share. As at 31 December 2010, the audited consolidated net assets of CRM attributable to Shareholders amounted to approximately HK\$3,630.5 million or approximately HK\$0.413 per Share. The price of HK\$0.48 offered for every Share held

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## EXPLANATORY STATEMENT

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under the Cash Alternative represents a premium of approximately 16.2% on the value of the audited consolidated net asset attributable to Shareholders as at 31 December 2010 of approximately HK\$0.413 per Share. The price to book ratio of the CRM of approximately 1.16, calculated on the basis of the Cash Alternative of HK\$0.48 divided by the value of the audited consolidated net asset attributable to Shareholders as at 31 December 2010 of approximately HK\$0.413 per Share, is within the range of that of the comparable companies listed above but lower than the average price to book ratio.

### Profit

The following table shows the price to earning ratios of the comparable companies listed on the Stock Exchange calculated on the basis of their closing prices as at the Last Trading Date divided by their audited profits per share for the financial year ended 31 December 2010.

Comparables	Stock code	Profits per share for the financial year ended 31 December 2010		Price to earning ratio C = A/B times
		Closing price on the Last Trading Date A HK\$	December 2010 B HK\$	
Shanghai Fudan Microelectronics Company Limited	8102	2.90	0.2237	12.96
Advanced Semiconductor Manufacturing Corporation Limited	3355	0.435	0.0920	4.73
Solomon Systech (International) Limited Semiconductor Manufacturing International Corporation	2878	0.375	0.0031	120.19
China Electronics Corporation Holdings Company Limited	981	0.63	0.0042	149.56
	85	0.75	0.0354	21.19
<b>Average of the comparables</b>				<b>61.73</b>
<b>CRM</b>	<b>597</b>	<b>0.48</b>	<b>0.0313</b>	<b>15.34</b>

Source: Bloomberg and website of the Stock Exchange

Exchange rate: US\$1=HK\$7.8, RMB1=HK\$1.18

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## **EXPLANATORY STATEMENT**

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The CRM Group's unaudited consolidated profit attributable to the Shareholders for the six months ended 30 June 2011 amounted to approximately HK\$45.1 million, representing a profit of approximately HK\$0.0052 per Share. The CRM Group's audited consolidated profit attributable to the Shareholders for the year ended 31 December 2010 amounted to approximately HK\$272 million, representing a profit of approximately HK\$0.0313 per Share. The price to earning ratio of CRM of approximately 15.34, calculated on the basis of the Cash Alternative of HK\$0.48 divided by the profit of approximately HK\$0.0313 per Share for the financial year ended 31 December 2010, is within the range of that of the comparable companies listed above but lower than the average price to earning ratio.

### **Dividends**

For the financial year ended 31 December 2010 and up to the Latest Practicable Date, CRM paid dividends of approximately HK\$44 million or HK\$0.005 per Share.

### **CASH OFFER TO OPTIONHOLDERS AND OPTION PAYMENT**

As at the Latest Practicable Date, there were 14,534,223 outstanding Options held by Optionholders, of which 1,629,575 Options under the Equity Incentive Plan have an exercise price of HK\$0.078 per Option, 11,546,430 Options under Share Option Scheme have an exercise price of HK\$0.341 and the remaining 1,358,218 Options have an exercise price of HK\$0.711 which is above the Cash Alternative. A total of 14,534,223 Shares may fall to be issued if such 14,534,223 outstanding Options are exercised by the Optionholders in full. Save as disclosed above, CRM does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares. There are no Options held by the directors of CRM or the directors of CRH. None of CRH, CRH (Microelectronics) Limited or any person acting in concert with any of them holds any convertible securities, warrants or options of CRM. Pursuant to Rule 13 of the Takeovers Code, a cash payment will be made by CRH (Microelectronics) Limited conditional on the Scheme of Arrangement becoming effective to cancel all the outstanding Options.

The cash offer to cancel each Option will be calculated on a "see-through" basis, pursuant to which each Optionholder will be entitled to receive a sum for his or her Options equivalent to the amount by which the Cash Alternative exceeds the exercise price of those Options, being HK\$0.402 or HK\$0.139, calculated by subtracting the exercise price of HK\$0.078 or HK\$0.341 from the Cash Alternative of HK\$0.48. For the Options with an exercise price higher than the Cash Alternative, a cash payment of a nominal amount of HK\$1 for every 5,000 Options or part thereof will be made. On the basis of all Optionholders accepting the Option Payment, the total maximum cash consideration payable under the Option Payment is approximately HK\$2.3 million.

### **TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES**

On the basis of all Shareholders, other than the CRH Group, electing to receive the Cash Alternative and all Optionholders accepting the Option Payment, the total maximum cash consideration payable under the Proposal and the Option Payment is approximately HK\$1,664.4 million. On the basis of all Shareholders, other than the CRH Group, electing to receive the Cash Alternative and all Optionholders exercising all outstanding Options before the Record Time and

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## EXPLANATORY STATEMENT

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accepting the Cash Alternative, the total maximum cash consideration payable under the Proposal is approximately HK\$1,669.1 million. New Shares are being offered as the Share Alternative under the Scheme of Arrangement and no financing is required for the Share Alternative. There is no intention for CRH (Microelectronics) Limited to pay any interest on, or to repay or secure any of its liabilities, that will depend on any significant extent on the business of the CRM Group. Anglo Chinese, the financial adviser to CRH and CRH (Microelectronics) Limited, is satisfied that sufficient financial resources are available to CRH (Microelectronics) Limited to implement the Proposal and the cancellation of the Options in full. The Scheme of Arrangement and the Option Payment will be financed by the subscription by CRH of New Shares at HK\$ 0.48 per Share and internal resources of CRH (Microelectronics) Limited.

### **FUNDING OF THE CRM GROUP'S OPERATIONS IF THE PROPOSAL IS NOT IMPLEMENTED**

Notwithstanding the more difficult trading conditions experienced in the first half of the current financial year when compared to the same period in 2010 and 2010 generally, the CRM Group continued to generate net cash from its operating activities amounting to some HK\$55.0 million in the six months ended 30th June, 2011, a decline of approximately HK\$480.4 million from the first half of 2010. The net cash from operations was not sufficient to cover the investment in property, plant and equipment and the additional contribution for its 19% interest in the new 8-inch wafer fabrication line amounting in aggregate to HK\$584.0 million. In addition loan repayments during the period amounted to some HK\$218.8 million.

Capital expenditure is anticipated to continue at a comparatively high level with planned capital expenditure over the next year or so amounting to approximately HK\$730.9 million. The 8-inch wafer fabrication line continues to incur losses and, while no further commitments have been made to provide additional finance for its operation in proportion to the CRM Group's equity interest, further expenditure can be anticipated. During this period a substantial portion of the CRM Group's bank borrowings will fall due for repayment. As at 30 June 2011, the CRM Group recorded net current liabilities of approximately HK\$150.8 million.

Although the CRM Group has borrowed and continues to borrow from commercial banks to finance its business operations on the strength of its own financial position with the proviso that CRH remains its majority shareholder, increasingly it has required the support of CRH in the form of guarantees in order to raise sufficient funds to meet its capital investment requirements. While CRH will continue to support its subsidiary, it has informed CRM that as a publicly listed company it should place less reliance on financial support from its parent and instead have a sufficiently large capital base to support itself without a disproportionate share of the risk of the investment being borne by CRH. As at the Latest Practicable Date, CRM had borrowings of approximately HK\$812.5 million which were guaranteed by CRH, of which HK\$162.5 million are repayable in September 2011 and the remaining HK\$650.0 million are repayable in March 2012. In view of this, were the Proposal not to be implemented consideration will be given by CRM to refinance all or a portion of maturing debts which are guaranteed by CRH by way of an open offer to all shareholders, although the amount of the open offer has not been determined yet nor has its timing.

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## EXPLANATORY STATEMENT

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### POTENTIAL ACQUISITION OF THE 8-INCH FABRICATION LINE BY CRH (MICROELECTRONICS) LIMITED FROM THE CRH GROUP

As mentioned in the “Potential acquisition of the 81% interest in the 8-inch wafer fabrication line from the CRH Group” in the “Letter from the Board” on pages 19 to 20 of this document, should the Proposal be implemented, it is intended that CRH (Microelectronics) Limited will, through its then subsidiary, subsequently acquire from the CRH Group its interest in the 8-inch wafer fabrication line, on the basis that the cost of acquisition will be the investment cost of CRH’s 81% interest which will be satisfied by the issue of New Shares at the net asset value of CRH (Microelectronics) Limited as shown in the then latest management accounts, adjusted for any provision made by CRM for its investment in the 8-inch wafer fabrication line. Such fabrication line is a joint venture company, namely CSMC Asia, established between the CRH Group and the CRM Group in 2008 in relation to the formation of an 8-inch wafer foundry business by merging the operation of the 8-inch wafer fabrication line and related manufacturing facilities based in Wuxi, Jiangsu Province in the PRC. CRH Group holds 81% of this joint venture through a wholly-owned subsidiary, Joyous China Investments Limited, with the balance being held by the CRM Group.

The 8 inch fabrication line is still in the stage of ramping up its capacity and continues to be a loss making business that requires continuous support from shareholders in terms of capital to fund its capital expenditure and operations. The summary of the audited financial results of CSMC Asia for the two years ended 31 December 2010 is set out below:

	<b>Year ended 31 December 2009 <i>HK\$’000</i></b>	<b>Year ended 31 December 2010 <i>HK\$’000</i></b>
Turnover	47,165	340,151
Loss before taxation	1,960,122	666,294
Loss for the year	1,960,122	666,294
Loss for the year attributable to the shareholders	1,960,122	666,294
Dividends	—	—

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## EXPLANATORY STATEMENT

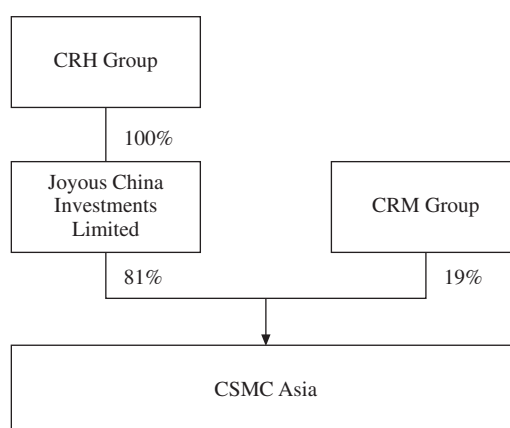
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On the assumption that the Proposal is implemented and on the basis of an investment cost of CRH of approximately HK\$4,440 million, the net asset value attributable to Shareholders of approximately HK\$3,630 million and impairment provisions made by CRM of approximately HK\$190 million as shown in CRM's audited consolidated annual accounts for the year ended 31st December, 2010, this would result in the issue of approximately 10,214 million New Shares and increase the shareholding of the CRH Group in CRH (Microelectronics) Limited from not less than 60.6% to not less than 81.8%.

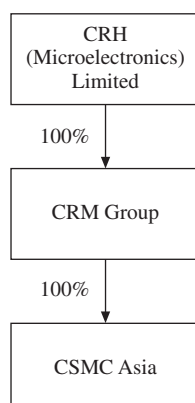
The CRH Group currently holds 81% in CSMC Asia through its wholly-owned subsidiary, Joyous China Investments Limited, with the balance being held by the CRM Group. Should the acquisition be implemented, CSMC Asia will be indirectly wholly owned by CRH (Microelectronics) Limited.

**Shareholders electing the Share Alternative are reminded that their interest will be diluted to the extent New Shares will be issued to the CRH Group as consideration for such acquisition.**

### **Simplified shareholding structure of the 8-inch wafer fabrication line before the completion of the Scheme of Arrangement**



### **Simplified shareholding structure of the 8-inch wafer fabrication line after the completion of the Scheme of Arrangement and the acquisition**



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## **EXPLANATORY STATEMENT**

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### **REASONS FOR THE PROPOSAL**

In the light of the continuing requirement for CRH to provide financial support to the CRM Group through the provision of guarantees and its commitment to the 8-inch wafer fabrication line, CRH believes that it is more appropriate that CRM ceases to be a listed company on the Stock Exchange. There will be greater flexibility in the provision of financial support to the CRM Group by CRH as this will not be constrained by the requirements of the Listing Rules. In addition, this will enable all the CRH Group's and the CRM Group's interests in semiconductor manufacturing to be consolidated under one holding company, which is anticipated to result in significant cost savings, without constraints arising from the minimum public float requirements under the Listing Rules. As indicated above, the alternative to this is for CRM to continue to be listed but with a substantially increased equity base to enable it to finance its operations unassisted by CRH, including the repayment of bank borrowing due shortly next year, the fulfilment of capital expenditure for the CRM Group and financial support to the loss making 8-inch wafer fabrication line. The Proposal also offers the public Shareholders an opportunity to realise their investment for cash at a price which is higher than the price that has ever traded for the last three years and which is at a substantial premium to the price at which the Shares have traded in recent months or which would be supported by its current trading performance, its financing requirements and the immediate prospects of the semiconductor industry both in China and internationally.

While CRH considers that the development of the CRM Group would be best managed if it were not to be listed, it appreciates that some Shareholders with a longer term investment perspective may wish to retain an interest in CRM. Accordingly, Shareholders will be able to retain their proportionate interest in CRM, albeit indirectly and, therefore, participate in the CRM Group's future development.

### **FUTURE INTENTIONS AND WITHDRAWAL OF LISTING OF THE SHARES**

It is the intention of CRH (Microelectronics) Limited to continue to operate the existing business of the CRM Group and to remain an investor in the 8-inch wafer fabrication facility upon the successful privatisation of CRM. Save as disclosed in the subsection headed "Potential acquisition of the 8-inch fabrication line by CRH (Microelectronics) Limited from the CRH Group" above, in particular the possibility of acquiring the balance of the shares in the 8-inch wafer fabrication line for an issue of New Shares, CRH (Microelectronics) Limited does not have any intention to introduce any significant changes to the existing operations and management of the CRM Group, nor does it have any intention to make any changes to the continued employment of the employees of the CRM Group. Consequently, there should be no material change to the CRM Group's businesses (including any deployment of the fixed assets of the CRM Group) or personnel as a result of the Proposal becoming effective.

CRM will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 (2) of the Listing Rules with effect from the date on which the Scheme of Arrangement becoming effective. Shareholders will be notified by way of an announcement of the last day for dealing in the Shares and the dates on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

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## EXPLANATORY STATEMENT

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Neither CRH nor CRH (Microelectronics) Limited intends to avail itself of any powers of compulsory acquisition under the laws of the BVI, in the event that the Share Alternative results in minority interest of less than 10% in CRH (Microelectronics) Limited.

### INFORMATION ON CRM

CRM is an investment holding company which, through its subsidiary companies, is engaged in Integrated Circuit (“IC”) open foundry operations as well as IC design, discrete devices and IC testing and packaging. Its operations are located primarily in Wuxi, Shenzhen, Shanghai and Beijing. The Shares are listed on the Main Board of the Stock Exchange.

The summary of the audited consolidated results of CRM Group for the two years ended 31 December 2010 and the unaudited consolidated results of CRM Group for the six months ended 30 June 2011 is set out below:

	<b>Year ended 31 December 2009 <i>HK\$'000</i></b>	<b>Year ended 31 December 2010 <i>HK\$'000</i></b>	<b>Six months ended 30 June 2011 <i>HK\$'000</i></b>
Turnover	3,036,881	3,874,207	1,878,303
Profit (loss) before taxation	(168,811)	319,865	61,403
Profit (loss)	(182,377)	279,548	47,743
Profit (loss) attributable to the Shareholders	(172,206)	272,364	45,075
Dividends	—	43,948	—
Basic earnings per Share (HK\$ cents)	(2.35)	3.13	0.52

### INFORMATION ON CRH

The principal activity of CRH is investment holding. CRNC is a state owned enterprise which is the parent company of CRCL, which in turn is the parent company of CRC Bluesky, which is in turn the parent company of CRH.



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## EXPLANATORY STATEMENT

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As at the Latest Practicable Date, CRH and parties acting in concert with it held 5,328,718,119 Shares, representing some 60.6% of the issued share capital of CRM. Other than this, CRH and parties acting in concert with it do not hold any other securities in CRM. During the Relevant Period, save as disclosed in paragraph 8.1 in Appendix III to this document, neither CRH nor any party acting in concert with it has dealt in the Shares.

Save for the Proposal itself, there are no arrangements, whether by way of option, indemnity or otherwise, of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between CRH, CRH (Microelectronics) Limited or any party acting in concert with any of them and any other party in relation to the shares of CRH, CRH (Microelectronics) Limited or CRM which might be material to the Proposal.

### INFORMATION ON CRH (MICROELECTRONICS) LIMITED

The principal business of CRH (Microelectronics) Limited is investment holding. CRH (Microelectronics) Limited is wholly-owned by CRH and is a company incorporated in the BVI with limited liability on 8 July 2011. CRH (Microelectronics) Limited was established for the purpose of the Proposal. It has not yet commenced business. CRH (Microelectronics) Limited is authorized to issue 10,000,000,000 shares of US\$0.01 par value each, of which 1 share of US\$0.01 has been issued to CRH, credited as nil paid.

Upon the Scheme of Arrangement becoming effective, CRM will become a wholly-owned subsidiary of CRH (Microelectronics) Limited which will have CRM as its only investment. Save for the potential acquisition of the 8-inch wafer fabrication line as discussed above, the business, financial and trading prospects of CRH (Microelectronics) Limited will be the same as those of CRM.

### INTERESTS OF DIRECTORS IN THE SCHEME OF ARRANGEMENT AND EFFECTS THEREON

#### CRH and parties acting in concert with it

As at the Latest Practicable Date, CRH and parties acting in concert with it were legally or beneficially interested, or deemed to be interested, in 5,328,718,119 Shares as follows:

Name of Shareholders	Number of Shares
Gold Touch Enterprises Inc.	5,326,850,822
Commotra Company Limited	5,000
Mr. Song Lin, a director of CRH	1,245,533
Mr. Jiang Wei, a director of CRH	537,614
Mr. Zhu Jinkun, a director of CRH	79,150

As CRH is the controlling shareholder of CRM and has requested that the Board put forward to the Shareholders the Proposal, CRH and parties acting in concert with it have an interest in the Scheme of Arrangement that is different from other Shareholders. CRH and parties acting in concert with it will abstain from voting at the Court Meeting as required under the Takeovers Code.

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## EXPLANATORY STATEMENT

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The table below shows the Directors' interests in the Shares as at the Latest Practicable Date.

Director	Number of Shares	Approximate shareholding percentage
Mr. Wang Guoping	9,589,872	0.11%
Mr. Elvis Deng Mao-song	6,797,812	0.08%
Dr. Peter Chen Cheng-yu	39,623,200	0.45%
Mr. Du Wenmin	1,458,000	0.02%
Professor Ko Ping Keung	458	0.001%
Mr. Luk Chi Cheong	1,165,912	0.01%

Save for the interests shown in the table above, none of the Directors is interested in the Shares or other securities in CRM. The Directors have confirmed with the Board that they are not creditors of CRM.

### SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme of Arrangement becoming effective, all the Shares, other than the one Share issued to CRH (Microelectronics) Limited, will be cancelled and extinguished. Share certificates for Shares held by Shareholders will thereafter cease to have effect as documents or evidence of title. CRM will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 21 October 2011, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on 2 November 2011 pursuant to Rule 6.15(2) of the Listing Rules. The Shareholders will be notified by way of an announcement of the exact date on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. The Scheme of Arrangement will lapse if it does not become effective on or before 31 December 2011, or such later date as CRH (Microelectronics) Limited and CRM may agree and the Court may allow, and the Shareholders will be notified by way of an announcement accordingly.

### REGISTRATION, PAYMENT AND DESPATCH OF CRH (MICROELECTRONICS) LIMITED'S SHARE CERTIFICATES

It is proposed to close the register of members of CRM from 26 September 2011 to 28 September 2011, both days inclusive, in order to establish entitlements of Shareholders to attend and vote at the Court Meeting and the EGM. Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before the register of members of CRM is closed. The latest time for lodging transfers before the closure of the register of members of CRM is 4:30 p.m. on 23 September 2011.

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## EXPLANATORY STATEMENT

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In the event that the Scheme of Arrangement becomes effective, payment of the consideration for the Shares will be made to the Shareholders in accordance with the timetable, the terms of the Scheme of Arrangement and Rule 20.1 of the Takeovers Code. All existing certificates representing the Shares will cease to have effect as documents or evidence of title as from 2 November 2011. It is further proposed that the register of members of CRM will be closed on 27 October 2011 to 28 October 2011, both days inclusive, or such other date as may be notified to the Shareholders by way of an announcement, in order to establish entitlements under the Scheme of Arrangement. Shareholders should ensure that the relevant transfer documentation for their Shares is lodged for registration before the register of members of CRM is closed. The share registrar of CRM in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Assuming that the Scheme of Arrangement becomes effective on 2 November 2011 (Hong Kong time), (i) cheques for cash entitlements to those Shareholders entitled to the Cash Alternative, (ii) share certificates for New Shares to those Shareholders who have elected the Share Alternative, (iii) cheques for cash entitlements and share certificates for New Shares for those Shareholders who have elected the combination of both the Cash Alternative and the Share Alternative and (iv) cheques to the Optionholders who have accepted the Option Payment, are expected to be despatched on or before 9 November 2011. In particular, share certificates for New Shares and cheques will be sent by ordinary post to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of the joint holder whose name stands first in such register in respect of the joint holding. All such share certificates and cheques will be sent at the risk of the person(s) entitled thereto and CRH, CRH (Microelectronics) Limited, CRM and Anglo Chinese or any of them will not be responsible for any loss or delay in despatch.

Shareholders are recommended to consult their professional advisers if they are in doubt as to the above procedures.

On or after the day being six calendar months after the posting of such cheques, CRH (Microelectronics) Limited shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in CRM's name with a licensed bank in Hong Kong selected by CRM.

CRM shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon, to persons who satisfy CRM that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, CRH (Microelectronics) Limited shall be released from any further obligation to make any payments under the Scheme of Arrangement and CRM shall thereafter transfer to CRH (Microelectronics) Limited the balance, if any, of the sums then standing to the credit of the deposit account in CRM's name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

Any certificates of shares in CRH (Microelectronics) Limited posted to the Shareholders pursuant to paragraph 6(f) of the Scheme of Arrangement which have been returned or undelivered will be cancelled. CRH (Microelectronics) Limited may at any time thereafter issue new share

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## **EXPLANATORY STATEMENT**

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certificates in respect of such New Shares to those Shareholders who can establish their entitlements to its satisfaction and transfer to them all accrued entitlements from the original date of allotment or transfer, as the case may be, in respect of such New Shares, subject to the payment of any expenses.

Settlement of the Cash Alternative, which any Shareholder, other than CRH Group, is entitled under the Scheme of Arrangement will be implemented in full in accordance with the terms of the Scheme of Arrangement, without regard to any lien, right of set-off, counterclaim or other analogous right to which CRH or CRH (Microelectronics) Limited may otherwise be, or claim to be, entitled against such Shareholder. Settlement of the Option Payment will be made without regard to any lien, right of set-off, counterclaim or other analogous right to which CRH and CRH (Microelectronics) Limited may otherwise be, or claim to be, entitled against the Optionholders.

### **OVERSEAS INDEPENDENT SHAREHOLDERS AND OPTIONHOLDERS**

This document has been prepared for the purpose of complying with the applicable laws, rules and regulations of the Cayman Islands and Hong Kong, and the information disclosed herein may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of any other jurisdiction.

This document does not constitute an offer or invitation to sell, purchase, subscribe for or issue any securities or the solicitation of an offer to buy or subscribe for securities pursuant to the document or otherwise in any jurisdiction in which such offer, invitation or solicitation is unlawful.

The distribution of this document and the making of the Proposal and the Option Payment to and acceptance of the Proposal and the Option Payment by persons who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Shareholders or Optionholders are located. Such Shareholders and Optionholders should inform themselves and, or observe, any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Shareholder and Optionholder wishing to accept the Proposal and the offer in respect of the outstanding Options to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by such overseas Independent Shareholders and overseas Optionholders will be deemed to constitute a representation and warranty from such persons to CRM, CRH and CRH (Microelectronics) Limited that those local laws and requirements have been complied with. If you are in doubt as to your position, you should consult your own professional advisers.

The offer of New Shares under the Share Alternative has not been and will not be registered with the Financial Supervisory Commission of the Republic of China (Taiwan) pursuant to the relevant securities laws and regulations and may not be offered or sold within the Republic of China (Taiwan) through a public offering or in a circumstance which constitutes an offer within the meaning of the Securities and Exchange Act of the Republic of China (Taiwan) that requires a registration or approval of the Financial Supervisory Commission of the Republic of China (Taiwan).

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The laws of the jurisdiction in which an overseas Shareholder resides may impose restrictions on transfer or resale of the New Shares. New Shares issued to United States residents will be restricted securities which may not be transferred or resold except as permitted under the Securities Act of 1933 and applicable state securities laws, pursuant to registration or an appropriate exemption. CRH (Microelectronics) Limited has no obligation to register the shares. The Election Form also requires each Shareholder who is a United States resident to acknowledge that the shares issued to it will be restricted securities which may not be transferred or resold except as permitted under the Securities Act of 1933 and applicable state securities laws, pursuant to registration or an appropriate exemption which shall be established to the satisfaction of counsel for CRH (Microelectronics) Limited.

Without limiting the foregoing, CRH (Microelectronics) Limited reserves the right to make relevant arrangements in respect of Shareholders not resident in Hong Kong in relation to the Proposal subject to compliance with the applicable provisions of the Takeovers Code in case the issue of New Shares under the Proposal to any overseas Independent Shareholders who elect the Share Alternative is prohibited by any relevant law or so prohibited except after compliance with conditions which are regarded by CRH (Microelectronics) Limited to be unduly burdensome.

### **TAXATION**

As the Scheme of Arrangement does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Shares upon the Scheme of Arrangement becoming effective.

No stamp duty is payable in relation to the Option Payment.

Shareholders, 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 Scheme of Arrangement and, in particular, whether the receipt of the Cash Alternative would make such Shareholders liable to taxation in Hong Kong or in other jurisdictions.

### **COURT MEETING AND EGM**

In accordance with the directions of the Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme of Arrangement, with or without modification. The Scheme of Arrangement will be subject to the approval by the Independent Shareholders at the Court Meeting, in which CRH and parties acting in concert with it will, in compliance with the Takeovers Code, abstain from voting, in the manner referred to in the paragraph headed “Conditions of the Scheme of Arrangement” in this Explanatory Statement. The EGM will be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve the capital reduction resulting from the cancellation of the Shares (save for the one Share issued to CRH (Microelectronics) Limited) and an ordinary resolution to approve the immediate increase of CRM’s issued share capital to its former amount (taking into account the one Share issued to CRH (Microelectronics) Limited), and approve

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## EXPLANATORY STATEMENT

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the application of the credit arising in CRM's books of account as a result of the capital reduction in paying up in full and issuing to CRH (Microelectronics) Limited such number of new Shares equal to the number of Shares cancelled less one Share already issued to CRH (Microelectronics) Limited and crediting such one Share already issued to CRH (Microelectronics) Limited as fully paid.

Shareholders are advised to have their names entered in the register of members of CRM as soon as possible for, inter alia, the following reasons:

- (a) to enable Shareholders, other than CRH and parties acting in concert with it, to attend the meeting as required under section 86 of the Companies Law in their capacity as members of CRM or to be represented by proxies to be appointed by them;
- (b) to enable CRM to properly classify members of CRM for the purpose of section 86 of the Companies Law; and
- (c) to enable CRM, CRH and CRH (Microelectronics) Limited to make arrangements to effect (i) delivery of documents of title in respect of New Shares to Shareholders who will receive shares of CRH (Microelectronics) Limited and, or (ii) payments by way of the delivery of cheques to the Shareholders who will receive the Cash Alternative. All deliveries of cheques required for making payment in respect of the Shares, as aforesaid, shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of CRM at the Record Time.

The resolution of the Court Meeting to approve the Scheme of Arrangement, with or without modifications, will be passed if a majority of Shareholders other than CRH and parties acting in concert with it, present in person or by proxy, representing not less than 75% in value of the Shares being voted, vote in favour of the resolution. In addition, the Scheme of Arrangement will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all disinterested Shares, namely the Shares held by the Shareholders other than CRH and parties acting in concert with it.

The special resolution of the EGM will be passed provided that it is approved by at least 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM.

The ordinary resolution of the EGM will be passed to increase the issued share capital of CRM to the amount prior to the cancellation of the issued Shares of CRM and to apply the reserve created as a result of the aforesaid cancellation to pay up in full at par the one new Share issued to CRH (Microelectronics) Limited and such number of new Shares as is equal to the number of issued Shares cancelled less one new Share issued to CRH (Microelectronics) Limited, credited as fully paid up, for issuance to CRH (Microelectronics) Limited, if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM.

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## EXPLANATORY STATEMENT

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Under the Takeovers Code and the Listing Rules, no Shareholder is required to abstain from voting on the special resolution and ordinary resolution at the EGM. The CRH Group has indicated that if the Scheme of Arrangement is approved at the Court Meeting, it will vote in favour of the special resolution and the ordinary resolution to be proposed at the EGM.

No person shall be recognised by CRM as holding any Shares upon any trust. Any Beneficial Owner whose Shares are registered in the name of a Registered Owner should contact such Registered Owner to give instructions to and, or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and, or, the EGM. A Beneficial Owner who wishes to attend the Court Meeting and, or, the EGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and, or, the EGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and, or, the EGM shall be in accordance with all relevant provisions in the articles of association of CRM. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, the other CCASS participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the investor participants and the other CCASS participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

Notice of Court Meeting is set out on pages 260 to 261 of this document. A pink form of proxy in respect of the Court Meeting is enclosed with this document. The Court Meeting will be held on 28 September 2011 at the time specified in the notice of the Court Meeting in Hong Kong.

Notice of EGM is set out on pages 262 to 264 of this document. A white form of proxy in respect of the EGM is enclosed with this document. The EGM will be held at 10:30 a.m., or as soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned, on 28 September 2011 in Hong Kong.

### **ACTION TO BE TAKEN**

#### **Shareholders**

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document.



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Whether or not you are able to attend the Court Meeting and, or, the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. (Hong Kong time) on 26 September 2011 and the white form of proxy for use at the EGM should be lodged not later than 10:30 a.m. (Hong Kong time) on 26 September 2011. The pink form of proxy in respect of the Court Meeting may be returned by facsimile at number (852) 2865 0990 (marked for the attention of "the Company Secretary") not later than 10:00 a.m. (Hong Kong time) on 26 September 2011, or may be handed to the chairman of the Court Meeting at the Court Meeting if they are not so lodged. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by CRM no later than 7:00 p.m. on 28 September 2011 in relation to the results of the Court Meeting and the EGM. In addition, an announcement will be made on or about 31 October 2011 in relation to the results of the hearing of the petition to sanction the Scheme of Arrangement by the Court and, if the Scheme of Arrangement is sanctioned, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange. Based on the current timetable, the latest time for dealing in the Shares will be 4:00 p.m. on 21 October 2011 and the Record Time will be 4:30 p.m. on 28 October 2011.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of Shareholders, other than CRH and parties acting in concert with it, to attend and vote at the Court Meeting and the EGM, the register of members of CRM will be closed from 26 September 2011 to 28 September 2011, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 September 2011.

Shareholders, other than the CRH Group which has undertaken to elect the Share Alternative only, must complete and execute an Election Form in accordance with the instructions printed on it in order to elect either the Share Alternative or a combination of the Cash Alternative and the Share Alternative in respect of all the Shares registered under their names at the Record Time, and deliver the duly completed and executed Election Form to the share registrar of CRM in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than the Record Time or such later date and time as may be notified through announcement. No acknowledgement of receipt of any Election Form will be given.



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## EXPLANATORY STATEMENT

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Assuming the Scheme of Arrangement will become effective on 2 November 2011, any Shareholder (other than the CRH Group) (i) who has not returned an Election Form as described above or (ii) who has returned an Election Form which is not duly completed or executed in accordance with the terms of the Scheme of Arrangement will receive the Cash Alternative.

If you have sold or transferred all your Shares, you should at once hand this document and the Election Form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. Copies of the Election Form can also be obtained from the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at any time before the Record Time.

Any Shareholder, other than the CRH Group, who holds Shares as a nominee, trustee or registered owner in any other capacity will not be treated differently from any other Registered Owner. Any Beneficial Owner should make arrangements with his, her or its nominee, trustee or Registered Owner in relation to the Scheme of Arrangement and the election of the Share Alternative or a combination of the Cash Alternative and the Share Alternative, and may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the Beneficial Owner prior to the Record Time.

The relevant Shareholders should also note the instructions and terms printed on the Election Form enclosed with this document.

**SHAREHOLDERS, INCLUDING ANY BENEFICIAL OWNER OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING, SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR BY PERSON OR BY COUNSEL AT THE COURT HEARING ON 28 OCTOBER 2011 AT WHICH CRM WILL SEEK THE SANCTION OF THE SCHEME OF ARRANGEMENT.**

### **Optionholders**

If the Proposal is approved by the relevant majorities at the Court Meeting and the EGM, a letter together with the form of acceptance in relation to the Option Payment will be sent to all Optionholders, as soon as practicable and pursuant to the terms and conditions of the Equity Incentive Plan or the Share Option Scheme (as the case may be), informing them that if they wish to participate in the Scheme of Arrangement, they may exercise their Options, whether or not these have otherwise vested and become exercisable, at any time up to and including 21 October 2011 by giving notice in writing to the company secretary of CRM at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, together with the certificate for such Options and, where necessary pursuant to the terms of grant of the Options, payment for the aggregate amount of the exercise price of such Options multiplied by the number of Shares to be issued pursuant to the exercise of such Options.

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## **EXPLANATORY STATEMENT**

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In order to accept the Option Payment, each Optionholder will be required to duly complete the form of acceptance appended to the letter to be sent to Optionholders in accordance with the instructions contained therein and to return it to the company secretary of CRM, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong no later than the Record Time or such later date and time as may be notified through announcement, failing which the Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the Option Payment will automatically lapse upon the Scheme of Arrangement becoming effective and the Options granted under the Equity Incentive Plan that are not exercised or cancelled pursuant to the Option Payment will lapse if the conditions referred to in the Equity Incentive Plan are not satisfied after the Scheme of Arrangement has become effective. Copies of the letter and the form of acceptance in relation to the offer of the Option Payment can also be obtained from the company secretary of CRM, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, subsequent to the despatch of the same and at any time before the Record Time.

### **COSTS OF THE SCHEME OF ARRANGEMENT**

In the event that the Scheme of Arrangement becomes effective, the costs of the Scheme of Arrangement will be borne by CRH (Microelectronics) Limited. The costs of the Scheme of Arrangement and of its implementation are expected to amount to approximately HK\$7 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme of Arrangement is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee, and the Scheme of Arrangement is not approved at the relevant Shareholders' meeting(s) or does not become unconditional, all the expenses incurred by CRM in connection with the Scheme of Arrangement shall be borne by CRH (Microelectronics) Limited.

### **RECOMMENDATION**

Your attention is drawn to the following:

- (i) the "Letter from the Board" set out on page 11 to 24 of this document;
- (ii) the letter from Anglo Chinese set out on pages 25 to 27 of this document;
- (iii) the letter from the Independent Board Committee set out on pages 28 to 29 of this document; and
- (iv) the letter from First Shanghai set out on pages 30 to 55 of this document.

### **FURTHER INFORMATION**

Further information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

**I. FINANCIAL SUMMARY**

Set out below is a summary of the consolidated results of CRM for each of the three years ended 31 December 2008, 2009 and 2010, which were extracted from the audited consolidated financial statements for the corresponding years as included in the annual reports of CRM.

The financial summary presents the consolidated statements of comprehensive income for each of the three years ended 31 December 2008, 2009 and 2010 and the consolidated statements of financial position as at 31 December 2008, 2009 and 2010 extracted from the CRM's audited consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Hong Kong Companies Ordinance. The CRM Group has no exceptional or extraordinary items during the years and there is no requirement under Hong Kong Financial Reporting Standards to present negative statements in the audited consolidated financial statements.

During the past three financial years, the last of which ended on 31 December 2010, the auditor's reports from Deloitte Touche Tohmatsu did not contain any qualifications.

## Consolidated Statement of Comprehensive Income

	Year ended 31 December		
	2010	2009	2008
	HK\$'000	HK\$'000	HK\$'000
		(restated)	(restated)
<b>Turnover</b>	3,874,207	3,036,881	3,118,692
Cost of sales	<u>(2,901,244)</u>	<u>(2,485,078)</u>	<u>(2,537,396)</u>
<b>Gross profit</b>	972,963	551,803	581,296
Other income/gains and losses	147,579	186,364	142,757
Selling and distribution expenses	(101,098)	(84,972)	(89,357)
Administrative expenses	(371,427)	(324,546)	(374,152)
Research and development expenses	(225,004)	(194,231)	(187,006)
Other operating expenses	(79,816)	(69,482)	(117,775)
Finance costs	(23,332)	(43,747)	(92,293)
Gain on disposal of subsidiaries	—	—	84,972
Loss on closure of a production plant	—	—	(314,119)
Impairment loss on available-for-sale investment	—	(190,000)	—
<b>Profit (loss) before taxation</b>	319,865	(168,811)	(365,677)
Taxation	<u>(40,317)</u>	<u>(13,566)</u>	<u>(17,242)</u>
Profit (loss) for the year	<u>279,548</u>	<u>(182,377)</u>	<u>(382,919)</u>
Attributable to:			
Owners of the Company	272,364	(172,206)	(371,535)
Non-controlling interests	<u>7,184</u>	<u>(10,171)</u>	<u>(11,384)</u>
	<u>279,548</u>	<u>(182,377)</u>	<u>(382,919)</u>
Dividend declared and paid	<u>43,948</u>	—	—
Dividend per share (HK cents)	<u>0.50</u>	—	—
Earnings (loss) per share			
Basic (HK cents)	<u>3.13</u>	<u>(2.35)</u>	<u>(5.98)</u>
Diluted (HK cents)	<u>3.13</u>	<u>(2.35)</u>	<u>(5.98)</u>

## Consolidated Statement of Financial Position

	As at 31 December		
	2010 HK\$'000	2009 HK\$'000 (restated)	2008 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	3,138,849	3,170,864	3,592,396
Prepaid lease payments	169,515	168,570	174,906
Available-for-sale investment	573,141	564,092	741,698
Loans receivable	284,729	186,248	—
Derivative financial asset	1,513	—	—
Goodwill	21,024	21,024	21,024
Technical know-how	19,415	815	1,629
Deferred tax assets	47,910	26,700	18,589
Deposit for acquisition of property, plant and equipment	15,225	13,646	21,120
	<u>4,271,321</u>	<u>4,151,959</u>	<u>4,571,362</u>
<b>Current assets</b>			
Inventories	730,170	602,850	812,721
Debtors, deposits and prepayments	1,231,526	996,165	876,431
Prepaid lease payments	4,335	4,191	4,176
Tax recoverable	—	187	9,329
Restricted bank deposits	13,577	8,603	492
Bank balances and cash	1,271,969	1,221,089	856,877
	<u>3,251,577</u>	<u>2,833,085</u>	<u>2,560,026</u>
<b>Current liabilities</b>			
Creditors and accrued charges	1,676,437	1,332,923	1,352,722
Government grants	29,545	29,745	26,308
Bank borrowings	853,812	1,127,535	1,015,891
Provisions	22,878	25,048	39,303
Taxation	9,025	16,016	5,088
Financial guarantee contract	—	—	10,790
	<u>2,591,697</u>	<u>2,531,267</u>	<u>2,450,102</u>
<b>Net current assets</b>	<u>659,880</u>	<u>301,818</u>	<u>109,924</u>
<b>Total assets less current liabilities</b>	<u>4,931,201</u>	<u>4,453,777</u>	<u>4,681,286</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

	As at 31 December		
	2010	2009	2008
	HK\$'000	HK\$'000	HK\$'000
		(restated)	(restated)
<b>Capital and reserves</b>			
Share capital	878,955	878,940	585,521
Share premium and reserves	<u>2,751,513</u>	<u>2,353,775</u>	<u>2,400,135</u>
Equity attributable to equity holders of the Company	3,630,468	3,232,715	2,985,656
Non-controlling interests	<u>98,379</u>	<u>88,158</u>	<u>98,162</u>
<b>Total equity</b>	<u>3,728,847</u>	<u>3,320,873</u>	<u>3,083,818</u>
<b>Non-current liabilities</b>			
Bank borrowings	950,000	975,000	1,413,590
Long-term payables	—	15,324	59,456
Deferred tax liabilities	4,712	4,712	4,718
Government grants	<u>247,642</u>	<u>137,868</u>	<u>119,704</u>
	<u>1,202,354</u>	<u>1,132,904</u>	<u>1,597,468</u>
	<u>4,931,201</u>	<u>4,453,777</u>	<u>4,681,286</u>

## II. FINANCIAL INFORMATION

Set out below are the consolidated statement of comprehensive income of the CRM Group for each of the two years ended 31 December 2009 and 2010 and the consolidated statement of financial position as at 31 December 2009 and 2010 together with the relevant notes thereto as extracted from CRM's audited consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Hong Kong Companies Ordinance, as set out in CRM's annual report for the year ended 31 December 2010.

**Consolidated Statement of Comprehensive Income**

		<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(restated)</i>
Turnover	8	3,874,207	3,036,881
Cost of sales		<u>(2,901,244)</u>	<u>(2,485,078)</u>
Gross profit		972,963	551,803
Other income/gains and losses	9	147,579	186,364
Selling and distribution expenses		(101,098)	(84,972)
Administrative expenses		(371,427)	(324,546)
Research and development expenses		(225,004)	(194,231)
Other operating expenses		(79,816)	(69,482)
Finance costs	10	(23,332)	(43,747)
Impairment loss on available-for-sale investment	18	—	<u>(190,000)</u>
Profit (loss) before taxation		319,865	(168,811)
Taxation	11	<u>(40,317)</u>	<u>(13,566)</u>
Profit (loss) for the year	12	<u>279,548</u>	<u>(182,377)</u>
<b>Other comprehensive income (expenses)</b>			
Exchange differences arising on translation		<u>128,321</u>	<u>343</u>
Total comprehensive income (expenses) for the year		<u>407,869</u>	<u>(182,034)</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

		<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(restated)</i>
Profit (loss) for the year attributable to:			
Owners of the Company		272,364	(172,206)
Non-controlling interests		<u>7,184</u>	<u>(10,171)</u>
		<u>279,548</u>	<u>(182,377)</u>
Total comprehensive income (expenses) attributable to:			
Owners of the Company		397,648	(172,030)
Non-controlling interests		<u>10,221</u>	<u>(10,004)</u>
		<u>407,869</u>	<u>(182,034)</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Earnings (loss) per share	15		
Basic		<u>3.13</u>	<u>(2.35)</u>
Diluted		<u>3.13</u>	<u>(2.35)</u>



## Consolidated Statement of Financial Position

	Notes	As at 31 December	
		2010 HK\$'000	2009 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	16	3,138,849	3,170,864
Prepaid lease payments	17	169,515	168,570
Available-for-sale investment	18	573,141	564,092
Loans receivable	19	284,729	186,248
Derivative financial asset	19	1,513	—
Goodwill	20	21,024	21,024
Technical know-how	21	19,415	815
Deferred tax assets	29	47,910	26,700
Deposit for acquisition of property, plant and equipment		<u>15,225</u>	<u>13,646</u>
		<u>4,271,321</u>	<u>4,151,959</u>
<b>Current assets</b>			
Inventories	22	730,170	602,850
Debtors, deposits and prepayments	23	1,231,526	996,165
Prepaid lease payments	17	4,335	4,191
Tax recoverable		—	187
Restricted bank deposits	24	13,577	8,603
Bank balances and cash	24	<u>1,271,969</u>	<u>1,221,089</u>
		<u>3,251,577</u>	<u>2,833,085</u>
<b>Current liabilities</b>			
Creditors and accrued charges	25	1,676,437	1,332,923
Government grants	38	29,545	29,745
Bank borrowings	26	853,812	1,127,535
Provisions	27	22,878	25,048
Taxation		9,025	16,016
Financial guarantee contract	30	<u>—</u>	<u>—</u>
		<u>2,591,697</u>	<u>2,531,267</u>
<b>Net current assets</b>		<u>659,880</u>	<u>301,818</u>
<b>Total assets less current liabilities</b>		<u>4,931,201</u>	<u>4,453,777</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

		<b>As at 31 December</b>	
		<b>2010</b>	<b>2009</b>
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
<b>Capital and reserves</b>			
Share capital	31	878,955	878,940
Share premium and reserves		<u>2,751,513</u>	<u>2,353,775</u>
Equity attributable to owners of the Company		3,630,468	3,232,715
Non-controlling interests		<u>98,379</u>	<u>88,158</u>
<b>Total equity</b>		<u>3,728,847</u>	<u>3,320,873</u>
<b>Non-current liabilities</b>			
Bank borrowings	26	950,000	975,000
Long-term payables	28	—	15,324
Deferred tax liabilities	29	4,712	4,712
Government grants	38	<u>247,642</u>	<u>137,868</u>
		<u>1,202,354</u>	<u>1,132,904</u>
		<u>4,931,201</u>	<u>4,453,777</u>

## Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000 (Note a)	Share option reserve HK\$'000	Other reserves HK\$'000 (Note b)	Shares held for award scheme HK\$'000	Retained profit HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2009	585,521	2,178,773	(639,277)	603,435	3,254	151,026	—	102,924	2,985,656	98,162	3,083,818
Exchange differences	—	—	—	176	—	—	—	—	176	167	343
Loss for the year	—	—	—	—	—	—	—	(172,206)	(172,206)	(10,171)	(182,377)
Total comprehensive income (expenses) for the year	—	—	—	176	—	—	—	(172,206)	(172,030)	(10,004)	(182,034)
Shares issued upon exercise of options under Equity Incentive Plan	474	1,652	—	—	(1,757)	—	—	—	369	—	369
Recognition of equity-settled share-based payments	—	—	—	—	568	—	—	—	568	—	568
Purchase of shares under Share award scheme (Note 32)	—	—	—	—	—	—	(19,465)	—	(19,465)	—	(19,465)
Shares issued under allotment of Right Shares	292,945	144,672	—	—	—	—	—	—	437,617	—	437,617
Transfers between categories	—	—	—	—	—	13,517	—	(13,517)	—	—	—
At 31 December 2009	878,940	2,325,097	(639,277)	603,611	2,065	164,543	(19,465)	(82,799)	3,232,715	88,158	3,320,873
Exchange differences	—	—	—	125,284	—	—	—	—	125,284	3,037	128,321
Profit for the year	—	—	—	—	—	—	—	272,364	272,364	7,184	279,548
Total comprehensive income for the year	—	—	—	125,284	—	—	—	272,364	397,648	10,221	407,869
Shares issued upon exercise of options under Equity Incentive Plan	15	54	—	—	(57)	—	—	—	12	—	12
Recognition of equity-settled share-based payments	—	—	—	—	93	—	—	—	93	—	93
Transfers between categories	—	—	—	—	—	38,010	—	(38,010)	—	—	—
At 31 December 2010	878,955	2,325,151	(639,277)	728,895	2,101	202,553	(19,465)	151,555	3,630,468	98,379	3,728,847

## Notes:

- (a) The exchange differences arose from translation of assets and liabilities of foreign operations and respective group entities' functional currencies into the presentation currency.
- (b) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in the People's Republic of China ("Mainland China") and deemed distribution to and capital contribution by China Resources Gas Group Limited. General reserve was appropriated each year on the basis of 5% to 10% of the profit after taxation of certain subsidiaries as determined by their board of directors in accordance with the Articles of Association of the subsidiaries. This reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

## Consolidated Statement of Cash Flows

	Year ended 31 December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating activities</b>		
Profit (loss) before taxation	319,865	(168,811)
Adjustments for:		
Finance costs	23,332	43,747
Interest income	(32,856)	(11,121)
Government grants recognised	(40,365)	(35,979)
Income from release of financial guarantee liability	—	(1,790)
Impairment loss on available-for-sale investment	—	190,000
Depreciation of property, plant and equipment	545,485	508,990
Impairment loss on property, plant and equipment	23,217	13,138
Amortisation of technical know-how	1,360	814
Amortisation of prepaid lease payments	4,335	4,361
Write off of inventories	5,421	2,534
(Reversal of) allowance for doubtful debts	(91)	4,761
Share-based payment expense	93	568
Loss (gain) on disposal of property, plant and equipment	31,729	(12,968)
Gain on disposal of an available-for-sale investment	—	(840)
Write back of provisions (net)	—	(8,633)
Increase in fair value of a commodity future contract	<u>(2,045)</u>	<u>—</u>
Operating cash flows before movements in working capital	879,480	528,771
(Increase) decrease in inventories	(111,806)	207,337
Increase in debtors, deposits and prepayments	(200,677)	(116,759)
Increase in creditors and accrued charges	287,050	56,009
Decrease in a commodity future contract upon maturity	2,045	—
Utilisation of provisions	<u>(2,235)</u>	<u>(5,621)</u>
Cash generated from operations	853,857	669,737
Profits tax paid	(66,758)	(1,612)
Payment for purchase of shares for share award scheme	<u>—</u>	<u>(19,465)</u>
<b>Net cash from operating activities</b>	<u>787,099</u>	<u>648,660</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

		<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Investing activities</b>			
Payments and deposits for acquisition of property, plant and equipment		(471,200)	(222,949)
Development costs paid		(19,932)	—
Proceeds on disposal of property, plant and equipment		9,599	34,255
Loan advanced to a fellow subsidiary		(91,515)	(206,248)
Loan advanced to Star Venture Asia Limited	19	(7,964)	—
Proceeds on disposal of an available-for-sale investment		—	1,446
Interest received		23,488	9,121
Increase in restricted bank deposits		<u>(4,974)</u>	<u>(8,111)</u>
<b>Net cash used in investing activities</b>		<u>(562,498)</u>	<u>(392,486)</u>
<b>Financing activities</b>			
New borrowings raised		328,812	519,491
Repayments of borrowings		(627,535)	(846,437)
Net proceeds from rights issue		—	437,617
Repayment of long term payables		(16,633)	(11,316)
Repayment to fellow subsidiaries		—	—
Advanced from (repayment to) fellow subsidiaries		12,458	(7,577)
Interest paid		(22,023)	(42,885)
Government grants received		144,808	57,580
Exercise of share options		<u>12</u>	<u>369</u>
<b>Net cash (used in) from financing activities</b>		<u>(180,101)</u>	<u>106,842</u>
<b>Net increase in cash and cash equivalents</b>		44,500	363,016
<b>Cash and cash equivalents at 1 January,</b>		1,221,089	856,877
Effect of foreign exchange rate changes		<u>6,380</u>	<u>1,196</u>
<b>Cash and cash equivalents at 31 December, representing bank balances and cash</b>		<u><u>1,271,969</u></u>	<u><u>1,221,089</u></u>

**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2010**

**1. GENERAL**

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s parent company is Gold Touch Enterprises Inc., a company incorporated in British Virgins Islands and its ultimate holding company is China Resources National Corporation (“CRNC”), a company established in the People’s Republic of China. The addresses of the registered office and principal place of business of the Company are disclosed in the Introduction section to the annual report.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 39.

The functional currency of the Company is United States dollar and the presentation currency of the financial statements is Hong Kong dollar as the directors consider that Hong Kong dollar is preferable in presenting the operating and financial position of the Group because the Company is listed on the Hong Kong Stock Exchange.

**2. CHANGE IN PRESENTATIONS AND RECLASSIFICATION**

In prior years, the Group presented the government grants as other income in the consolidated statement of comprehensive income. During the year, the management changed the presentation of the government grants relating to the expenses as a deduction of the related items for which they are intended to compensate.

Accordingly, amounts recognised in profit or loss in respect of government grants included in other income/gains and losses for 2009 have been reclassified to ensure comparability and consistency of presentation.

The effects of changes in presentation described above on the results for the current year and prior year by line items are as follows:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in cost of sales in respect of depreciation expenses (Note 38)	20,527	13,390
Decrease in other income/gains and losses	(28,083)	(21,481)
Decrease in research and development expenses (Note 38)	<u>7,556</u>	<u>8,091</u>
	<u>          </u>	<u>          </u>

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new and revised Standards, Amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

#### **Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK-Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (‘repayment on demand clause’) should be classified by the borrower as current liabilities. The Group has applied HK-Int 5 for the first time in the current year. HK-Int 5 requires retrospective application.

In order to comply with the requirements set out in HK-Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK-Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, a bank loan that contain a repayment on demand clause with the carrying amount of HK\$500,000,000 and HK\$500,000,000 as at 31 December 2009 and 1 January 2009 respectively have been reclassified from non-current liabilities to current liabilities. As at 31 December 2010, the bank loan (that is repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the carrying amount of HK\$500,000,000 has been classified as current liabilities. The application of HK-Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see Note 26 for details).

### Amendments to HKAS 17 Leases

As part of “Improvements to HKFRSs” issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The adoption of amendment to HKAS 17 “Leases” had no material impact on the consolidated financial statements.

### HKAS 24 (Revised) Related party disclosures

Paragraphs 25 to 27 of HKAS 24 (Revised) “Related party disclosure” exempt certain disclosures in relation to the government-related entities. The Group has early applied this disclosure exemption in the consolidated financial statements.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKASs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7	Disclosures - Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related Party Disclosures <sup>6</sup> (except for paragraphs 25 to 27)
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>



<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

HKFRS 9 Financial instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets but not on financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with 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 Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 (except for those which are regarded as continuing entities which are accounted for as a combination of entities under common control) or disposed of during the year are included in the consolidated statement of comprehensive income 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 other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

##### **Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**Business combinations*****Business combinations that took place prior to 1 January 2010***

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

***Merger accounting for business combination involving entities under common control***

In applying merger accounting, financial statements items of the combining entities or businesses are presented as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial information are presented as if the entities or businesses had been combined at the previous end of reporting period or when they first came under common control, whichever is shorter.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated first to the unit, 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, 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.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

**Property, plant and equipment**

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised 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, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

#### **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 and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives of four to five 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).

Gain or loss arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period when the asset is derecognised.

### **Research and development expenditure**

Research and development expenditure is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets acquired separately.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to ready for their intended use or sale, and added to cost of those assets until such time as the assets are substantially ready 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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

**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. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### **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 statement of financial position 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 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 at fair value through profit or loss are recognised immediately in profit or loss.



***Financial assets***

The Group's financial assets comprise financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. 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.

***Effective Interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans receivable, debtors, amount due from a fellow subsidiary, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables, or held-to-maturity investments. At the end of each reporting period, 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 are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

***Financial assets at fair value through profit or loss***

Financial assets at FVTPL includes financial assets held for trading.

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*

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.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 financial assets have been affected.

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;  
or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, an impairment 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 estimated future cash flows discounted at the original effective interest rate.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors and loans receivable where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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 and 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.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Financial liabilities, including creditors, borrowings, amounts due to fellow subsidiaries and a group company of a non-controlling shareholder of a subsidiary, and long-term payables, are measured at amortised cost, using the effective interest method subsequent to initial recognition.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability 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 liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

### **Equity instruments**

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

Repurchase of the Company's own equity instruments is recognised and deducted directly from equity. No gain or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Financial guarantee contract**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

**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 in its entirety, 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 in other comprehensive income and accumulated 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 consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using a cash flow estimated to settle the present obligation, its carrying amount is the present value of these cash flows (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.

**The Group as lessor**

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the terms of the relevant lease.

**The Group as lessee**

Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the relevant lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense 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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

For the purposes of presenting the consolidated financial statements, the translation of assets and liabilities of the Group's foreign operations and translation from a group entity's functional currency) into the presentation currency of the Company (i.e. Hong Kong dollars) are translated at the rates of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

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***

The fair value of services received determined by reference to the fair value of the options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. 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 options reserve will continue to be held in share options reserve.

***Share options granted to employees after 7 November 2002 and vested before 1 January 2005***

The financial impact of 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 statement of comprehensive income in respect of the value of options granted. Upon the exercise of the options, the resulting shares issued are recorded as additional share 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 lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

***Share award schemes***

The fair value of the service received, determined by reference to the fair value of awarded shares granted at the grant dates, is expensed on a straight line basis over the vesting period, with corresponding increase in share award reserve. The cost of acquisition of the Company's share held for the share award scheme is recorded as treasury shares (shares held for share award scheme). At the time when the awarded shares are vested, the amount previously recognized in the share award reserve and the amount of the relevant treasury shares will be transferred to retained profits.

At the end of each reporting period, the Group revises its estimates of the number of award shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share award reserve.

*Impairment losses of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)*

At the end of each reporting period, 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 any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

## **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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. 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.

### **Estimated impairment of available-for-sale investment**

The Group assesses annually whether available-for-sale investment has any indication of impairment, in accordance with the relevant accounting policies. The recoverable amount of available-for-sale investment has been determined using a discounted cash flow analysis based on the estimated future cash flows. These calculations and valuations require the use of judgment and estimates on present value of the future cash flows expected to be generated by the investee and discount rate adopted. Where the actual cash flows is different from the original estimate, a material change in the amount of impairment may arise.

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of goodwill is HK\$21,024,000 (2009: HK\$21,024,000). Details of the recoverable amount calculation are disclosed in Note 20.

**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 end of reporting period, and are discounted to present value where the effect is material. As at 31 December 2010, the carrying amount of provisions is HK\$22,878,000 (2009: HK\$25,048,000). Details of the estimation of the provisions are disclosed in Note 27.

**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. As at 31 December 2010, the carrying amount of inventories is HK\$730,170,000 (2009: HK\$602,850,000).

**Income taxes**

As at 31 December 2010, a deferred tax asset of HK\$47,910,000 (2009: HK\$26,700,000) has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

**6. CAPITAL RISK MANAGEMENT**

The Group manages its capital to maintain a balance between continuity of cash flows from operating activities 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 that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.



The capital structure of the Group consists of net debts, which include borrowings, bank balances and equity attributable to owners of the Company, comprising issued capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the extinguishment of existing debts.

## 7. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	31/12/2010	31/12/2009	1/1/2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>			
Loans and receivables (including cash and cash equivalents)	2,655,629	2,329,797	1,627,519
Available-for-sale investments	573,141	564,092	741,698
Derivative financial asset	1,513	—	—
<b>Financial liabilities</b>			
At amortised cost	<u>3,367,421</u>	<u>3,377,619</u>	<u>3,789,042</u>

### (b) Financial risk management objectives and policies

The Group's major financial instruments include loan receivables, debtors, available-for-sale investments, bank balances and cash, creditors, bank borrowings and long-term payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. 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

##### (i) Foreign currency risk

The Group conducts certain sales, purchases and funding transactions in foreign currencies, i.e. United States dollar, Hong Kong dollar or Renminbi, hence is exposed to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arises.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than the functional currency of the respective group entities which are mainly debtors, creditors and bank balances and bank borrowings at the reporting dates are as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Assets</b>		
United States dollar	202,393	481,491
Hong Kong dollar	20,327	34,032
Renminbi	<u>257,849</u>	<u>93,899</u>
	<u>480,569</u>	<u>609,422</u>
<b>Liabilities</b>		
United States dollar	29,851	18,384
Hong Kong dollar	811,775	9,186
Renminbi	<u>227,409</u>	<u>279,426</u>
	<u>1,069,035</u>	<u>306,996</u>

*Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase in the functional currencies of the Group entities, mainly Renminbi ("RMB") and United States dollar, 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 reasonably possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rates. A negative number below indicates a decrease in profit for the year (2009: an increase in loss) when the functional currencies strengthens against the relevant foreign currencies. For a 5% weakening of the functional currencies against the relevant foreign currencies, there would be an equal but opposite impact on the result for the year.

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>United States dollar</b>		
Result for the year	<u>(5,977)</u>	<u>(15,997)</u>
<b>Hong Kong dollar</b>		
Result for the year	<u>(393)</u>	<u>(1,024)</u>
<b>Renminbi</b>		
Result for the year	<u>(1,281)</u>	<u>7,885</u>

The directors of the Company are of the opinion that the Group's sensitivity to the change in United States dollar against Hong Kong dollar is low as Hong Kong dollar is pegged to United States dollar. As a result, the above sensitivity table does not include the impact of such change.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) *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 and loans receivable from a fellow subsidiary. It is the Group's policy to maintain its borrowings at floating interest rate so as to minimise the fair value interest rate risk.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 200 basis point (2009: 200 basis points) increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, assuming the bank borrowings outstanding at the end of reporting period had been outstanding for the whole year, if interest rates had increased by 200 basis points (2009: 200 basis points) and all other variables were held constant, the Group's profit for the year would decrease by approximately HK\$30,132,000 (2009: the Group's loss would increase by HK\$11,304,000). In the opinion of directors, sensitivity analysis is not presented for a decrease of interest rate because a further decrease in interest rate is unlikely to occur.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of London interbank offered rate ("LIBOR"), Hong Kong interbank offered rate ("HIBOR") and People's Bank of China lending rate arising from the Group's United States dollar, Hong Kong dollar and Renminbi ("RMB") denominated borrowings. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent cash flow interest rate risk as the year end exposure does not reflect the exposure for the whole year as a result of the repayment of a substantial amount of the Group's borrowings during the year.

### **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 statement of financial position and the amount of unrecognised portion of liabilities in relation to financial guarantees issued by the Group disclosed in Note 30. 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 searches 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 recoverability of each individual debt on a regular basis 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 good credit standing.

Other than concentration of credit risk on loans receivable from a fellow subsidiary, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties. No single trade debtor outstanding at the end of reporting period exceeds 5% of the total balance of trade debtors.

However, the Group is exposed to significant concentration of credit risk by geographical location as 85% (2009: 80%) of debtors are mainly in the Mainland China within the high-technology industry.

### **Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available unutilised bank loan facilities of HK\$1,328,195,000 (2009: HK\$1,975,567,000). Details of which are set out in Note 26.

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 in accordance with the earliest date on which the Group can be required to pay. Specifically, a bank loan with a repayment on demand clause is included in the earliest time band regardless of the probability of the bank choosing to exercise the right. The table includes both interest and principal cash flows.

	<b>On demand or less than 180 days HK\$'000</b>	<b>181-365 days HK\$'000</b>	<b>1-2 years HK\$'000</b>	<b>2-3 years HK\$'000</b>	<b>Total undiscounted cash flows HK\$'000</b>	<b>Carrying amounts HK\$'000</b>
<b>As at 31 December 2010</b>						
Non-interest bearing						
Trade creditors	1,144,971	—	—	—	1,144,971	1,144,971
Other payables	401,450	—	—	—	401,450	401,450
Long-term payables	—	17,628	—	—	17,628	17,188
Variable interest rate instruments						
Bank borrowings	<u>697,296</u>	<u>167,762</u>	<u>655,466</u>	<u>302,010</u>	<u>1,822,534</u>	<u>1,803,812</u>
	<u>2,243,717</u>	<u>185,390</u>	<u>655,466</u>	<u>302,010</u>	<u>3,386,583</u>	<u>3,367,421</u>
<b>As at 31 December 2009</b>						
Non-interest bearing						
Trade creditors	912,636	—	—	—	912,636	912,636
Other payables	330,088	—	—	—	330,088	330,088
Long-term payables	17,036	—	17,036	—	34,072	32,360
Variable interest rate instruments						
Bank borrowings	<u>977,712</u>	<u>167,372</u>	<u>332,201</u>	<u>651,440</u>	<u>2,128,725</u>	<u>2,102,535</u>
	<u>2,237,472</u>	<u>167,372</u>	<u>349,237</u>	<u>651,440</u>	<u>3,405,521</u>	<u>3,377,619</u>

Bank loans with a repayment on demand clause are included in the “on demand or less than 180 days” time band in the above maturity analysis. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

For the purpose of managing liquidity risk, the management reviews the expected cash flow information of the Group's bank loans with a repayment on demand clause based on the scheduled repayment dates set out in the agreement as set out in the table below:

	<b>0-180 days</b>	<b>181-365 days</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>Over 3 years</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amounts</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>	<i>HK\$'000</i>
<b>As at 31 December 2010</b>							
Variable interest rate instruments							
Bank borrowings with a repayment on demand clause	<u>5,404</u>	<u>2,799</u>	<u>5,598</u>	<u>501,399</u>	<u>—</u>	<u>515,200</u>	<u>500,000</u>
	<u>5,404</u>	<u>2,799</u>	<u>5,598</u>	<u>501,399</u>	<u>—</u>	<u>515,200</u>	<u>500,000</u>
<b>As at 31 December 2009</b>							
Variable interest rate instruments							
Bank borrowings with a repayment on demand clause	<u>5,401</u>	<u>2,892</u>	<u>5,784</u>	<u>5,784</u>	<u>501,445</u>	<u>521,306</u>	<u>500,000</u>
	<u>5,401</u>	<u>2,892</u>	<u>5,784</u>	<u>5,784</u>	<u>501,445</u>	<u>521,306</u>	<u>500,000</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**Fair value**

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

The fair value of the financial guarantee is determined using valuation model where the main assumptions are the probability of default by the specified counterparty extrapolated from market based credit information and the amount of loss, given the default.

The fair value of the derivative financial asset is calculated using Binomial Option Pricing Model based on applicable risk free rate, volatility, maturity date and dividend yield.

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.

## **8. TURNOVER AND SEGMENT INFORMATION**

Turnover represents revenue arising on sales of goods of HK\$3,042,563,000 (2009: HK\$2,411,320,000) and rendering of service of HK\$831,644,000 (2009: HK\$625,561,000) for the year.

The Group is organised into five operating divisions according to the nature of the products or services. The Group, therefore, determines its operating segments based on these five operating divisions by reference to the products or services, for the purpose of reporting to the chief operating decision maker (the Executive Committee of the Company).

The Group's operating segments under HKFRS 8 are as follows:

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

The operating 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, BCDMOS 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

Information regarding these segments is reported below.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE CRM GROUP**
**Year ended 31 December 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>
Turnover from external customers	1,204,234	647,246	831,644	1,105,733	85,350	3,874,207
Intersegment turnover	<u>199,662</u>	<u>4,057</u>	<u>43,533</u>	<u>26,503</u>	<u>361,777</u>	<u>635,532</u>
Segment turnover	1,403,896	651,303	875,177	1,132,236	447,127	4,509,739
Segment profit	135,878	36,284	31,710	146,664	9,531	360,067
Segment assets	2,665,789	543,711	1,051,279	1,462,435	1,422,889	7,146,103
Segment liabilities	529,744	211,413	547,400	554,416	146,499	1,989,472
<i>Included in measure of segment profit or segment asset:</i>						
Interest income	14,271	154	82	20	13,511	28,038
Finance costs	(1,785)	—	(1,207)	(1,083)	(2,836)	(6,911)
Depreciation and amortisation	(256,921)	(16,270)	(114,239)	(94,774)	(68,283)	(550,487)
Impairment of assets	—	(763)	(21,894)	(560)	—	(23,217)
Reversal of (allowance) for doubtful debts	2,173	(2,799)	—	717	—	91
Additions to property, plant and equipment and prepaid lease payments	122,069	29,188	108,600	183,135	24,299	467,291
Addition to deposit for acquisition of property, plant and equipment	<u>11,664</u>	<u>—</u>	<u>722</u>	<u>2,839</u>	<u>—</u>	<u>15,225</u>



**APPENDIX I**
**FINANCIAL INFORMATION ON THE CRM GROUP**
**Year ended 31 December 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>
Turnover from external customers	964,572	589,210	625,561	795,250	62,288	3,036,881
Intersegment turnover	<u>155,286</u>	<u>4,868</u>	<u>44,739</u>	<u>25,222</u>	<u>308,273</u>	<u>538,388</u>
Segment turnover	1,119,858	594,078	670,300	820,472	370,561	3,575,269
Segment (loss) profit	(170,534)	11,475	(17,003)	43,459	19,876	(112,727)
Segment assets	2,527,787	395,123	965,080	1,202,924	1,779,828	6,870,742
Segment liabilities	491,084	208,851	452,381	393,821	180,446	1,726,583
<i>Included in measure of segment (loss) profit or segment asset:</i>						
Interest income	4,644	58	160	248	5,504	10,614
Finance costs	(6,681)	—	(3,844)	(1,927)	(2,041)	(14,493)
Depreciation and amortisation	(244,551)	(14,549)	(105,159)	(89,362)	(60,345)	(513,966)
Impairment of assets	(198,791)	—	(4,347)	—	—	(203,138)
Reversal of (allowance) for doubtful debts	3,154	(5,376)	(309)	(2,170)	(60)	(4,761)
Additions to property, plant and equipment and prepaid lease payments	41,902	12,981	29,639	23,497	45,599	153,618
Addition to deposit for acquisition of property, plant and equipment	<u>753</u>	<u>10,126</u>	<u>26</u>	<u>—</u>	<u>2,741</u>	<u>13,646</u>

- (a) The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Performance is measured based on operating segment profit (loss) that is used by the Executive Committee of the Company for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to segments.

The turnover, profit or loss, assets and liabilities of the Group are allocated based on the operations of the segments.

Segments profit is profit (loss) 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).

Segment assets exclude tax recoverable, deferred tax assets, unallocated bank balances and cash held by headquarters and unallocated corporate assets (mainly including prepayments and deposits of headquarters).

Segment liabilities exclude taxation, deferred tax liabilities, financial guarantee contract, unallocated bank borrowings raised by headquarters and unallocated corporate liabilities (mainly including accrued charges of headquarters).

(b) **Reconciliation of the segment turnover, profit or loss, assets and liabilities**

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

*Turnover*

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment turnover	4,509,739	3,575,269
Elimination of intersegment turnover	<u>(635,532)</u>	<u>(538,388)</u>
Turnover per consolidated statement of comprehensive income	<u>3,874,207</u>	<u>3,036,881</u>

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

*Profit or loss*

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment profit (loss)	360,067	(112,727)
Unallocated amounts:		
Release of financial guarantee liability	—	1,790
Unallocated interest income	4,818	507
Unallocated corporate finance costs	(16,421)	(29,254)
Unallocated corporate expenses	<u>(28,599)</u>	<u>(29,127)</u>
Profit (loss) before taxation per consolidated statement of comprehensive income	<u>319,865</u>	<u>(168,811)</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP***Assets*

	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>1/1/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	7,146,103	6,870,742	6,898,069
Unallocated assets:			
Tax recoverable	—	187	9,329
Deferred tax assets	47,910	26,700	18,589
Unallocated bank balances and cash	319,470	80,317	197,352
Unallocated corporate assets	<u>9,415</u>	<u>7,098</u>	<u>8,049</u>
Total assets per consolidated statement of financial position	<u>7,522,898</u>	<u>6,985,044</u>	<u>7,131,388</u>

*Liabilities*

	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>1/1/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment liabilities	1,989,472	1,726,583	2,018,808
Unallocated liabilities:			
Taxation	9,025	16,016	5,088
Deferred tax liabilities	4,712	4,712	4,718
Financial guarantee contract	—	—	10,790
Unallocated bank borrowings	1,775,000	1,900,000	2,000,000
Unallocated corporate liabilities	<u>15,842</u>	<u>16,860</u>	<u>8,166</u>
Total liabilities per consolidated statement of financial position	<u>3,794,051</u>	<u>3,664,171</u>	<u>4,047,570</u>

(c) **Geographical information**

The following table provide an analysis of the Group's sales by geographical market attributed to the group entities' countries of domiciles (i.e. the Mainland China and Hong Kong) and attributed to all foreign countries. Majority of the non-current assets other than available-for-sale investment and deferred tax assets are located in the Mainland China, the entity's country of domicile.

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Domicile country/region:		
Mainland China	2,314,760	1,742,353
Hong Kong	<u>15,903</u>	<u>16,016</u>
	<u>2,330,663</u>	<u>1,758,369</u>
Foreign countries/regions:		
Mainland China	23,829	8,505
Hong Kong	493,480	505,607
Taiwan	290,946	210,317
United States	434,820	332,801
Europe	16,998	17,901
Others	<u>283,471</u>	<u>203,381</u>
	<u>1,543,544</u>	<u>1,278,512</u>
	<u><u>3,874,207</u></u>	<u><u>3,036,881</u></u>

Turnover is analysed on the basis of the customer's location.

(d) **Information about major customers**

In 2010 and 2009, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's revenue.

## 9. OTHER INCOME/GAINS AND LOSSES

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(restated)</i>
Included in other income/gains and losses are:		
Interest on bank deposits	19,338	7,925
Interest on loan to a fellow subsidiary	13,518	3,196
Income from release of financial guarantee liability (Note 30)	—	1,790
Government grants (Note 38)	12,285	14,498
Net (loss) gain on disposal of property, plant and equipment	(31,729)	12,968
Increase in fair value of a commodity future contract (Note)	2,045	—
Gain on disposal of an available-for-sale investment	—	840
Supporting and administrative service income from a fellow subsidiary (Note 37)	101,698	88,733
Tax refund on re-investment of profit of subsidiaries in the Mainland China	—	12,302
Write back of provisions (Note 27)	—	9,625
	<u>          </u>	<u>          </u>

*Note:*

Gold is one of the principal raw materials of the Group's IC Testing & Packaging business. During the year, the Group entered into gold future contracts traded on the Shanghai Gold Exchange to hedge its exposure against gold price fluctuation and recorded an increase in fair value of future contracts of HK\$2,045,000 (2009: Nil). No outstanding gold future contract is held by the Group as at the end of the reporting period.

## 10. FINANCE COSTS

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on:		
Bank loans wholly repayable within five years	22,023	42,885
Long-term payables	<u>1,309</u>	<u>862</u>
	<u>23,332</u>	<u>43,747</u>

## 11. TAXATION

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Mainland China	56,742	22,718
Hong Kong	204	24
Under (over) provision in prior year	<u>1,316</u>	<u>(1,060)</u>
	58,262	21,682
Mainland China - withholding tax	1,692	—
Deferred tax (Note 29)	<u>(19,637)</u>	<u>(8,116)</u>
	<u>40,317</u>	<u>13,566</u>

Profits tax arising in the Mainland China is calculated based on the applicable tax rates on assessable profits. The relevant tax rates for the Group's subsidiaries in the Mainland China for both years range from 15% to 25%.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the domestic tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Certain subsidiaries have 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 years.

In addition, certain subsidiaries operating in the Mainland China were exempted from tax applicable in the Mainland China for two years starting from 2008 and were granted a 50% relief for the following three years.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the profit (loss) before taxation as follows:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation	<u>319,865</u>	<u>(168,811)</u>
Tax at the applicable tax rate of 15% (2009: 15%) (Note)	47,980	(25,322)
Tax effect of expenses not deductible for tax purpose	14,713	39,053
Tax effect of income not taxable for tax purpose	(2,605)	(10,619)
Under (over) provision in respect of prior year	1,316	(1,060)
Tax effect on concessionary deduction of research and development expenses	(13,665)	—
Tax effect of tax losses not recognised	—	9,240
Tax effect of other deductible temporary differences not recognised	16,075	2,918
Withholding tax on dividend distributed from a subsidiary in the Mainland China	1,692	—
Utilisation of tax losses previously not recognised	(17,534)	(910)
Utilisation of other deductible temporary differences previously not recognised	(1,576)	(190)
Effect of tax exemptions and concession granted to subsidiaries of different regions operating in the Mainland China	(1,002)	(2,065)
Effect of different tax rates of subsidiaries operating in different regions of the Mainland China	897	1,080
Recognition of deferred tax assets previously not recognised	(7,677)	—
Others	<u>1,703</u>	<u>1,441</u>
Tax charge for the year	<u><u>40,317</u></u>	<u><u>13,566</u></u>

*Note:* The rate represents the tax rate applicable to the subsidiaries established in the Mainland China which are regarded as High and New Advanced Technology Enterprises by the local tax bureau.

## 12. PROFIT (LOSS) FOR THE YEAR

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (Note 13)	9,423	4,631
Other staff		
- Salaries and other benefits	624,318	535,501
- Retirement benefits schemes contributions	83,378	60,382
Share-based payment expense	<u>93</u>	<u>568</u>
Total staff costs	<u>717,212</u>	<u>601,082</u>
Auditor's remuneration	3,000	3,000
Impairment loss on property, plant and equipment (included in other operating expenses)	23,217	13,138
Depreciation of property, plant and equipment	545,485	508,990
Amortisation of technical know-how (included in administrative expenses)	1,360	814
Amortisation of prepaid lease payments	<u>4,335</u>	<u>4,361</u>
	<u>551,180</u>	<u>514,165</u>
Write off of inventories (included in other operating expenses)	5,421	2,534
Cost of inventories recognised as expenses	2,211,634	1,911,069
(Reversal of) allowance for doubtful debts	(91)	4,761
Operating lease rentals in respect of rented premises	10,324	8,624
Loss on suspension of production (included in other operating expenses, see note a below)	—	42,055
Reversal of impairment for other receivable and accrual of severance payment (included in other operating expenses, see note b below)	—	(19,716)
Net exchange (gain) loss	<u>(8,033)</u>	<u>387</u>

*Note:*

- (a) As a result of the financial crisis in the second half of 2008, the Group's open foundry business has been adversely affected and the Group temporarily suspended certain production units during the year to reduce operating losses. The loss on suspension of production mainly includes depreciation of the production facilities which has been included the total depreciation expenses separately presented above. The Group had resumed these production since March 2009.



- (b) During the year ended 31 December 2009, the Group reached agreement with dismissed employees on severance payment and negotiated with landlord on early termination leases in connection of the relocation of production line. Upon settlement, a reversal of HK\$11,972,000 was recognised. In addition, other receivables previously written off of HK\$7,744,000 were recovered.

### 13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

#### Directors

The emoluments paid or payable to the directors are as follows:

Name of Director	Note	2010					2009	
		Fees HK\$'000	Salaries HK\$'000	Performance related incentive payments HK\$'000	Retirement benefit schemes contributions HK\$'000	Total HK\$'000	Total HK\$'000	
<b>Executive directors</b>								
SONG LIN	a	70	—	—	—	70	70	
WANG GUOPING		70	1,153	260	36	1,519	671	
DENG MAO-SONG, ELVIS	b	70	1,062	325	—	1,457	—	
<b>Non-executive directors</b>								
CHEN CHENG-YU, PETER	c	70	2,737	2,378	—	5,185	1,830	
FRANK LAI NI HIUM	d	50	—	—	—	50	1,177	
ZHU JINKUN	d	50	—	—	—	50	50	
JIANG WEI	d	50	—	—	—	50	50	
LI FUZUO	d	50	—	—	—	50	50	
DU WENMIN		50	—	—	—	50	50	
WEI BIN	e	50	—	—	—	50	—	
SHI SHANBO	e	50	—	—	—	50	—	
ZHANG HAIPENG	e	50	—	—	—	50	—	
KUM LOON OON		210	—	—	—	210	233	
RALPH SYTZE YBEMA		221	—	—	—	221	264	
KO PING KEUNG		175	—	—	—	175	186	
WONG TAK SHING	f	93	—	—	—	93	—	
LUK CHI CHEONG	f	93	—	—	—	93	—	
		<u>1,472</u>	<u>4,952</u>	<u>2,963</u>	<u>36</u>	<u>9,423</u>	<u>4,631</u>	

Note:

- (a) Mr Song Lin had been resigned as an executive director on 4 June 2010.
- (b) Mr. Deng Mao-song, Elvis had been appointed as an executive director on 24 August 2010.

- (c) Mr Chen Cheng-yu, Peter had been resigned as an executive director and had been appointed as a non-executive director on 24 August 2010.
- (d) Mr. Frank Lai Ni Hium, Mr. Zhu Jinkun, Mr Jiang Wei and Mr. Li Fuzuo had been resigned as non-executive directors on 24 August 2010.
- (e) Mr. Wei Bin, Mr. Shi Shanbo and Mr. Zhang Haipeng had been appointed as non-executive directors on 24 August 2010.
- (f) Mr. Wong Tak Shing and Mr. Luk Chi Cheong had been appointed as independent non-executive directors on 24 August 2010.

Performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

### Employees

The five highest paid individuals of the Group included one (2009: one) executive directors and one (2009: nil) non-executive director, details of whose emoluments are set out above. The emoluments of the remaining three (2009: four) highest paid employees of the Group are as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Salaries and other benefits	5,111	6,532
Performance related incentive payments	<u>1,077</u>	<u>936</u>
	<u><u>6,188</u></u>	<u><u>7,468</u></u>

The emoluments of the above employees are within the following bands:

	2010 Number of employees	2009 Number of employees
HK\$		
1,000,001 to 1,500,000	—	—
1,500,001 to 2,000,000	1	3
2,000,001 to 2,500,000	<u>2</u>	<u>1</u>

**14. DIVIDEND**

A final dividend of 0.5 HK cent per share totalling HK\$43,948,000 (2009: Nil) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

No dividend has been declared or paid during the year (2009: Nil).

**15. EARNINGS (LOSS) PER SHARE**

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

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Earnings:</i>		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the year attributable to owners of the Company)	<u>272,364</u>	<u>(172,206)</u>
<i>Number of shares:</i>		
Weighted average number of shares for the purpose of basic earnings (loss) per share	8,689,479,479	7,327,643,487
Effect of dilutive potential shares:		
Share options - Equity Incentive Plan	1,401,718	—
Share options - Share Option Scheme	<u>220,241</u>	<u>—</u>
Weighted average number of shares for the purpose of diluted earnings (loss) per share	<u>8,691,101,438</u>	<u>7,327,643,487</u>

Diluted loss per share for the year ended 31 December 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.

The weighted average number of shares shown above has been arrived at after deducting 100,000,000 shares (2009: 100,000,000) held by share award scheme trust under the Restricted Share Award Scheme as set out in Note 32(iii) and accounted for by the Group as treasury shares held by the Group.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings <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>COST</b>						
At 1 January 2009	459,234	206,026	4,308,752	52,406	383,023	5,409,441
Exchange adjustments	(67)	(28)	(986)	(8)	(56)	(1,145)
Additions	—	1,742	698	741	150,437	153,618
Transfer to vendor (Note 28)	—	—	(155,140)	—	—	(155,140)
Disposals/write-off	(14,205)	(11,276)	(63,020)	(2,676)	—	(91,177)
Transfers between categories	56,548	34,073	357,010	652	(448,283)	—
At 31 December 2009	501,510	230,537	4,447,314	51,115	85,121	5,315,597
Exchange adjustments	17,833	7,781	162,920	1,757	3,229	193,520
Additions	1,030	1,928	2,284	298	461,800	467,340
Disposals/write-off	(190)	(6,170)	(83,094)	(3,755)	—	(93,209)
Transfers between categories	417	17,832	300,556	1,250	(320,055)	—
At 31 December 2010	520,600	251,908	4,829,980	50,665	230,095	5,883,248
<b>DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2009	102,233	85,492	1,595,998	33,322	—	1,817,045
Exchange adjustments	(16)	(36)	(258)	(4)	—	(314)
Depreciation provided for the year	21,912	33,028	448,384	5,666	—	508,990
Impairment loss recognised in profit or loss	—	3,762	9,376	—	—	13,138
Eliminated on transfer to vendor (Note 28)	—	—	(130,036)	—	—	(130,036)
Eliminated on disposals/write-off	(4,935)	(7,294)	(49,727)	(2,134)	—	(64,090)
At 31 December 2009	119,194	114,952	1,873,737	36,850	—	2,144,733
Exchange adjustments	4,650	3,892	73,603	1,275	—	83,420
Depreciation provided for the year	20,745	33,927	486,522	4,291	—	545,485
Impairment loss recognised in profit or loss	—	105	23,112	—	—	23,217
Eliminated on disposals/write-off	(55)	(6,097)	(43,348)	(2,956)	—	(52,456)
At 31 December 2010	144,534	146,779	2,413,626	39,460	—	2,744,399
<b>CARRYING VALUES</b>						
At 31 December 2010	376,066	105,129	2,416,354	11,205	230,095	3,138,849
At 31 December 2009	382,316	115,585	2,573,577	14,265	85,121	3,170,864
At 1 January 2009	357,001	120,534	2,712,754	19,084	383,023	3,592,396

The above items of property, plant and equipment, other than construction in progress, are depreciated 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 buildings	25 to 40 years or over the relevant lease terms, if shorter
Furniture and fixtures	5 to 10 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 6 years

During the year, impairment losses of HK\$23,217,000 (2009: HK\$13,138,000) have been recognised in respect of property, plant and equipment due to physical damage and technical obsolescence during the year.

The Group's leasehold buildings are situated on land:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outside Hong Kong on - medium-term lease	<u>376,066</u>	<u>382,316</u>

#### 17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated outside Hong Kong on medium-term lease:

	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>1/1/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as			
Non-current assets	169,515	168,570	174,906
Current assets	<u>4,335</u>	<u>4,191</u>	<u>4,176</u>
	<u>173,850</u>	<u>172,761</u>	<u>179,082</u>

#### 18. AVAILABLE-FOR-SALE INVESTMENT

	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>1/1/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments, at cost	763,141	754,092	741,698
Less: Impairment loss recognised	<u>(190,000)</u>	<u>(190,000)</u>	<u>—</u>
	<u>573,141</u>	<u>564,092</u>	<u>741,698</u>

The investments mainly comprise of the Group's 19% equity interest in a fellow subsidiary, CSMC Asia Limited ("CSMC Asia"). CSMC Asia is a company incorporated in Hong Kong which is principally engaged in manufacturing 8 inch wafers in the Mainland China. Such investment is carried at cost less any impairment loss, and is not carried at fair value since the directors of the Company are of opinion that the fair value of the investment cannot be measured reliably.

At 31 December 2010, the directors reviewed the carrying value of the Group's available-for-sale investments and determined that no additional impairment loss was recognised in current year. The investment was included in the Group's open foundry segment. The recoverable amount of the available-for-sale investments had been determined on the basis of their estimated present value of the estimated future cash flows expected to be generated by the CSMC Asia with a discount rate of 14% (2009: 14%) per annum.

#### 19. LOANS RECEIVABLE/DERIVATIVE FINANCIAL ASSET

	31/12/2010	31/12/2009	1/1/2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Variable-rate loan receivable from a fellow subsidiary	278,249	186,248	—
Loan receivable from Star Venture Asia Limited ("Star Venture")	<u>6,480</u>	<u>—</u>	<u>—</u>
	<u>284,729</u>	<u>186,248</u>	<u>—</u>

#### Loans receivable

On 8 September 2009, the subsidiaries of the Company and CRH as lenders and CSMC Asia as borrower entered into a shareholders' loans agreement pursuant to which the lenders agreed to provide shareholders' loans in the aggregate amount of US\$202,000,000 to CSMC Asia on a pro rata basis according to their respective shareholdings. As such, the subsidiary of the Company will provide 19% or US\$38,380,000 and the subsidiary of CRH will provide 81% or US\$163,620,000. The loan is unsecured, interest bearing at LIBOR plus 1% and repayable at a fixed maturity of 3 years. The fair value on initial recognition has been determined based on an effective interest rate of 5% per annum and the fair value adjustment was adjusted to the cost of the available-for-sale investment.

**Derivative financial assets**

During the year, the Group has provided a loan of US\$1,027,000 (equivalent to HK\$7,964,000) to Star Venture Asia Limited (“Star Venture”), an independent third party to the Group. The loan is secured by 51% of ordinary shares of a Taiwan incorporated company held by Star Venture (the “Pledged Shares”), bearing fixed interest rate at 1.5% per annum and has no fixed term of repayment. In addition, the Group has been granted an option at nil consideration to buy the Pledged Shares at the nominal amount of the loan at any time commencing from the date of the agreement and expiring on the date six months after obtaining approval from the relevant government authority. The option is considered as a separate derivative and has been separately accounted for as a derivative financial asset. No change in fair value has been recognised to profit or loss for the year as the amount involved is insignificant.

The derivative financial asset is classified into level 3 based on the degree to which the fair value is observable. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**20. GOODWILL****2010 & 2009***HK\$'000*

## CARRYING AMOUNTS

At 1 January and 31 December

21,024

The goodwill at 31 December 2010 arose on acquisition in 2002 of subsidiaries engaged in semiconductor business. The Group determines that the goodwill, which had been allocated to two cash generating units (“CGU”), including two subsidiaries engaging in IC design and IC testing and packaging business amounting to HK\$7,539,000 and HK\$13,485,000 (2009: HK\$7,539,000 and HK\$13,485,000), 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 had been determined on the basis of value in use calculation. The value in use calculation use cash flow projections which were based on approved financial budgets covering a 5-year period, and the discount rate of approximately 14% (2009: 14%). Zero growth was projected for cash flows beyond the 5-year period. Other key assumptions for the value in use calculations included the budgeted sales and gross margins, such estimations were based on past performance and management’s expectations for the market’s development. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

## 21. TECHNICAL KNOW-HOW

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
COST		
At 1 January	3,458	44,389
Exchange adjustments	124	(6)
Development costs	19,932	—
Transfer to vendor (Note 28)	<u>—</u>	<u>(40,925)</u>
At 31 December	<u>23,514</u>	<u>3,458</u>
AMORTISATION AND IMPAIRMENT		
At 1 January	2,643	42,760
Exchange adjustments	96	(6)
Provided for the year	1,360	814
Impairment loss recognised in profit or loss	—	—
Eliminated on transfer to vendor (Note 28)	<u>—</u>	<u>(40,925)</u>
At 31 December	<u>4,099</u>	<u>2,643</u>
CARRYING AMOUNT		
At 1 January	<u>19,415</u>	<u>815</u>
At 31 December	<u>815</u>	<u>1,629</u>

Amortisation is provided on a straight-line basis over their estimated useful lives of four to five years and included in administrative expenses in the consolidated statement of comprehensive income.

## 22. INVENTORIES

	31/12/2010 <i>HK\$'000</i>	31/12/2009 <i>HK\$'000</i>	1/1/2009 <i>HK\$'000</i>
Raw materials	208,400	164,707	248,987
Work in progress	306,948	243,174	261,124
Finished goods	<u>214,822</u>	<u>194,969</u>	<u>302,610</u>
	<u>730,170</u>	<u>602,850</u>	<u>812,721</u>



## 23. DEBTORS, DEPOSITS AND PREPAYMENTS

	31/12/2010	31/12/2009	1/1/2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	1,073,500	928,168	798,039
Less: allowance for doubtful receivables	<u>(37,035)</u>	<u>(36,314)</u>	<u>(34,273)</u>
	1,036,465	891,854	763,766
Deposits and prepayments	<u>195,061</u>	<u>104,311</u>	<u>112,665</u>
	<u>1,231,526</u>	<u>996,165</u>	<u>876,631</u>

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 terms. The aged analysis of trade debtors, including notes receivable, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, is as follows:

	31/12/2010	31/12/2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	621,497	549,424
61 - 90 days	108,783	103,753
91 - 180 days	293,858	227,562
Over 180 days	<u>12,327</u>	<u>11,115</u>
	<u>1,036,465</u>	<u>891,854</u>

Included in the Group's debtors are receivables of HK\$48,889,000 (2009: HK\$14,267,000) due from a fellow subsidiary arising from transactions carried out in the ordinary course of business of the Group. The amounts is unsecured, interest-free and are repayable within the credit periods similar to those offered to the Group's customers.

Included in the Group's debtors are receivables of HK\$92,100,000 (2009: HK\$85,052,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

Included in Group's trade debtors are notes receivables with the carrying amount of HK\$512,303,000 (2009: HK\$363,947,000), in which HK\$25,773,000 (2009: HK\$88,961,000) are discounted with full recourse to obtain general funding. The amounts are unsecured, interest free and with a maturity period of 180 days.

The credit quality of trade debtors that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties do not have significant defaults in the past.

91% (2009: 90%) of the debtors are neither past due nor impaired and have either been subsequently settled or maintain active trade business relationship with the Group.

Included in the Group's debtors are receivables with carrying amounts of HK\$50,660,000 (2009: HK\$49,018,000), HK\$149,553,000 (2009: HK\$74,702,000) and HK\$10,542,000 (2009: HK\$21,615,000) which are denominated in United States dollar, Renminbi and Hong Kong dollar respectively, being the foreign currency of the respective group entities.

#### Aging of trade debtors which are past due but not impaired

	31/12/2010 <i>HK\$'000</i>	31/12/2009 <i>HK\$'000</i>
0 - 60 days	76,483	66,056
61 - 90 days	4,326	6,436
91 - 180 days	6,962	10,250
Over 180 days	<u>4,329</u>	<u>2,310</u>
	<u>92,100</u>	<u>85,052</u>

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of 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 already provided for in the consolidated financial statements.

Included in the allowance for doubtful debts are individually impaired receivables due from certain trade debtors with an aggregate amount of HK\$37,035,000 (2009: HK\$36,314,000) which are in financial difficulties. The Group does not hold any collateral over these receivables.

#### Movements in the allowance for doubtful debts

	2010 <b>HK\$'000</b>	2009 <b>HK\$'000</b>
Balance at beginning of the year	36,314	34,273
Exchange differences	1,102	(5)
Amounts written off as uncollectible	(290)	(2,715)
(Decrease) increase in allowance recognised in profit or loss	<u>(91)</u>	<u>4,761</u>
Balance at end of the year	<u>37,035</u>	<u>36,314</u>

**24. BANK BALANCES/RESTRICTED BANK DEPOSITS**

Bank balances carry interest at market rates ranging from 0% to 2.20% per annum (2009: 0% to 1.98% per annum). The restricted bank deposits carry interest at market rates ranging from 0.01% to 2.79% per annum (2009: 0.01% to 2.79% per annum).

Restricted bank deposits of HK\$13,577,000 (2009: HK\$8,603,000) were pledged to banks for long-term payables (Note 28), letters of credit and guarantee issued by those banks for the Group and for employees' mortgage loans.

Included in the Group's bank balances are balances with carrying amounts of HK\$151,733,000 (2009: HK\$432,473,000), HK\$108,296,000 (2009: HK\$19,197,000) and HK\$9,785,000 (2009: HK\$12,417,000) which are denominated in United States dollar, Renminbi and Hong Kong dollar respectively, being the foreign currency of the respective group entities.

**25. CREDITORS AND ACCRUED CHARGES**

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

	<b>31/12/2010</b>	<b>31/12/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 60 days	677,669	632,185
61 - 90 days	192,843	92,278
91 - 180 days	254,562	156,311
Over 180 days	<u>19,897</u>	<u>31,862</u>
	<u><u>1,144,971</u></u>	<u><u>912,636</u></u>

The other creditors and accrued charges mainly include:

	<b>31/12/2010</b>	<b>31/12/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Payables for acquisition of property, plant and equipment	103,054	87,024
Accrued staff costs	142,545	81,360
Deposits received	49,004	54,026
Current portion of long-term payable (Note 28)	17,188	17,036
Amounts due to fellow subsidiaries	21,727	9,269
Amount due to a group company of a non-controlling shareholder of a subsidiary	<u>134,124</u>	<u>152,435</u>

The amounts due to a group company of a non-controlling shareholder of a subsidiary and fellow subsidiaries were unsecured, interest-free and are mainly repayable within the credit periods similar to the Group's suppliers.

Included in the Group's trade creditors are notes payable with a carrying amount of HK\$545,344,000 (2009: HK\$357,444,000) which are unsecured, interest free and with a maturity period of 180 days.

The average credit period on purchases of goods is 7 to 180 days. The notes payable have maturity period of 180 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Included in the Group's creditors are creditors with a carrying amount of HK\$29,851,000 (2009: HK\$18,384,000), HK\$227,409,000 (2009: HK\$133,492,000) and HK\$11,775,000 (2009: HK\$9,186,000) which are denominated in United States dollar, Renminbi and Hong Kong dollar respectively, being the foreign currency of the respective group entities.

## 26. BANK BORROWINGS

	31/12/2010 <i>HK\$'000</i>	31/12/2009 <i>HK\$'000</i> <i>(restated)</i>	1/1/2009 <i>HK\$'000</i> <i>(restated)</i>
Bank loans			
Secured	25,773	88,961	128,603
Unsecured	<u>1,778,039</u>	<u>2,013,574</u>	<u>2,300,878</u>
	<u>1,803,812</u>	<u>2,102,535</u>	<u>2,429,481</u>
Carrying amount repayable*:			
Within one year	353,812	627,535	515,891
More than one year, but not exceeding two years	650,000	325,000	438,590
More than two years, but not exceeding five years	<u>300,000</u>	<u>650,000</u>	<u>975,000</u>
	1,303,812	1,602,535	1,929,481
Carrying amount of bank loans that are repayable within five years from date of agreement (within two to three years from 31 December 2010) but contain a repayment on demand clause (shown under current liabilities)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
	<u>1,803,812</u>	<u>2,102,535</u>	<u>2,429,481</u>
Less: Amounts due within one year shown under current liabilities	<u>(853,812)</u>	<u>(1,127,535)</u>	<u>(1,015,891)</u>
Amount due after one year shown as non-current liabilities	<u>950,000</u>	<u>975,000</u>	<u>1,413,590</u>

\* The amounts due are based on the scheduled repayment dates set out in the loan agreements.

*Note:*

- (a) The bank loans include Hong Kong dollar revolving credit and term loan facilities of HK\$975,000,000 (2009: HK\$1,300,000,000), which carry interest at floating rate based on HIBOR plus a margin. The average interest rate for the year is 0.78% (2009: 1.39%). The loans have been guaranteed by CRH since 19 March 2008. 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. The loan has maturity date on 14 March 2012.
- (b) The bank loans include United States dollar, Hong Kong dollar and RMB floating rate borrowings of HK\$3,039,000, HK\$800,000,000 and HK\$25,773,000 (2009: Nil, HK\$600,000,000 and HK\$202,535,000) which carry interest based on LIBOR, HIBOR and People's Bank of China Lending rate plus margin respectively. The effective interest rates ranged from 1.08% to 1.64% (2009: 1.15% to 3.51%) per annum and have maturity date ranging from on demand to three years from the end of reporting period.
- (c) At 31 December 2010, the Group had unutilised bank loan facilities of HK\$1,328,195,000 (2009: HK\$1,975,567,000).
- (d) Included in the Group's bank loans are loans with carrying amounts of HK\$800,000,000 (2009: Nil) and Nil (2009: HK\$113,574,000) which are denominated in Hong Kong dollar and Renminbi respectively, being the foreign currencies of the respective group entities.

## 27. PROVISIONS

	<b>Staff housing benefits</b>	<b>Employee termination benefit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note a)</i>	<i>(Note b)</i>	
At 1 January 2009	29,204	10,099	39,303
Exchange adjustments	—	(1)	(1)
Provided for the year	—	992	992
Utilisation of provisions	(1,876)	(3,745)	(5,621)
Write back of provisions	<u>(9,625)</u>	<u>—</u>	<u>(9,625)</u>
At 31 December 2009	17,703	7,345	25,048
Exchange adjustments	—	65	65
Utilisation of provisions	<u>(1,588)</u>	<u>(647)</u>	<u>(2,235)</u>
At 31 December 2010	<u>16,115</u>	<u>6,763</u>	<u>22,878</u>

The amount includes provision for staff housing benefits and provisions for employee termination benefit.

- (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 the remaining eligible staff for the purchase of residential properties, based on the local government policy in this regard. The outflow is expected upon the receipt of application to be submitted by the eligible staff for such allowance.

During the year ended 31 December 2009, management reconsidered the staff housing benefits and, as a result, determined that the provision for staff housing benefits to the extent of HK\$9,625,000 previously made is no longer required. Such provision had been written back for the year ended 31 December 2009.

- (b) The provisions for employee termination benefit represents management's best estimate of the liabilities in relation to restructuring activities of subsidiaries which are to be utilised to meet restructuring expenses, including staff redundancy, in accordance with the restructuring plans adopted when such subsidiaries were acquired in prior years.

## **28. LONG-TERM PAYABLES**

In previous years, the Group acquired property, plant and equipment and technical know-how and incurred long-term payable which were repayable over a period of 10 to 12 years. Due to the relocation of manufacturing facilities in prior years, certain of these assets have been impaired as at 31 December 2008. In last year, the Group entered into an agreement with the vendor of these assets to revise the terms of the outstanding long-term payable and reduce the amount due to the vendor to HK\$45,430,000 by transferring the related property, plant and equipment and technical know-how with a carrying amount of HK\$25,104,000 back to the vendor. The revised payable is non-interest bearing and repayable by installments in three years commencing from October 2009. The present value of the revised amount is HK\$42,814,000 estimated using an interest rate of 5.40% at initial recognition.

**APPENDIX I****FINANCIAL INFORMATION ON THE CRM GROUP**

At the end of reporting period, the carrying amount of the outstanding consideration with an aggregate undiscounted principal amount of HK\$17,628,000 (2009: HK\$34,072,000), which are non-interest bearing, are as follows:

	<b>31/12/2010</b>	<b>31/12/2009</b>	<b>1/1/2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The present value of long term payable is as follows:			
Within one year	17,188	17,036	8,462
More than one year, but not exceeding two years	—	15,324	8,760
More than two year, but not exceeding five years	—	—	26,282
More than five years	—	—	24,414
	<u>17,188</u>	<u>32,360</u>	<u>67,918</u>
Less: Amount due within one year included in creditors and accrued charges shown under current liabilities	<u>(17,188)</u>	<u>(17,036)</u>	<u>(8,462)</u>
Amount due after one year shown as non-current liabilities	<u>—</u>	<u>15,324</u>	<u>59,456</u>

**29. DEFERRED TAXATION**

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	<b>Withholding tax on undistributed profit</b>	<b>Accelerated tax depreciation</b>	<b>Allowance/ impairment 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 2009	(4,712)	(6)	7,304	11,285	13,871
Exchange adjustments	—	—	1	—	1
Credit to profit or loss	<u>—</u>	<u>6</u>	<u>2,649</u>	<u>5,461</u>	<u>8,116</u>
At 31 December 2009	(4,712)	—	9,954	16,746	21,988
Exchange adjustments	—	—	347	1,226	1,573
Credit to profit or loss	<u>—</u>	<u>—</u>	<u>5,527</u>	<u>14,110</u>	<u>19,637</u>
At 31 December 2010	<u>(4,712)</u>	<u>—</u>	<u>15,828</u>	<u>32,082</u>	<u>43,198</u>



Other temporary differences mainly include deferred income on certain government grants which has been taxed upon receipts.

The following is an analysis of the deferred tax balances for financial reporting purposes.

	31/12/2010	31/12/2009	1/1/2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	47,910	26,700	18,589
Deferred tax liabilities	<u>(4,712)</u>	<u>(4,712)</u>	<u>(4,718)</u>
	<u>43,198</u>	<u>21,988</u>	<u>13,871</u>

At 31 December 2010, the Group had unused tax losses of HK\$286,796,000 (2009: HK\$363,781,000) 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. Losses of HK\$28,211,000, HK\$45,865,000, HK\$72,039,000 and HK\$136,813,000 will expire in 2011, 2012, 2013 and 2014 respectively. Other losses may be carried forward indefinitely.

At 31 December 2010, the Group also had other unrecognised deductible temporary differences of HK\$376,114,000 (2009: HK\$483,390,000), mainly arising from impairment losses on property, plant and equipment, technical know-how, write down of inventories to net realisable value and allowance for doubtful debts. 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.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared and distributed in respect of profits earned by PRC subsidiaries from January 2008 onwards to non-PRC residents. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK\$373,274,000 (2009: HK\$115,146,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### 30. FINANCIAL GUARANTEE CONTRACT

On 24 November 2008, the Group and CRH issued a financial guarantee to the extent of US\$140 million to a bank in respect of a term loan facility agreement granted to a fellow subsidiary, CSMC Asia, of which US\$26.6 million (representing the portion of the financial guarantee covered by the Group) was attributable to the Group. The fair value of the financial guarantee contract at initial recognition of HK\$10,790,000 was capitalised as investment cost of the available-for-sale investment. CSMC Asia repaid the loan and cancelled the undrawn portion of the facility during the year ended 31 December 2009. An amount of HK\$1,790,000 has been released to profit or loss for the year ended

31 December 2009 up to the date of cancellation of the facility. The remaining balance of HK\$9,000,000 was adjusted to the cost of the available-for-sale investment as return of investment since the fair value of the financial guarantee on initial recognition was previously treated as deemed contribution to CSMC Asia.

### 31. SHARE CAPITAL OF THE COMPANY

	Number of shares	Nominal value of shares <i>HK\$'000</i>
<b>Shares of HK\$0.10 each</b>		
Authorised:		
At 1 January 2009	10,000,000,000	1,000,000
Increase during the year	<u>10,000,000,000</u>	<u>1,000,000</u>
At 31 December 2009 and 31 December 2010	<u>20,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2009	5,855,209,864	585,521
Shares issued under allotment of right shares	2,929,447,319	292,945
Shares issued under Equity Incentive Plan	<u>4,744,775</u>	<u>474</u>
At 31 December 2009	8,789,401,958	878,940
Shares issued under Equity Incentive Plan	<u>150,750</u>	<u>15</u>
At 31 December 2010	<u>8,789,552,708</u>	<u>878,955</u>

Pursuant to an ordinary resolution passed by the shareholders of the Company on 20 August 2009, the authorised share capital of the Company had been increased from HK\$10,000,000 to HK\$20,000,000 by creation of 10,000,000,000 ordinary shares of HK\$0.10 each rank pari passu in all respects with the existing shares of the Company.

To strengthen the Company's capital base and working capital position, the Company raised approximately HK\$439,417,000 before expenses of HK\$1,800,000 by way of the rights issue of 2,929,447,319 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 for the year ended 31 December 2009. The proceeds from the rights issue were applied towards payment to finance the operating and capital expenditure for CSMC Asia and used in capital expenditure and working capital of the Group.

**32. SHARE-BASED PAYMENT TRANSACTIONS****(i) 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 (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. The initial total plan amount, as approved by the shareholders on 8 May 2004 by way of ordinary resolution, is fixed at 246,900,000 shares. Furthermore, The total number of Shares issued and to be issued to any Selected Employee in any twelve (12) month period pursuant to any Awards shall not exceed one (1) per cent. of the total number of Shares in issue.

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.

No shares were allocated under the Plan in the year 2010 and 2009.

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Details of the shares under the Plan are as follows:

	<b>Outstanding at 1 January 2010 '000</b>	<b>Allocated during the year '000</b>	<b>Exercised during the year '000</b>	<b>Lapsed during the year '000</b>	<b>Outstanding at 31 December 2010 '000</b>	<b>Exercise price (in HK\$)</b>	<b>Grant date</b>	<b>Exercisable until</b>
Managements and employees	964	—	(44)	(8)	912	0.078	1 October 2003	7 May 2013
	550	—	(107)	(7)	436	0.078	26 January 2005	7 May 2013
	—	—	—	—	—	0.078	2 January 2006	7 May 2013
	<u>384</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>384</u>	<u>0.078</u>	16 May 2006	7 May 2013
<b>Total</b>	<b><u>1,898</u></b>	<b><u>—</u></b>	<b><u>(151)</u></b>	<b><u>(15)</u></b>	<b><u>1,732</u></b>			
Exercisable at the end of the year					<u>1,732</u>			
Weighted average exercise price (HK\$)	<u>0.078</u>	<u>—</u>	<u>0.078</u>	<u>0.078</u>	<u>0.078</u>			

	<b>Outstanding at 1 January 2009 '000</b>	<b>Allocated during the year '000</b>	<b>Exercised during the year '000</b>	<b>Lapsed during the year '000</b>	<b>Outstanding at 31 December 2009 '000</b>	<b>Exercise price (in HK\$)</b>	<b>Grant date</b>	<b>Exercisable until</b>
Managements and employees	3,565	—	(2,339)	(262)	964	0.078	1 October 2003	7 May 2013
	1,142	—	(533)	(59)	550	0.078	26 January 2005	7 May 2013
	1,371	—	(1,371)	—	—	0.078	2 January 2006	7 May 2013
	<u>884</u>	<u>—</u>	<u>(500)</u>	<u>—</u>	<u>384</u>	<u>0.078</u>	16 May 2006	7 May 2013
<b>Total</b>	<b><u>6,962</u></b>	<b><u>—</u></b>	<b><u>(4,743)</u></b>	<b><u>(321)</u></b>	<b><u>1,898</u></b>			
Exercisable at the end of the year					<u>1,648</u>			
Weighted average exercise price (HK\$)	<u>0.078</u>	<u>—</u>	<u>0.078</u>	<u>0.078</u>	<u>0.078</u>			

In respect of the shares allocated under the Plan during the year, the weight average share price at the date of exercise is HK\$0.33 (2009: HK\$0.17).

(ii) **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 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 granted under the Scheme on 8 September 2006 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. Share options granted under the Scheme on 28 May 2008 subject to one-year vesting period from the participant’s employment starting date as approved by Remuneration Committee.

No option was granted during both years.

The number of share options and exercise prices were adjusted in the year 2009 due to the rights issue at the subscription price of HK\$0.15 per rights share on the basis of one rights share for every two existing shares. The exercise prices were adjusted from HK\$0.36 and HK\$0.75 to HK\$0.341 and HK\$0.711 respectively.

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Movement in the number of share options outstanding and related exercise price are as follows:

	At 1 January 2010 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Rights issue adjustment '000	At 31 December 2010 '000	Adjusted exercise price (in HK\$)	Grant date	Exercisable until
Managements and employees	12,813	—	—	(1,266)	—	11,547	0.341	8 September 2006	26 May 2014
	1,358	—	—	—	—	1,358	0.711	28 May 2008	26 May 2014
<b>Total</b>	<b>14,171</b>	<b>—</b>	<b>—</b>	<b>(1,266)</b>	<b>—</b>	<b>12,905</b>			
Exercisable at the end of the year						12,905			
Weighted average exercise price (HK\$)	0.38	—	—	0.38		0.38			

	At 1 January 2009 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Rights issue adjustment '000	At 31 December 2009 '000	Adjusted exercise price (in HK\$)	Grant date	Exercisable until
Managements and employees	15,191	—	—	(3,100)	722	12,813	0.341	8 September 2006	26 May 2014
	1,587	—	—	(300)	71	1,358	0.711	28 May 2008	26 May 2014
<b>Total</b>	<b>16,778</b>	<b>—</b>	<b>—</b>	<b>(3,400)</b>	<b>793</b>	<b>14,171</b>			
Exercisable at the end of the year						12,205			
Weighted average exercise price (HK\$)	0.38	—	—	0.38		0.38			

No share options were exercised for both years ended 31 December 2010 and 2009.

For the year ended 31 December 2010, the Group recognised the total expenses of HK\$93,000 (2009: HK\$568,000) relating to equity-settled share-based payment transactions in respect of the share options granted by the Group.

(iii) **Restricted Share Award Scheme**

The Company adopted the Restricted Share Award Scheme on 18 December 2008. The objective of the Restricted Share Award Scheme is to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the Restricted Share Award Scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held on trust for the selected employees until such shares are vested with the selected employees. No restricted shares will be granted if the aggregate number of restricted shares awarded throughout the duration of the scheme to be in excess of the 2.5% of the issued share capital of the Company as at the adoption date of the scheme. The maximum number of the restricted shares which may be awarded to a selected employee under the scheme shall not exceed 0.25% of the issued share capital of the Company as at adoption date of the scheme.

As at 31 December 2010, a total of 100,000,000 (2009: 100,000,000) issued shares of approximately HK\$19,465,000 (2009: HK\$19,465,000) shown under shares held for award scheme in the equity. No shares reward were being granted to eligible employees up to the year end date.

### **33. 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. 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. No forfeited contributions were utilised in this manner for both years.

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 end of reporting period, there is no amount of forfeited contributions to reduce 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 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 specified contributions.

### 34. CONTINGENT LIABILITIES

Other than disclosed in Note 30, as at 31 December 2010, the Group has issued guarantees of HK\$50,000 (2009: HK\$606,000) 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 such guarantees.

### 35. OPERATING LEASES

#### The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments in respect of certain properties of the Group:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	717	693
In the second to fifth year inclusive	2,867	2,771
Over five years	<u>5,321</u>	<u>5,836</u>
	<u>8,905</u>	<u>9,300</u>

#### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,415	5,525
In the second to fifth year inclusive	<u>533</u>	<u>2,072</u>
	<u>3,948</u>	<u>7,597</u>



Operating lease payments represent rentals payable by the Group for office and factory premises. Leases are negotiated and rentals are fixed for term ranging from one to three years.

### 36. CAPITAL COMMITMENTS AND OTHER ARRANGEMENTS

	<b>2010</b>	<b>2009</b>
	<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>388,291</u>	<u>247,071</u>
Contracted but not provided for	<u>97,509</u>	<u>68,207</u>

### 37. RELATED PARTY TRANSACTIONS

#### Transactions with related parties

In addition to the related party transactions set out in other notes to the consolidated financial statements, during the year, the Group entered into the following significant transactions with related parties:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to fellow subsidiaries	7,629	2,717
Rental and other charges paid to a fellow subsidiary	2,472	2,329
Commission paid to a subsidiary of a non-controlling shareholder of a subsidiary	—	3,205
Purchases from a fellow subsidiary	14,235	2,434
Supporting and administrative service fee income from a fellow subsidiary (Note)	101,698	88,733
Interest income from a fellow subsidiary	13,518	1,196
Rental income from a fellow subsidiary	666	657
Acquisition of property, plant and equipment from a fellow subsidiary	<u>15,921</u>	<u>—</u>

*Note:*

In 2008, the Group, through a wholly owned subsidiary, entered into an agreement with a fellow subsidiary to provide certain research and development and general administrative supporting services to the fellow subsidiary from 30 April 2008 to 31 December 2010. This subsidiary provides supporting and administrative services to the fellow subsidiary as well as other group entities. Pursuant to the agreement, the Group will charge the fellow subsidiary service fee income based on an agreed portion of the actual costs incurred by the Group.

**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 Chinese Mainland. 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 Chinese Mainland government in the ordinary course of business. The directors consider those entities other than the 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, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has entered into various transactions, including sales, purchases, borrowings and other operating expenses with other state-controlled entities which are considered as individually insignificant during the year.

**Key management compensation**

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	<u>7,951</u>	<u>3,468</u>

The remunerations of the Group's key management personnel include those of the executive directors of the Company only, which are determined with reference to the terms of remuneration committee, are disclosed in Note 13.

**38. GOVERNMENT GRANTS**

Government grants liability of HK\$277,187,000 (2009: HK\$167,613,000) represent subsidies granted by PRC governmental authorities for the purpose of financing (i) the purchases of machinery and equipment of HK\$239,318,000 (2009: HK\$148,240,000) and (ii) relevant expenses for the development and production of new products of HK\$37,869,000 (2009: HK\$19,373,000). The amounts of HK\$38,734,000 and HK\$26,583,000 (2009: HK\$59,172,000 and HK\$16,525,000) received are repayable if the production facilities do not meet the standard specified in the grants or the production volume of the new products do not exceed the specified volume required in the grants.

The government grants are recognised in the consolidated statement of comprehensive income as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Other income (Note 9)	12,285	14,498
Reduction of cost of sales (Note 2)	20,527	13,390
Reduction of research and development expenses (Note 2)	<u>7,556</u>	<u>8,091</u>
	<u>40,365</u>	<u>35,979</u>

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership interest held by the Group		Principal activities
			2010 %	2009 %	
華潤半導體國際有限公司 China Resources Semiconductor International Limited	Hong Kong	Ordinary HK\$1	100	100	Design and sales of integrated circuit
# 華潤半導體(深圳)有限公司 China Resources Semiconductor (Shenzhen) Limited	Mainland China	US\$1,800,000	100	100	Design of wafer
# 華潤賽美科微電子(深圳) 有限公司 China Resources Semicon Microelectronics (ShenZhen) Co., Ltd.	Mainland China	US\$10,000,000	100	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	100	Manufacture and sales of integrated circuit, packaging and testing of integrated circuit, investment holding

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership interest held by the Group		Principal activities
			2010 %	2009 %	
#無錫華潤矽科微電子有限公司 Wuxi China Resources Semico Co., Ltd	Mainland China	RMB65,000,000	91.76	91.76	Design, testing and sale of integrated circuit products and chips
@華潤矽威科技(上海)有限公司 CR PowTech (Shanghai) Ltd	Mainland China	US\$3,000,000	95.83	95.83	Design and sale of integrated circuit
@無錫華潤華晶微電子有限公司 Wuxi China Resources Huajing Microelectronics Co., Ltd	Mainland China	RMB335,000,000	99.662	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	RMB330,000,000	100	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	RMB320,000,000	75	75	Testing and packaging of wafers
#無錫華潤上華半導體有限公司 CSMC Technologies Fab 1 Co., Ltd	Mainland China	US\$109,844,153	100	100	Manufacture and sale of integrated circuit and related products

None of the subsidiaries had any debt securities outstanding at 31 December 2010 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

Set out below are the consolidated statement of comprehensive income of the CRM Group for the six months ended 30 June 2010 and 2011 and the consolidated statement of financial position as at 31 December 2010 and 30 June 2011 together with the relevant notes thereto as extracted from CRM's unaudited consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, as set out in CRM's interim report for the six months ended 30 June 2011.

The CRM Group has no exceptional or extraordinary items during the six months ended 30 June 2010 and 2011 and there is no requirement under the Hong Kong Financial Reporting Standards to present negative statements in the unaudited consolidated financial statements. During the six months ended 30 June 2010 and 2011, CRM did not declare interim dividends.

### Consolidated Statement of Comprehensive Income

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2011</b>	<b>2010</b>
		<i>(unaudited)</i>	<i>(unaudited)</i>
		<i>HK\$'000</i>	<i>(restated)</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		1,878,303	1,854,266
Cost of sales		<u>(1,491,405)</u>	<u>(1,378,332)</u>
Gross profit		386,898	475,934
Other income/gains and losses		65,352	91,666
Selling and distribution expenses		(50,944)	(48,009)
Administrative expenses		(185,992)	(177,072)
Research and development expenses		(104,969)	(117,815)
Other operating expenses		(40,266)	(52,458)
Finance costs		<u>(8,676)</u>	<u>(10,775)</u>
Profit before taxation		61,403	161,471
Taxation	6	<u>(13,660)</u>	<u>(31,102)</u>
Profit for the period	7	<u>47,743</u>	<u>130,369</u>
<b>Other comprehensive income</b>			
Exchange differences arising on translation		<u>99,115</u>	<u>37,665</u>
Total comprehensive income for the period		<u>146,858</u>	<u>168,034</u>

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		<b>Six months ended 30 June</b>	
		<b>2011</b>	<b>2010</b>
		<i>(unaudited)</i>	<i>(unaudited)</i>
			<i>(restated)</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		45,075	125,687
Non-controlling interests		<u>2,668</u>	<u>4,682</u>
		<u>47,743</u>	<u>130,369</u>
Total comprehensive income attributable to:			
Owners of the Company		141,997	162,420
Non-controlling interests		<u>4,861</u>	<u>5,614</u>
		<u>146,858</u>	<u>168,034</u>
		<i>HK Cents</i>	<i>HK Cents</i>
Earnings per share	9		
Basic		<u>0.52</u>	<u>1.45</u>
Diluted		<u>0.52</u>	<u>1.45</u>

## Condensed Consolidated Statement of Financial Position

		As at 30 June 2011 <i>(unaudited)</i> HK\$'000	As at 31 December 2010 <i>(audited)</i> HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	10	3,185,366	3,138,849
Prepaid lease payments		171,754	169,515
Available-for-sale investment		595,996	573,141
Loans receivable	11	479,896	284,729
Derivative financial asset		1,513	1,513
Goodwill		21,024	21,024
Technical know-how		19,576	19,415
Deferred tax assets		52,793	47,910
Deposit for acquisition of property, plant and equipment		<u>14,757</u>	<u>15,225</u>
		<u>4,542,675</u>	<u>4,271,321</u>
<b>Current assets</b>			
Inventories		818,606	730,170
Debtors, deposits and prepayments	12	1,257,556	1,231,526
Prepaid lease payments		4,466	4,335
Tax recoverable		621	—
Restricted bank deposits		4,736	13,577
Bank balances and cash		<u>550,836</u>	<u>1,271,969</u>
		<u>2,636,821</u>	<u>3,251,577</u>
<b>Current liabilities</b>			
Creditors and accrued charges	13	1,392,271	1,676,437
Government grants		46,614	29,545
Bank borrowings	14	1,312,500	853,812
Provisions		23,437	22,878
Taxation		<u>12,752</u>	<u>9,025</u>
		<u>2,787,574</u>	<u>2,591,697</u>
<b>Net current (liabilities) assets</b>		<u>(150,753)</u>	<u>659,880</u>
<b>Total assets less current liabilities</b>		<u>4,391,922</u>	<u>4,931,201</u>

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		<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
		<i>(unaudited)</i>	<i>(audited)</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	15	878,965	878,955
Share premium and reserves		<u>2,849,560</u>	<u>2,751,513</u>
Equity attributable to owners of the Company		3,728,525	3,630,468
Non-controlling interests		<u>103,240</u>	<u>98,379</u>
<b>Total equity</b>		<u>3,831,765</u>	<u>3,728,847</u>
<b>Non-current liabilities</b>			
Bank borrowings	14	300,000	950,000
Deferred tax liabilities		4,712	4,712
Government grants		<u>255,445</u>	<u>247,642</u>
		<u>560,157</u>	<u>1,202,354</u>
		<u>4,391,922</u>	<u>4,931,201</u>



## Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital	Share premium	Merger reserve	Translation reserve	Share option reserve	Other reserves	Shares held for share award scheme	Retained profits	Total	Non-controlling 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 a)		(Note b)					
At 1 January 2011 (audited)	878,955	2,325,151	(639,277)	728,895	2,101	202,553	(19,465)	151,555	3,630,468	98,379	3,728,847
Exchange differences	—	—	—	96,922	—	—	—	—	96,922	2,193	99,115
Profit for the period	—	—	—	—	—	—	—	45,075	45,075	2,668	47,743
Total comprehensive income for the period	—	—	—	96,922	—	—	—	45,075	141,997	4,861	146,858
Dividend recognised as distribution (note 8)	—	—	—	—	—	—	—	(43,948)	(43,948)	—	(43,948)
Transfer between categories	—	—	—	—	—	14,338	—	(14,338)	—	—	—
Shares issued upon exercise of options under Equity Incentive Plan	10	37	—	—	(39)	—	—	—	8	—	8
At 30 June 2011 (unaudited)	878,965	2,325,188	(639,277)	825,817	2,062	216,891	(19,465)	138,344	3,728,525	103,240	3,831,765
At 1 January 2010 (audited)	878,940	2,325,097	(639,277)	603,611	2,065	164,543	(19,465)	(82,799)	3,232,715	88,158	3,320,873
Exchange differences	—	—	—	36,733	—	—	—	—	36,733	932	37,665
Profit for the period	—	—	—	—	—	—	—	125,687	125,687	4,682	130,369
Total comprehensive income for the period	—	—	—	36,733	—	—	—	125,687	162,420	5,614	168,034
Transfer between categories	—	—	—	—	—	13,213	—	(13,213)	—	—	—
Shares issued upon exercise of options under Equity Incentive Plan	10	35	—	—	(37)	—	—	—	8	—	8
Recognition of equity-settled share-based payments	—	—	—	—	46	—	—	—	46	—	46
At 30 June 2010 (unaudited)	878,950	2,325,132	(639,277)	640,344	2,074	177,756	(19,465)	29,675	3,395,189	93,772	3,488,961

*Notes:*

- (a) The exchange differences arose from translation of assets and liabilities of foreign operations and respective group entities' functional currencies into the presentation currency.
  
- (b) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in the People's Republic of China ("Mainland China") and deemed distribution to and capital contribution by China Resources Gas Group Limited. General reserve was appropriated each year on the basis of 5% to 10% of the profit after taxation of certain subsidiaries as determined by their board of directors in accordance with the Articles of Association of the subsidiaries. This reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

## Condensed Consolidated Statement of Cash Flows

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating activities</b>		
Profit before taxation	61,403	161,471
Adjustments for:		
Depreciation of property, plant and equipment	269,841	264,188
Impairment loss on property plant and equipment	17,646	—
Loss on disposal of property, plant and equipment	4,462	28,156
Increase in inventories	(95,711)	(67,146)
Increase in debtors, deposits and prepayments	(36,051)	(57,324)
(Decrease) increase in creditors and accrued charges	(170,358)	243,892
Government grants received	33,727	9,983
Profits tax paid	(14,405)	(35,742)
Other operating cash flows (net)	<u>(15,559)</u>	<u>(12,083)</u>
<b>Net cash from operating activities</b>	<u>54,995</u>	<u>535,395</u>
<b>Investing activities</b>		
Payments and deposits for acquisition of property, plant and equipment	(375,728)	(156,480)
Payments for development of technical know-how	(1,712)	(16,401)
Proceeds on disposal of property, plant and equipment	6,429	9,419
Loan advanced to an available-for-sale investee	(208,255)	(91,542)
Decrease (increase) in restricted bank deposits	8,841	(183,635)
Government grants received	10,199	29,589
Other investing cash flows (net)	<u>16,142</u>	<u>(3,274)</u>
<b>Net cash used in investing activities</b>	<u>(544,084)</u>	<u>(412,324)</u>

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	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financing activities</b>		
New bank borrowings raised	27,439	510,808
Repayments of borrowings	(218,751)	(465,522)
Interest paid	(9,743)	(13,511)
Dividends paid	(43,948)	—
Other financing cash flows (net)	<u>(1,634)</u>	<u>2,283</u>
<b>Net cash (used in) from financing activities</b>	<u>(246,637)</u>	<u>34,058</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(735,726)	157,129
<b>Cash and cash equivalents at beginning of the period</b>	1,271,969	1,221,089
Effect of foreign exchange rate changes	<u>14,593</u>	<u>3,579</u>
<b>Cash and cash equivalents at end of the period representing bank balances and cash</b>	<u><u>550,836</u></u>	<u><u>1,381,797</u></u>

**Notes to the Consolidated Financial Statements  
For the six months ended 30 June 2011****1. GENERAL**

The Company is a company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s parent company is Gold Touch Enterprises Inc., a company incorporated in the British Virgins Islands and its ultimate holding company is China Resources National Corporation (“CRNC”), a company established in the People’s Republic of China.

**2. 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”).

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities of HK\$150,753,000. The condensed consolidated financial statements have been prepared on a going concern basis because an intermediate holding company has stated that it will give financial support to the Group as necessary to enable the Group to continue business as a going concern for twelve months from 30 June 2011.

**3. COMPARATIVE FIGURES**

Prior to 2010, the Group presented the government grants as other income in the consolidated statement of comprehensive income. During the year ended 31 December 2010, the management changed the presentation of the government grants relating to the expenses as a deduction of the related items for which they are intended to compensate.

Accordingly, amounts recognised in profit or loss in respect of government grants included in other income/gains and losses for the six months ended 30 June 2010 have been reclassified to ensure comparability and consistency of presentation.

The effects of changes in accounting policies described above on the results for the current period and prior period by line items are as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in cost of sales	9,496	6,215
Decrease in other income/gains and losses	(25,257)	(8,154)
Decrease in research and development expenses	<u>15,761</u>	<u>1,939</u>
	<u>          </u>	<u>          </u>

#### 4. 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except for those described below.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKASs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosure (except for paragraphs 25 to 27, which were early adopted by the Group in 2010)
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs has had no material effect on amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

The Group has not early applied new and revised standards that have been issued but are not yet effective. The following new or revised standards and amendments have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
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HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

The five new or revised standards on consolidation, joint arrangements and disclosures, namely HKAS 27, HKAS 28, HKFRS 10, HKFRS 11, HKFRS 12, were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Early application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidation financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidation and Separate Financial Statements* that deal with consolidation financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements; (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Other than disclosed above, the directors of the Company anticipate that the application of these new or revised standards and amendments will have no material impact on the results and the financial position of the Group.

## 5. SEGMENT INFORMATION

The Group is organised into five operating divisions according to the nature of the products or services. The Group determines its operating segments based on these five operating divisions by reference to the products or services, for the purpose of reporting to the chief operating decision maker (the Executive Committee of the Company).

The Group's operating segments are as follows:

- Open Foundry

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

The operating 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, BCDMOS 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



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Information of these segments are reported below:

*Six months ended 30 June 2011*

	<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>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover from external customers	552,021	306,076	429,235	552,421	38,550	1,878,303
Intersegment turnover	<u>90,847</u>	<u>2,078</u>	<u>22,560</u>	<u>8,296</u>	<u>188,642</u>	<u>312,423</u>
Segment turnover	642,868	308,154	451,795	560,717	227,192	2,190,726
Segment profit	16,122	3,600	11,876	52,527	228	84,353
<i>Included in measure of segment profit:</i>						
Impairment loss of property, plant and equipment	10,248	1,393	993	4,658	354	17,646
Interest income	8,927	183	470	7	5,315	14,902
Finance costs	500	—	—	—	225	725
Depreciation and amortisation	<u>122,123</u>	<u>7,408</u>	<u>54,903</u>	<u>52,627</u>	<u>34,929</u>	<u>271,990</u>

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	<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>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
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
<i>Included in measure of segment profit:</i>						
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>

(a) Segment profit is profit before taxation, excluding unallocated interest income, 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

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

<b>Turnover</b>	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Segment turnover	2,190,726	2,152,572
Elimination of intersegment turnover	<u>(312,423)</u>	<u>(298,306)</u>
Turnover per condensed consolidated statement of comprehensive income	<u>1,878,303</u>	<u>1,854,266</u>

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

<b>Profit or loss</b>	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Segment profit	84,353	180,190
Unallocated amounts:		
Unallocated interest income	1,160	504
Unallocated corporate finance costs	(7,951)	(7,273)
Unallocated corporate expenses	<u>(16,159)</u>	<u>(11,950)</u>
Profit before taxation per condensed consolidated statement of comprehensive income	<u>61,403</u>	<u>161,471</u>

**6. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax		
Mainland China	17,655	36,679
Hong Kong	—	103
(Over) under provision in prior year	<u>(144)</u>	<u>1,316</u>
Deferred tax	<u>17,511</u>	<u>38,098</u>
	<u>(3,851)</u>	<u>(6,996)</u>
	<u>13,660</u>	<u>31,102</u>

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit for the period has been arrived at after charging (crediting):		
Amortisation of technical know-how (included in administrative expense)	1,551	412
Amortisation of prepaid lease payments	2,233	2,119
Allowance for doubtful debts	3,978	295
Depreciation of property, plant and equipment	269,841	264,188
Government grants		
- Included in other income/gains and losses	(545)	(9,728)
- Included in cost of sales	(9,496)	(6,215)
- Included in research and development expenses	(15,761)	(1,939)
Impairment loss on property, plant and equipment (included in other operating expenses) (Note)	17,646	—
Interest expenses on borrowings wholly repayable within five years	8,676	10,775
Interest income on bank deposits	(7,418)	(7,295)
Interest income on loan to a fellow subsidiary	(8,644)	(6,034)
Loss on disposal of property, plant and equipment	4,462	28,156
Write off of inventories (included in other operating expenses)	<u>9,329</u>	<u>6,607</u>

*Note:* During the current period, an impairment loss of HK\$17,646,000 was made to fully write off certain plant and machinery. Due to change in technology, the Group plans to modernise its production facilities. Certain items of plant and equipment were identified as obsolete and fully impaired in current period.

## 8. DIVIDEND

Final dividend of 0.5 HK cent per share totalling HK\$43,948,000 for the year ended 31 December 2010 was declared and paid during the interim period. No dividend was paid during the six months ended 30 June 2010. The directors do not recommend the payment of an interim dividend for the year ending 31 December 2011.

**9. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
<i>Earnings:</i>		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>45,075</u>	<u>125,687</u>
<i>Number of shares:</i>		
Weighted average number of shares for the purpose of basic earnings per share	8,689,623,813	8,689,449,836
Effect of dilutive potential shares:		
Share options - Equity Incentive Plan	1,327,885	1,443,023
Share options - Share Option Scheme	<u>1,500,914</u>	<u>404,192</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>8,692,452,612</u>	<u>8,691,297,051</u>

The weighted average number of shares shown above has been arrived at after deducting 100,000,000 shares (2010: 100,000,000) held by share award scheme trust under the Restricted Share Award Scheme and accounted for by the Group as treasury shares held by the Group.

**10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2011, the Group spent HK\$271,696,000 (2010: HK\$175,600,000) on additions to machinery and equipment and construction in progress.

**11. LOANS RECEIVABLE**

The amount mainly represents loans receivable from CSMC Asia Limited ("CSMC Asia"), an available-for-sale investee, also a fellow subsidiary of the Group.

During the current period, a subsidiary of the Company and China Resources (Holdings) Company Limited (“CRH”), an intermediate holding company of the Company, as lenders and CSMC Asia as borrower entered into a new shareholders’ loans agreement pursuant to which the lenders agreed to provide shareholders’ loans in the aggregate amount of US\$140,000,000 to CSMC Asia on a pro rata basis according to their respective shareholdings. As such, the subsidiary of the Company provides 19% or US\$26,600,000 (equivalent to HK\$206,982,000) and the subsidiary of CRH provides 81% or US\$113,400,000 (equivalent to HK\$882,398,000).

The loans are unsecured, interest bearing at LIBOR plus 1% and repayable at a fixed maturity of 3 years. The fair value on initial recognition has been determined based on an effective interest rate of 5% per annum and the fair value adjustment of HK\$19,840,000 was adjusted to the cost of the available-for-sale investment.

## 12. 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 at the end of the reporting period, is as follows:

	<b>30 June 2011</b>	<b>31 December 2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
0 - 60 days	788,374	621,497
61 - 90 days	102,224	108,783
91 - 180 days	141,458	293,858
Over 180 days	<u>6,000</u>	<u>12,327</u>
	<u>1,038,056</u>	<u>1,036,465</u>

Included in the Group’s debtors are receivables of HK\$42,242,000 (31 December 2010: HK\$48,889,000) 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.

**13. 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 2011</b>	<b>31 December 2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
0 - 60 days	708,288	677,669
61 - 90 days	125,134	192,843
91 - 180 days	126,274	254,562
Over 180 days	<u>17,907</u>	<u>19,897</u>
	<u>977,603</u>	<u>1,144,971</u>

Included in the Group's creditors are payables of HK\$1,285,000 and HK\$20,085,000 (31 December 2010: HK\$134,124,000 and HK\$21,727,000) due to a subsidiary 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.

**14. BANK BORROWINGS**

During the period, the Group raised short-term loan in the amount of HK\$27,439,000. The proceeds were used to meet short-term expenditures need. Repayment of bank loans amounting to HK\$218,751,000 were made in line with the relevant repayment terms.

## 15. SHARE CAPITAL

	Number of shares	Nominal value of shares <i>HK\$'000</i>
Shares of HK\$0.10 each		
Authorised:		
At 1 January, 31 December 2010 and 30 June 2011	<u>20,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2010	8,789,401,958	878,940
Shares issued under Equity Incentive Plan	<u>150,750</u>	<u>15</u>
At 31 December 2010	8,789,552,708	878,955
Shares issued under Equity Incentive Plan	<u>99,000</u>	<u>10</u>
At 30 June 2011	<u>8,789,651,708</u>	<u>878,965</u>

During the period, 99,000 shares were issued upon exercise of options under Equity Incentive Plan at HK\$0.078 per share.

## 16. CAPITAL COMMITMENTS

	30 June 2011 <i>HK\$'000</i> <i>(unaudited)</i>	31 December 2010 <i>HK\$'000</i> <i>(audited)</i>
Capital expenditure in respect of acquisition of property, plant and equipment		
Authorised but not contracted for	<u>487,262</u>	<u>388,291</u>
Contracted but not provided for	<u>243,647</u>	<u>97,509</u>



**17. RELATED PARTY TRANSACTIONS****Transactions with related parties**

In addition to the related party transactions set out in other notes to the condensed consolidated financial statements, during the period, the Group entered into the following significant transactions with related parties:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales to fellow subsidiaries	4,106	2,920
Rental and other charges paid to a fellow subsidiary	901	1,236
Purchases from a fellow subsidiary	12,033	4,701
Supporting and administrative service fee income from a fellow subsidiary included in other income (note)	45,982	49,944
Interest expense paid to a fellow subsidiary	225	109
Interest income from a fellow subsidiary	8,644	6,034
Rental income from a fellow subsidiary	287	329
Acquisition of property, plant and equipment from a fellow subsidiary	<u>5,374</u>	<u>9,072</u>

*Note:* The Group charges the fellow subsidiary service fee based on the actual costs of the relevant research and development and general administrative expenses incurred by the Group.

**Transactions/balances with other state-controlled entities**

The Group itself is part of a larger group of companies under CRNC (CRNC and its subsidiaries are referred to as the “CRNC Group”) which is controlled by the government of Mainland China. The directors consider that the Company is ultimately controlled by the government of Mainland China and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the Chinese Mainland government (“PRC government-related entities”). Apart from the transactions with the CRNC Group which have been disclosed above and in other notes to the condensed consolidated financial statements, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business.

The Group has entered into various transactions, including sales, purchases and other operating expenses with other government-related entities. In the opinion of the directors, the transactions are considered as individually and collectively insignificant to the operation of the Group during the period.

**18. EVENT AFTER THE END OF THE INTERIM PERIOD**

On 30 June 2011, the Company announced that the board of directors of the Company received notification from CRH, an intermediate holding company of the Company, on 28 June 2011 that it is considering placing a privatisation proposal before the Company's shareholders. If such privatisation proposal is put forward, the shareholders of the Company, other than CRH and members of its group ("Other Shareholders"), will be offered a cash consideration for their shares of not less than HK\$0.48 per share and be offered the opportunity to retain a direct or indirect investment in the Company (through retaining shares in the Company or CRH (Microelectronics) Limited, its immediate holding company, both of which will be unlisted companies on the implementation of the privatisation proposal). On the implementation of the privatisation proposal, application will be made for the withdrawal of the listing of the Company's shares on the Stock Exchange.

On 18 July, 2011, CRH through its wholly-owned subsidiary, CRH (Microelectronics) Limited, requested the board of directors of the Company to put forward to the Other Shareholders of the Company the privatisation proposal which, if implemented, will result in the Company becoming a wholly-owned subsidiary of CRH (Microelectronics) Limited. The proposal will be implemented by way of a scheme of arrangement under section 86 of the Companies Law of the Cayman Islands. The board of directors of the Company agreed to put forward the privatisation proposal as it considered the proposal to be appropriate for consideration by the public shareholders of the Company.

Under the scheme of arrangement, the Other Shareholders will receive from CRH (Microelectronics) Limited in consideration for the cancellation of their shares either a cash of HK\$0.48 for every share held ("Cash Alternative") or one new share in CRH (Microelectronics) Limited for every share held ("Share Alternative").

CRH will undertake to elect the Share Alternative only and Other Shareholders of the Company may elect either the Cash Alternative or the Share Alternative or a combination of both.

An independent board committee of the Company has been formed comprising one non-executive director and all three independent non-executive directors to advise shareholders. A composite document will be despatched to the shareholders as soon as practicable. Further details of the privatisation proposal are contained in the announcements of the Company dated 30 June 2011 and 18 July 2011.

The privatisation proposal, if implemented, will result in the cessation of listing of the shares of the Company on the Stock Exchange, which constitutes an event of default as set out in the respective banking facility agreements. In connection with this, the directors of Company have informed the banks about the privatisation proposal and are currently negotiating with the banks to revise the terms of the respective banking facility agreements. Up to the date of this report, the negotiations are still in progress.

**III. SHARE CAPITAL**

As at the Latest Practicable Date, the authorised share capital of CRM was HK\$2,000,000,000 divided into 20,000,000,000 Shares, of which HK\$878,965,170.8 divided into 8,789,651,708 Shares had been issued and were fully paid up. 99,000 Shares have been issued since 31 December 2010, being the end of the last financial year of CRM, and up to the Latest Practicable Date. All of the Shares currently in issue rank pari passu in all respects with each other, including the rights in respect of capital, dividends and voting.

As at the Latest Practicable Date, other than the Options, there were no outstanding options, warrants, derivatives or convertible securities issued by CRM.

**IV. MATERIAL CHANGES SINCE 31 DECEMBER 2010**

During the six months ended 30 June 2011, the CRM Group's turnover continued the growth momentum in 2010 on the back of recovery in the semiconductor industry since the second quarter of 2009. The rebound market demand fuelled by the stable growth in the Chinese economy kept driving the CRM Group to maintain its growth in turnover. However, except for the huge earthquake in Japan hitting the semiconductor industry in both of end-product manufacturing and raw material supply, several economic uncertainties such as inflation threats, increasing costs on raw wafer, electricity, gold and copper as well as local labor costs effected the industry's overall performance in 2011. In addition, CSMC Technologies Fab 2 Co., Ltd, the CRM Group's available-for-sale investment, had finished its phase one construction and capacity installation.

Save as the above, the Directors confirm that there are no material changes in the financial or trading position or outlook of the CRM Group since 31 December 2010, being the date to which the latest published audited financial statements of the CRM Group were made of.

**V. INDEBTEDNESS STATEMENT**

At the close of business on 30 June 2011, the CRM Group had unsecured bank borrowings of approximately HK\$1,612.5 million, among which bank borrowing of HK\$812.5 million is guaranteed by CRH. In addition, the Group had outstanding at that date unsecured other long-term payable of approximately HK\$18 million which was secured by a bank deposit.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the CRM Group did not have outstanding at the close of business on 30 June 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Amounts in foreign currency have, for the purpose of this statement of indebtedness, been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 June 2011.

## I. FINANCIAL INFORMATION

Set out below are the consolidated statement of comprehensive income of CSMC Asia and its subsidiaries for each of the two years ended 31 December 2009 and 2010 and the consolidated statement of financial position as at 31 December 2009 and 2010 as extracted from CSMC Asia's audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Hong Kong Companies Ordinance, as set out in CSMC Asia's audited financial statements for the year ended 31 December 2010. The auditor's report from Deloitte Touche Tohmatsu did not contain any qualifications.

**Consolidated Statement of Comprehensive Income**

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	8	340,151	47,165
Cost of sales		<u>(478,452)</u>	<u>(93,511)</u>
Gross loss		(138,301)	(46,346)
Other income/gains	9	29,631	7,801
Selling and distribution expenses		(20,890)	(11,810)
Administrative expenses		(105,832)	(90,049)
Research and development expenses		(240,404)	(249,701)
Other operating expenses		(61,366)	(23,069)
Impairment loss on property, plant and equipment	13	—	(1,470,000)
Finance costs	10	<u>(129,132)</u>	<u>(76,948)</u>
Loss before taxation		(666,294)	(1,960,122)
Taxation	11	<u>—</u>	<u>—</u>
Loss for the year	12	<u>(666,294)</u>	<u>(1,960,122)</u>
<b>Other comprehensive income (expense)</b>			
Exchange differences arising on translation		<u>68,071</u>	<u>(652)</u>
Total comprehensive expense for the year		<u>(598,223)</u>	<u>(1,960,774)</u>

## Consolidated Statement of Financial Position

	<i>Notes</i>	<b>As at 31 December</b>	
		<b>2010</b>	<b>2009</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	13	4,439,182	3,815,395
Prepaid lease payments	14	4,581	4,536
Technical know-how	15	70,397	—
Deposits for acquisition of property, plant and equipment and technical know-how	18	<u>5,449</u>	<u>118,355</u>
		<u>4,519,609</u>	<u>3,938,286</u>
<b>Current assets</b>			
Inventories	19	196,669	76,543
Debtors, deposits and prepayments	20	253,613	73,585
Prepaid lease payments	14	113	109
Amounts due from fellow subsidiaries	23	21,006	9,266
Restricted bank deposits	21	587	14,099
Bank balances and cash	21	<u>31,969</u>	<u>85,468</u>
		<u>503,957</u>	<u>259,070</u>
<b>Current liabilities</b>			
Creditors and other payables	22	385,386	181,745
Amounts due to fellow subsidiaries	23	302	13,069
Bank borrowings	24	469,685	90,859
Government grants	25	<u>3,635</u>	<u>—</u>
		<u>859,008</u>	<u>285,673</u>
<b>Net current liabilities</b>		<u>(355,051)</u>	<u>(26,603)</u>
		<u><u>4,164,558</u></u>	<u><u>3,911,683</u></u>

**APPENDIX II****FINANCIAL INFORMATION ON CSMC ASIA**

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2010</b>	<b>2009</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	26	—	—
Share premium and reserves		<u>(1,793,756)</u>	<u>(1,450,954)</u>
<b>Total equity</b>		<u>(1,793,756)</u>	<u>(1,450,954)</u>
<b>Non-current liabilities</b>			
Loans from immediate holding company and a shareholder	28	5,166,344	4,673,556
Bank borrowings	24	470,072	454,296
Government grants	25	<u>321,898</u>	<u>234,785</u>
		<u>5,958,314</u>	<u>5,362,637</u>
		<u>4,164,558</u>	<u>3,911,683</u>

## Company Statement of Financial Position

	Notes	As at 31 December	
		2010 HK\$'000	2009 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	16	—	—
Technical know-how	15	70,397	—
Amounts due from subsidiaries	17	3,864,461	3,381,849
Deposit for acquisition of property, plant and equipment and technical know-how	18	—	77,502
		<u>3,934,858</u>	<u>3,459,351</u>
<b>Current assets</b>			
Inventories	19	419	—
Debtors	20	72,032	8,785
Bank balances and cash	21	4,838	3,090
		<u>77,289</u>	<u>11,875</u>
<b>Current liabilities</b>			
Other payable		1,735	1,044
Amount due to a subsidiary	17	86,406	11,010
		<u>88,141</u>	<u>12,054</u>
<b>Net current liabilities</b>		<u>(10,852)</u>	<u>(179)</u>
		<u>3,924,006</u>	<u>3,459,172</u>
<b>Capital and reserves</b>			
Share capital	26	—	—
Reserves	27	(1,242,338)	(1,214,384)
		<u>(1,242,338)</u>	<u>(1,214,384)</u>
<b>Non-current liabilities</b>			
Loans from immediate holding company and a shareholder	28	5,166,344	4,673,556
		<u>3,924,006</u>	<u>3,459,172</u>



## Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i> <i>(Note a)</i>	Capital reserve <i>HK\$'000</i> <i>(Note b)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2009	—	86,750	338,128	(228,536)	196,342
Exchange differences	—	(652)	—	—	(652)
Loss for the year	—	—	—	(1,960,122)	(1,960,122)
Total comprehensive expense for the year	—	(652)	—	(1,960,122)	(1,960,774)
Fair value adjustment on non-current loans from immediate holding company and a shareholder	—	—	313,478	—	313,478
At 31 December 2009	—	86,098	651,606	(2,188,658)	(1,450,954)
Exchange differences	—	68,071	—	—	68,071
Loss for the year	—	—	—	(666,294)	(666,294)
Total comprehensive income (expense) for the year	—	68,071	—	(666,294)	(598,223)
Fair value adjustment on non-current loans from immediate holding company and a shareholder	—	—	255,421	—	255,421
At 31 December 2010	—	154,169	907,027	(2,854,952)	(1,793,756)

## Notes:

- (a) The exchange differences arose from translation of the assets and liabilities of group entities' functional currency into the presentation currency.
- (b) Capital reserve represents the fair value adjustments at initial recognition of non-current interest free loans and lower than market interest rate loans from immediate holding company and a shareholder.

## Consolidated Statement of Cash Flows

	Year ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Loss before taxation	(666,294)	(1,960,122)
Adjustments for:		
Depreciation of property, plant and equipment	223,001	156,496
Impairment loss on property, plant and equipment	—	1,470,000
Write off of inventories	53,058	21,248
Allowance for doubtful debts	9,244	—
Finance costs	129,132	76,948
Interest income	(419)	(1,154)
Government grants recognised	(13,413)	(3,757)
Amortisation of technical know-how	7,105	—
Amortisation of prepaid lease payments	113	109
Operating cash flows before movements in working capital	(258,473)	(240,232)
Government grants received	1,387	3,757
Increase in inventories	(173,895)	(59,050)
Increase in debtors, deposits and prepayments	(189,272)	(51,289)
Increase in creditors and other payables	192,585	7,579
<b>Net cash used in operating activities</b>	<b>(427,668)</b>	<b>(339,235)</b>
<b>Investing activities</b>		
Government grants received	92,465	87,234
Payments and deposits for acquisition of property, plant and equipment and technical know-how	(488,163)	(1,022,757)
Proceeds on disposal of property, plant and equipment	35	58
(Advance to) repayment from fellow subsidiaries	(11,740)	7,586
Interest income received	419	1,154
Decrease (increase) in restricted bank deposits	13,512	(11,624)
<b>Net cash used in investing activities</b>	<b>(393,472)</b>	<b>(938,349)</b>

	Year ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
<b>Financing activities</b>		
New bank loan raised	631,382	545,155
Repayment of bank loan	(263,171)	(382,755)
Advance from immediate holding company and a shareholder	469,635	1,093,793
(Repayment to) advance from fellow subsidiaries	(12,767)	6,554
Interest paid	<u>(58,333)</u>	<u>(45,105)</u>
<b>Net cash from financing activities</b>	<u>766,746</u>	<u>1,217,642</u>
<b>Net decrease in cash and cash equivalents</b>	(54,394)	(59,942)
<b>Cash and cash equivalents at 1 January,</b>	85,468	146,866
Effect of foreign exchange rate changes	<u>895</u>	<u>(1,456)</u>
<b>Cash and cash equivalents at 31 December, representing bank balances and cash</b>	<u><u>31,969</u></u>	<u><u>85,468</u></u>

**Notes to the Consolidated Financial Statements****For the year ended 31 December 2010****1. GENERAL**

The Company is a private limited company incorporated in Hong Kong. The Company's parent is Joyous China Investment Limited ("Joyous China") and incorporated in the British Virgin Islands ("BVI"). Its ultimate holding company is China Resources National Corporation ("CRNC"), a company established in the People's Republic of China ("Mainland China").

The addresses of the registered office and principal place of business of the Company is Room 510, 5th Floor, IC Development Centre, 6 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 16.

The functional currency of the Company is Renminbi and the presentation currency of the financial statements is Hong Kong dollar as the directors consider that Hong Kong dollar is preferable in presenting the operating results and financial position of the Group.

**2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been prepared on a going concern basis because China Resources (Holdings) Company Limited ("CRH"), an intermediate holding company, has stated that it will give financial support to the Group as necessary to enable the Group to continue business as a going concern for twelve months from 31 December 2010.

**3. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied, for the first time, a number of new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 24 (Revised)	Related Party Disclosures — Paragraph 25 to 27
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008

HK(IFRIC) - Int 17

Distributions of Non-cash Assets to Owners

HK — Int 5

Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in the consolidated financial statements.

**Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK — Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (‘repayment on demand clause’) should be classified by the borrower as current liabilities. The Group and the Company have applied HK — Int 5 for the first time in the current year and requires retrospective application.

Since the Group and the Company do not have any loans that contain a repayment on demand clause as at 31 December 2010, 31 December 2009 and 1 January 2009, the application of HK — Int 5 has had no impact on the consolidated financial statements.

**Amendments to HKAS 17 Leases**

As part of “Improvements to HKFRSs” issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The adoption of amendment to HKAS 17 “Leases” had no material impact on the consolidated financial statements.

**HKAS 24 (Revised) Related Party Disclosures**

Paragraphs 25 to 27 of HKAS 24 (Revised) “Related party disclosure” exempt certain disclosures in relation to the government-related entities. The Group has early applied this disclosure exemption in the consolidated financial statements.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKASs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7	Disclosures — Transfers of Financial Assets <sup>4</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HKFRS 10	Consolidated Financial Statements <sup>5</sup>
HKFRS 11	Joint Arrangements <sup>5</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>5</sup>
HKFRS 13	Fair Value Measurement <sup>5</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>8</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>6</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>5</sup>
HKAS 24 (Revised 2009)	Related Party Disclosures <sup>7</sup> (except for paragraphs 25 to 27)
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>5</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Venture <sup>5</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>2</sup>
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>7</sup>
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>8</sup> Effective for annual periods beginning on or after 1 July 2012

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would

create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the consolidated financial statements for financial year ending 31 December 2013. In the opinion of the directors, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Other than disclosed above, the directors of the Company anticipate that the application of other new or revised Standards and Amendments and Interpretations will have no material impact on the results and the financial positions of the Group and the Company.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 (except for those regarded as continuing entities which are accounted for using merger accounting as a combination of entities under common control) or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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 other members of the Group.

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

**Business Combination***Merger accounting for business combination involving entities under common control*

In applying merger accounting, financial statements items of the combining entities or businesses are presented as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial information are presented as if the entities or businesses had been combined at the previous end of reporting period or when they first came under common control, whichever is shorter.

**Revenue recognition**

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. 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 on initial recognition.

**Property, plant and equipment**

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes other than assets under installation, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.



Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than assets under installation, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets under installation represent property, plant and equipment in the course of installation for production or for own use purposes. Assets under installation are carried at cost less any recognised impairment loss. Costs included professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Assets under installation are 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

#### **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 and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives of ten 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).

Gain or loss arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period when the asset is derecognised.

### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to ready for their intended

use or sales and added to cost of those assets until such time as 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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specially, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

### **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. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 end of reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### **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 statement of financial position 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### ***Financial assets***

The Group's financial assets comprise loans and receivables. 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.

*Effective Interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, amounts due from fellow subsidiaries and subsidiaries, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, an impairment 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 estimated future cash flows discounted at the 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 debtors and amounts due from fellow subsidiaries and subsidiaries where the carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When any of trade debtors, amounts due from fellow subsidiaries or subsidiaries is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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 and 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.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Financial liabilities, including creditors and other payables, bank borrowings, amounts due to fellow subsidiaries and a subsidiary, and loans from immediate holding company and a shareholder, are measured at amortised cost, using the effective interest method subsequent to initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

#### *Equity instruments*

Equity instruments issued by the Company 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 in its entirety, 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 in other comprehensive income and accumulated 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.

### **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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 consolidated financial statements, the translation of assets and liabilities of the Group's foreign operations (including translation from a group entity's functional currency) into the presentation currency of the Company (i.e. Hong Kong dollars) are translated at the rates of exchange prevailing at the end of reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

### **Impairment losses of tangible and intangible assets**

At the end of each reporting period, the Group and the Company 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 any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. 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.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group and the Company makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The key estimates and assumptions that may have a significant risk of causing 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.

**Estimated impairment of property, plant and equipment**

The Group assesses 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 judgement and estimates on future operating cash flows and discount rates adopted. In the current year, no impairment loss (2009: impairment loss of HK\$1,470,000,000) has been recognised in relation to the Group's property, plant and equipment (see Note 13). Where the actual cash flows is different from the original estimate, a material change in the amount of impairment may arise.

**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. As at 31 December 2010, the carrying amount of inventories is HK\$196,669,000 (2009: HK\$76,543,000).



**Estimated impairment for investments in subsidiaries and amount due from subsidiaries**

The Company assess whether investments in subsidiaries and amounts due from subsidiaries have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amount of investments in subsidiaries and amounts due from subsidiaries have been determined using a discounted cash flow analysis based on the estimate future cash flows. These calculations and valuations require the use of judgment and estimates on present value of the future cash flows expected to be generated by the investee and discount rate adopted. In the current year, impairment losses of HK\$281,971,000 (2009: HK\$599,785,000) and Nil (2009: 1,262,286,000) have been recognised in relation to the Company's investments in subsidiaries and amounts due from subsidiaries (see Notes 16 and 17 respectively). Where the actual cash flows is different from the original estimate, a material change in the amount of impairment may arise.

**6. CAPITAL RISK MANAGEMENT**

The Group and the Company manage its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank borrowings. The Group and the Company also monitor the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.

The capital structure of the Group and the Company consist of debts, which includes borrowings, net of bank balances and cash and equity of the Company, comprising issued capital and other reserves.

The management of the Group and the Company reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's and the Company's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the extinguishment of existing debts.

**7. FINANCIAL INSTRUMENTS****(a) Categories of financial instruments****THE GROUP**

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>		
Loans and receivables	<u>152,430</u>	<u>125,885</u>
<b>Financial liabilities</b>		
At amortised cost	<u>6,491,789</u>	<u>5,413,525</u>

**THE COMPANY**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Financial assets</b>		
Loans and receivables	<u>3,941,331</u>	<u>3,393,724</u>
<b>Financial liabilities</b>		
At amortised cost	<u>5,254,485</u>	<u>4,685,610</u>

**(b) Financial risk management objectives and policies**

Details of the Group's and the Company's major financial instruments bank are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group and the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Foreign currency risk**

The Group and the Company conduct certain sales, purchases and funding transactions in foreign currency, i.e. United States dollar, hence are exposed to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movements of the foreign currency exchange rates. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arises.

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities denominated in United States dollar, which are mainly debtors, amounts due from subsidiaries, creditors, bank balances, loans from immediate holding company and a shareholder and bank borrowings, at the end of reporting periods are as follows:

**THE GROUP**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Assets</b>		
United States dollar	<u>82,987</u>	<u>74,755</u>
<b>Liabilities</b>		
United States dollar	<u>5,264,149</u>	<u>4,705,339</u>

**THE COMPANY**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
<b>Assets</b>		
United States dollar	<u>3,941,054</u>	<u>3,393,706</u>
<b>Liabilities</b>		
United States dollar	<u>5,166,344</u>	<u>4,673,556</u>

*Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi ("RMB"), against United States dollar. 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 end for 5% change in foreign currency rates. A positive number indicates a decrease in post-tax loss for the year when the RMB strengthen against United States dollars. For a 5% weakening of the RMB against United States dollar, there would be an equal but opposite impact on the post-tax loss for the year.

**THE GROUP**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Loss for the year	<u>259,058</u>	<u>231,529</u>

**THE COMPANY**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Loss for the year	<u>61,265</u>	<u>63,993</u>

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure for the whole year.

**Cash flow 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 and the Company's interest rate risk relates primarily to the Group's and the Company's floating rate borrowings, bank borrowings and loans from immediate holding company and a shareholder. It is the Group's and the Company's policy to maintain its borrowings at floating interest rate so as to minimise the fair value interest rate risk.

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of reporting period were outstanding for the whole year. A 200 basis point (2009: 200 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting periods, assuming the bank borrowings and interest-bearing loans from immediate holding company and a shareholder outstanding at the end of reporting periods had been outstanding for the whole year, if interest rates had increased by 200 basis points (2009: 200 basis points) and all other variables were held constant, the Group's and the Company's loss for the year would increase by approximately HK\$48,077,000 (2009: HK\$30,617,000) and HK\$29,281,000 (2009: HK\$19,714,000). If interest rates had decreased by 200 basis points, there would be an equal but opposite impact on the loss for the year.

The Group's and the Company's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of People's Bank of China lending rate and London interbank offered rate ("LIBOR") arising from the Group's RMB and USD denominated borrowings. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent cash flow interest rate risk as the year end exposure does not reflect the exposure for the whole year as a result of the repayment of a substantial amount of the borrowings during the year.

**Credit risk**

The Group's and the Company'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 statement of financial position. In order to minimise the credit risk, the Group and the Company have 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 and the Company carries out searches 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 and the Company review the recoverability of each individual trade debt on a regular basis 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 credit standing.

Other than concentration of credit risk on the amounts due from fellow subsidiaries and subsidiaries, the Group and the Company has no significant concentration of credit risk in respect of debtors with exposure spread over a number of customers.

However, the Group and the Company is exposed to significant concentration of credit risk by geographical location as most of debtors are mainly in the Mainland China within the high-technology industry.

### **Liquidity risk**

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

In addition, an intermediate holding company has agreed to provide adequate funds for the Group and the Company to meet in full its financial obligations as they fall due for the foreseeable future.

**APPENDIX II**
**FINANCIAL INFORMATION ON CSMC ASIA**

The following table details the Group's and the Company's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

**THE GROUP**

	<b>0-90 days</b>	<b>91-365 days</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amounts</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>
As at 31 December 2010						
Non-interest bearing						
Creditors and other payables	381,268	4,118	—	—	385,386	385,386
Amounts due to fellow subsidiaries	302	—	—	—	302	302
Loans from immediate holding company and a shareholder	—	—	4,108,102	—	4,108,102	3,702,276
Variable interest rate instruments						
Bank borrowings	81,988	401,169	—	548,931	1,032,088	939,757
Loans from immediate holding company and a shareholder	—	—	1,149,534	509,079	1,658,613	1,464,068
	<u>463,558</u>	<u>405,287</u>	<u>5,257,636</u>	<u>1,058,010</u>	<u>7,184,491</u>	<u>6,491,789</u>

**THE COMPANY**

	<b>0-90 days</b>	<b>91-365 days</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amounts</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>
As at 31 December 2010						
Non-interest bearing						
Amount due to a subsidiary	86,406	—	—	—	86,406	86,406
Other payables	1,735	—	—	—	1,735	1,735
Loans from immediate holding company and a shareholder	—	—	4,108,102	—	4,108,102	3,702,276
Variable interest rate instruments Loans						
from immediate holding company and a shareholder	—	—	1,097,553	503,775	1,601,328	1,464,068
	<u>88,141</u>	<u>—</u>	<u>5,205,655</u>	<u>503,775</u>	<u>5,797,571</u>	<u>5,254,485</u>

## THE GROUP

	0-90 days	91-365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2009						
Non-interest bearing						
Creditors and other payables	181,745	—	—	—	181,745	181,745
Amounts due to fellow subsidiaries	13,069	—	—	—	13,069	13,069
Loans from immediate holding company and a shareholder	—	—	3,890,360	—	3,890,360	3,687,873
Variable interest rate instruments						
Bank borrowings	57,367	35,748	—	553,015	646,130	545,155
Loans from immediate holding company and a shareholder	—	—	—	1,091,282	1,091,282	985,683
	<u>252,181</u>	<u>35,748</u>	<u>3,890,360</u>	<u>1,644,297</u>	<u>5,822,586</u>	<u>5,413,525</u>

## THE COMPANY

	0-90 days	91-365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2009						
Non-interest bearing						
Amount due to a subsidiary	11,010	—	—	—	11,010	11,010
Other payables	1,044	—	—	—	1,044	1,044
Loans from immediate holding company and a shareholder	—	—	3,890,360	—	3,890,360	3,687,873
Variable interest rate instruments						
Loans from immediate holding company and a shareholder	—	—	—	1,091,282	1,091,282	985,683
	<u>12,054</u>	<u>—</u>	<u>3,890,360</u>	<u>1,091,282</u>	<u>4,993,696</u>	<u>4,685,610</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**(c) Fair value**

The fair values of financial assets and financial liabilities recorded 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 consolidated financial statements approximate to their fair values.

**8. TURNOVER**

Turnover represents the net amounts received and receivables from goods sold to customers, less returns and allowances during the year.

**9. OTHER INCOME/GAINS**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Included in other income/gains are:		
Net exchange gain	24,247	—
Interest income on bank deposits	120	983
Interest income on amount due from a fellow subsidiary	299	171
Government grant (Note 25)	881	3,757
Gain on disposal of scrapped materials	<u>2,610</u>	<u>509</u>

**10. FINANCE COSTS**

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Interest expenses on:		
Bank loans wholly repayable within five years	36,166	38,520
Loans from an immediate holding company and a shareholder	22,167	6,585
Long term payables	—	—
Imputed interest expense on non-current interest free and lower than market interest rate loans from immediate holding company and a shareholder	<u>246,326</u>	<u>213,643</u>
	304,659	258,748
Less: amounts capitalised into assets under installation	<u>(175,527)</u>	<u>(181,800)</u>
	<u>129,132</u>	<u>76,948</u>



Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation of 5.5% (2009: 5.5%) per annum to expenditures on qualifying assets.

## 11. TAXATION

No provisions for Hong Kong Profits Tax or profits tax arising in the Mainland China has been recognised as no assessable profit arises in Hong Kong and Mainland China for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the domestic tax rate of the subsidiaries in the Mainland China is 25% from 1 January 2008 onwards. During the year, the Group's major subsidiary has obtained approval from the relevant tax bureau and is qualified as High and New Technology Enterprise which would be subject to a tax rate of 15% from year 2010 onwards.

The taxation for the year can be reconciled to the loss before taxation as follows:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(666,294)</u>	<u>(1,960,122)</u>
Tax at the applicable tax rate of 15% (2009: 25%)	(99,944)	(490,031)
Tax effect of expenses not deductible for tax purpose	26,557	27,341
Tax effect of income not taxable for tax purpose	—	(1)
Tax effect of other deductible temporary difference not recognised	12,066	367,500
Tax effect of tax losses not recognised	<u>61,321</u>	<u>95,191</u>
Tax charge for the year	<u>—</u>	<u>—</u>

At 31 December 2010, the Group had unused tax losses of HK\$1,020,812,000 (2009: HK\$577,274,000) available to offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. Losses of HK\$26,943,000, HK\$50,716,000, HK\$125,346,000, HK\$394,316,000 and HK\$423,491,000 will expire in 2011, 2012, 2013, 2014 and 2015 respectively.

At 31 December 2010, the Group also had other unrecognised deductible temporary differences of HK\$1,550,440,000 (2009: HK\$1,470,000,000), mainly arising from impairment losses on property, plant and equipment. 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.

## 12. LOSS FOR THE YEAR

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year has been arrived at after charging (crediting):		
Directors' emoluments	—	—
Other staff		
- Salaries and other benefits	199,882	134,961
- Retirement benefit scheme contributions	<u>26,321</u>	<u>15,858</u>
Total staff costs	<u>226,203</u>	<u>150,819</u>
Auditor's remuneration	120	150
Depreciation of property, plant and equipment	223,001	156,496
Amortisation of technical know-how	7,105	—
Amortisation of prepaid lease payments	113	109
Write off of inventories (included in other operating expenses)	53,058	21,248
Allowance for doubtful debts	9,244	—
Net exchange loss	<u>—</u>	<u>1,991</u>

**13. PROPERTY, PLANT AND EQUIPMENT  
THE GROUP**

	Leasehold buildings <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Assets under installation <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>							
At 1 January 2009	198,783	24,846	402	865,317	1,644	3,143,521	4,234,513
Exchange adjustments	59	41	—	718	—	114	932
Additions	—	983	—	—	—	1,223,952	1,224,935
Disposals	—	(72)	—	—	—	—	(72)
Transfers between categories	104,056	51,744	341	1,002,668	370	(1,159,179)	—
At 31 December 2009	302,898	77,542	743	1,868,703	2,014	3,208,408	5,460,308
Exchange adjustments	10,518	4,318	28	102,566	74	92,344	209,848
Additions	—	294	—	—	172	698,628	699,094
Disposals	—	(141)	—	—	—	—	(141)
Transfers between categories	—	67,937	113	1,579,309	—	(1,647,359)	—
At 31 December 2010	313,416	149,950	884	3,550,578	2,260	2,352,021	6,369,109
<b>DEPRECIATION</b>							
At 1 January 2009	2,120	1,698	90	13,706	689	—	18,303
Exchange adjustments	12	9	—	107	—	—	128
Provided for the year	14,711	11,118	115	130,268	284	—	156,496
Impairment loss recognised in profit or loss	—	—	—	227,966	—	1,242,034	1,470,000
Eliminated on disposals	—	(14)	—	—	—	—	(14)
At 31 December 2009	16,843	12,811	205	372,047	973	1,242,034	1,644,913
Exchange adjustments	901	874	11	10,565	42	49,726	62,119
Provided for the year	13,247	18,090	128	191,170	366	—	223,001
Eliminated on disposals	—	(106)	—	—	—	—	(106)
Reclassification	—	—	—	603,039	—	(603,039)	—
At 31 December 2010	30,991	31,669	344	1,176,821	1,381	688,721	1,929,927
<b>CARRYING VALUES</b>							
At 31 December 2010	282,425	118,281	540	2,373,757	879	1,663,300	4,439,182
At 31 December 2009	286,055	64,731	538	1,496,656	1,041	1,966,374	3,815,395

The above items of property, plant and equipment, other than assets under installation, are depreciated 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 buildings	20 years or over the relevant lease term, if shorter
Office equipment	5 to 10 years
Furniture and fixtures	5 years
Machinery and equipment	8 to 10 years
Motor vehicles	6 years

The directors reviewed the carrying value of the Group's property, plant and equipment and determined that the property, plant and equipment was impaired due to the delay in production plan after the financial crisis. The recoverable amount of the property, plant and equipment had been determined on the basis of their estimated present value of the estimated future cash flows expected to be generated by the property, plant and equipment with a discount rate of 11% per annum. As a result, an impairment loss of HK\$1,470,000,000 was charged to profit or loss for the year ended 31 December 2009.

#### 14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated outside Hong Kong on a medium-term lease.

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as		
Non-current assets	4,581	4,536
Current assets	<u>113</u>	<u>109</u>
	<u><u>4,694</u></u>	<u><u>4,645</u></u>

## 15. TECHNICAL KNOW-HOW

## THE GROUP AND THE COMPANY

	HK\$'000
<b>COST</b>	
At 1 January 2009 and 31 December 2009	
Additions	<u>77,502</u>
At 31 December 2010	<u>77,502</u>
<b>AMORTISATION</b>	
At 1 January 2009 and 31 December 2009	—
Charge for the year	<u>7,105</u>
At 31 December 2010	<u>7,105</u>
<b>CARRYING VALUES</b>	
At 31 December 2010	<u><u>70,397</u></u>
At 31 December 2009	<u><u>—</u></u>

Amortisation is provided on a straight-line basis over their estimated useful lives of five years and included in administrative expenses in the consolidated statement of comprehensive income.

## 16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	HK\$'000	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deemed contributions	881,756	599,785
Less: impairment loss	<u>(881,756)</u>	<u>(599,785)</u>
	<u><u>—</u></u>	<u><u>—</u></u>

The amounts represent the fair value adjustments at initial recognition of non-current interest free loans to the subsidiaries.

The directors reviewed the carrying value of the Company's investments in subsidiaries. The recoverable amount of the investments in subsidiaries had been determined on the basis of their estimated present value of the estimated future cash flows expected to be generated by the subsidiaries. As a result, an impairment loss amounting to HK\$281,971,000 (2009: HK\$599,785,000) was charged to profit or loss for the year.

Particulars of the subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held		Principal activities
			2010	2009	
China Fast Limited 中迅有限公司	British Virgin Islands	US\$1	100%	100%	Investment holding
Qualibest Enterprises Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
CSMC Technologies Fab 2 Co., Ltd. 無錫華潤上華科技有限公司	Mainland China	US\$500,000,000	100%	100%	Manufacture and sale of integrated circuit and related products

#### 17. AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY	
	HK\$'000	
	2010	2009
	HK\$'000	HK\$'000
Amounts due from subsidiaries	5,126,747	4,644,135
Less: Impairment loss	(1,262,286)	(1,262,286)
	<u>3,864,461</u>	<u>3,381,849</u>
Amount due to a subsidiary	<u>86,406</u>	<u>11,010</u>

The amounts due from subsidiaries are denominated in United States dollar, which are unsecured, interest-free and are not expected to be repayable within twelve months from the end of reporting period.

The directors reviewed the carrying value of the amounts due from subsidiaries and determined that the amounts were impaired due to the delay in production plan after the financial crisis. The

recoverable amount of the amounts due from subsidiaries had been determined on the basis of their estimated present value of the estimated future cash flows expected to be generated by the subsidiaries. As a result, an impairment loss amounting to HK\$1,262,286,000 was charged to profit or loss for the year ended 31 December 2009.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

#### 18. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND TECHNICAL KNOW-HOW

The amounts represent deposits paid for acquisition of machinery and equipment and technical know-how to be used for 8 inch wafer fabrication line.

#### 19. INVENTORIES

	<b>THE GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	130,960	34,315
Work in progress	32,930	26,731
Finished goods	<u>32,779</u>	<u>15,497</u>
	<u>196,669</u>	<u>76,543</u>

	<b>THE COMPANY</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	<u>419</u>	<u>—</u>

#### 20. DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	108,112	17,052	72,032	8,785
Less: allowance for doubtful debts	<u>(9,244)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	98,868	17,052	72,032	8,785
Deposits and prepayments	<u>154,745</u>	<u>56,533</u>	<u>—</u>	<u>—</u>
	<u>253,613</u>	<u>73,585</u>	<u>72,032</u>	<u>8,785</u>

The Group generally allows credit periods ranging from 0 to 90 days to its trade customers.

Included in the Group's and the Company's trade debtors are receivables of HK\$20,997,000 (2009: HK\$8,354,000) and HK\$13,289,000 (2009: HK\$2,899,000) respectively which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

Aging of trade debtors which are past due but not impaired:

	THE GROUP		THE COMPANY	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 - 60 days	7,918	7,686	4,549	2,899
61 - 90 days	3,059	542	2,316	—
91 - 180 days	2,753	126	1,209	—
Over 180 days	7,267	—	5,215	—
	<u>20,997</u>	<u>8,354</u>	<u>13,289</u>	<u>2,899</u>

The credit quality of trade debtors that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties do not have significant defaults in the past.

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of 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 already provided for in the consolidated financial statements.

Included in the allowance for doubtful debts are individually impaired receivables due from certain trade debtors with an aggregate amount of HK\$9,244,000 (2009: Nil) which are in financial difficulties. The Group does not hold any collateral over these receivables.

Included in the Group's deposits and prepayments are value added tax recoverable of HK\$123,898,000 (2009: HK\$46,983,000).

Included in the Group's and the Company's debtors are receivables with carrying amounts of HK\$77,013,000 (2009: HK\$9,960,000) and HK\$72,032,000 (2009: 8,785,000) which are denominated in United States dollar.



**21. RESTRICTED BANK DEPOSITS / BANK BALANCES**

Restricted bank deposits of HK\$587,000 (2009: HK\$14,099,000) were pledged to banks for letters of credit issued by those banks for the Group.

The Group's and the Company's bank balances carry interest at market rates ranging from 0% to 2.25% (2009: 0 % to 1.71%) 0% to 0.01% (2009: 0% to 0.01%) respectively.

Included in the Group's and the Company's restricted bank deposits and bank balances are balances with a carrying amount of HK\$5,974,000 (2009: HK\$64,795,000) and HK\$4,561,000 (2009: HK\$3,072,000) respectively which are denominated in United States dollar.

**22. CREDITORS AND OTHER PAYABLES**

The average credit period of the Group on purchases of goods ranges from 0 to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Included in the Group's creditors are creditors with a carrying amount of HK\$39,433,000 (2009: HK\$31,783,000) which is denominated in United States dollar.

**23. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES**

The amounts due from/to fellow subsidiaries are unsecured, interest-free and repayable on demand.

**24. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Unsecured bank borrowings	<u>939,757</u>	<u>545,155</u>
Carrying amount repayable:		
On demand or within one year	469,685	90,859
More than two year, but not exceeding five years	<u>470,072</u>	<u>454,296</u>
	939,757	545,155
Less: Amounts due within one year shown under current liabilities	<u>(469,685)</u>	<u>(90,859)</u>
Amount due after one year shown as non-current liabilities	<u>470,072</u>	<u>454,296</u>

**APPENDIX II**
**FINANCIAL INFORMATION ON CSMC ASIA**

<b>Borrowings comprise:</b>	<b>Maturity date</b>	<b>Effective interest rate</b>	<b>Carrying amount</b>	
			<b>2010</b>	<b>2009</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Floating-rate borrowings:				
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	10 March 2014	5.18%	470,072	454,296
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	19 March 2010	4.78%	—	56,787
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	4 December 2010	5.31%	—	34,072
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	15 January 2011	4.78%	23,504	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	2 December 2011	5.56%	58,759	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	23 April 2011	5.31%	58,759	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	20 May 2011	5.31%	58,759	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	13 April 2011	4.86%	35,255	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	13 September 2011	5.31%	58,759	—
Unsecured RMB bank loan at People's Bank of China lending rate plus a margin	25 October 2011	5.56%	117,518	—
Unsecured USD bank loan at LIBOR plus 1.5%	25 February 2011	1.78%	23,349	—
Unsecured USD bank loan at LIBOR plus 2.25%	22 February 2011	2.55%	35,023	—
			939,757	545,155
<b>Total borrowings</b>			<b>939,757</b>	<b>545,155</b>

*Note:* Included in the Group's bank borrowings are loans with a carrying amount of HK\$58,372,000 (2009: Nil) which are denominated in United States dollar.

**25. GOVERNMENT GRANTS**

Government grants liability of HK\$325,533,000 (2009: HK\$234,785,000) represent subsidies granted by government authorities in the Mainland China for the purpose of financing (i) the purchases of machinery and equipment of HK\$321,898,000 (2009: HK\$234,785,000) and (ii) relevant expenses for the development and production of new products of HK\$3,635,000 (2009: Nil). The amount of HK\$321,898,000 (2009: HK\$234,785,000) received is repayable if the production facilities do not meet the standard specified in the grants.

The government grants are recognised in the consolidated statement of comprehensive income as follows:

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Other income/gains (Note 9)	881	3,757
Reduction of cost of sales	9,608	—
Reduction of research and development expenses	<u>2,924</u>	<u>—</u>
	<u><u>13,413</u></u>	<u><u>3,757</u></u>

**26. SHARE CAPITAL**

	<b>THE COMPANY</b>	
	<b>Number of shares</b>	<b>Nominal value <i>HK\$'000</i></b>
Ordinary shares of HK\$1 each		
Authorised:		
At 1 January 2009, 31 December 2009 and at 31 December 2010	<u>10,000</u>	<u>10</u>
Issued and fully paid:		
At 1 January 2009, 31 December 2009 and at 31 December 2010	<u>100</u>	<u>—</u>

## 27. RESERVES

## THE COMPANY

	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2009	338,128	(12,194)	325,934
Fair value adjustment on non-current loans from immediate holding company and a shareholder	313,478	—	313,478
Loss for the year	<u>—</u>	<u>(1,853,796)</u>	<u>(1,853,796)</u>
At 31 December 2009	<u>651,606</u>	<u>(1,865,990)</u>	<u>(1,214,384)</u>
Fair value adjustment on non-current loans from immediate holding company and a shareholder	255,421	—	255,421
Loss for the year	<u>—</u>	<u>(283,375)</u>	<u>(283,375)</u>
At 31 December 2010	<u>907,027</u>	<u>(2,149,365)</u>	<u>(1,242,338)</u>

## 28. LOANS FROM IMMEDIATE HOLDING COMPANY AND A SHAREHOLDER

## THE GROUP AND THE COMPANY

	<b>2010</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>
Loans from immediate holding company	4,185,425	3,786,246
Loans from a shareholder	<u>980,919</u>	<u>887,310</u>
	<u>5,166,344</u>	<u>4,673,556</u>
Carrying amount is analysed as:		
Non-interest bearing (Note 1)	3,702,276	3,687,873
Interest bearing (Note 2)	<u>1,464,068</u>	<u>985,683</u>
	<u>5,166,344</u>	<u>4,673,556</u>

- Pursuant to an agreement entered into among the Company and the lenders on 24 March 2009, such amounts are not required to be repaid directly to the immediate holding company and the shareholder but will be repayable to a new holding company intended to be set up by the immediate holding company and the shareholder.
- On 8 September 2009, the immediate holding company, a shareholder and the Company entered into a shareholders' loans agreement pursuant to which the lenders agreed to provide

shareholders' loans in the aggregate amount of US\$202,000,000 to the Company on a pro rata basis according to their respective shareholdings. The loan is unsecured, interest bearing at LIBOR plus 1% and repayable at a fixed maturity of 3 years.

All the loans are denominated in United States dollar.

The immediate holding company and the shareholder have confirmed that repayment of the loans will not be demanded within twelve months from the end of the reporting period. Accordingly, the amounts were shown under non-current liabilities.

The fair value of the loans from immediate holding company and a shareholder are determined based on the present value of the estimated future cash outflows discounted using the prevailing market rate at the respective dates of inception. The effective interest rate of the loans during the year is 5.50% (2009:5.50%).

## 29. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2010</b>	<b>2009</b>
	<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>173,894</u>	<u>508,088</u>
Contracted for but not provided	<u>335,785</u>	<u>462,182</u>

**30. RELATED PARTY TRANSACTIONS****Transactions with related parties**

During the year, the Group entered into the following significant transactions with related parties:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of materials to fellow subsidiaries	14,249	2,041
Purchases of materials from fellow subsidiaries	5,472	517
Purchase of property, plant and equipment from fellow subsidiaries	—	983
Sales of property, plant and equipment from fellow subsidiaries	15,921	—
Supporting and administrative service fee paid to a fellow subsidiary (Note)	101,698	88,956
Interest paid to an immediate holding company and a shareholder	22,167	6,585
Interest income from a fellow subsidiary	<u>299</u>	<u>171</u>

*Note:* In 2008, the Group entered into an agreement with a fellow subsidiary, in which the fellow subsidiaries provides certain research and development and general administrative supporting services to the Group on the actual cost basis from 30 April 2008 to 31 December 2010.

**Transactions/balances with other state-controlled entities**

The Group itself is part of a larger group of companies under CRNC (CRNC and its subsidiaries are referred to as the “CRNC Group”) which is controlled by the government of Mainland China. The directors consider that the Company is ultimately controlled by the government of Mainland China and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the Chinese Mainland government (“ PRC government-related entities”). Apart from the transactions with the CRNC Group which have been disclosed above and in other notes to the condensed consolidated financial statements, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business. The Group entered into various transactions, including sales, purchases and other operating expenses with PRC government-related entities. In the opinion of the directors, the transactions are considered as individually and collectively insignificant to the operation of the Group during the year.

**II. MATERIAL CHANGES SINCE 31 DECEMBER 2010**

CSMC Technologies Fab 2 Co., Ltd., a wholly owned subsidiary of CSMC Asia, had finished its phase one construction and capacity installation. The directors of CSMC Asia note that additional funding is required to fulfil the capital commitments and working capital requirements in order to complete the full scale facility. Such funding is subject to the continuous supporting from the shareholders of CSMC Asia by means of providing shareholders' loan or guarantee on bank borrowings. CRH has confirmed to CSMC Asia for providing the financial support.

Save as the above, the directors of CSMC Asia confirm that there are no material changes in the financial or trading position or outlook of CSMC Asia since 31 December 2010, being the date to which the latest published audited financial statements of the CSMC Asia were made of.

## 1. RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme of Arrangement, the Option Payment, CRH, CRH (Microelectronics) Limited and CRM.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to CRH (Microelectronics) Limited and CRH) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by CRH (Microelectronics) Limited and CRH) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The directors of CRH (Microelectronics) Limited jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to CRM and CRH) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by CRM and CRH) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The directors of CRH jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to CRM and CRH (Microelectronics) Limited) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by CRM and CRH (Microelectronics) Limited) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

## 2. SHARE CAPITAL

The authorised and issued share capitals of CRM as at the Latest Practicable Date were as follows:

	<i>HK\$</i>
Authorised:	
20,000,000,000 Shares	2,000,000,000
Issued and fully paid up:	
8,789,651,708	878,965,170.8

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. 99,000 Shares have been issued since 31 December 2010, being the end of the last financial year of CRM, up to the Latest Practicable Date.



The Shares are listed on the Stock Exchange, no other securities of CRM are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were 14,534,223 Options outstanding. If these Options are exercised in full, a total of 14,534,223 Shares will be issued.

As at the Latest Practicable Date, apart from the Options granted to employees of the CRM Group, there were no outstanding options, warrants, derivatives or convertible securities in respect of Shares.

### 3. MARKET PRICES DURING THE RELEVANT PERIOD

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.46 per Share on 31 August 2011 and HK\$0.33 per Share on 17 June 2011, respectively.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last Business Day on which trading of the Shares took place in each of the calendar months during the Relevant Period:

<b>Dates</b>	<b>Closing Price</b> <i>(HK\$)</i>
31 January 2011	0.39
28 February 2011	0.405
31 March 2011	0.405
29 April 2011	0.385
31 May 2011	0.39
27 June 2011	0.335
29 July 2011	0.455
31 August 2011	0.46
Latest Practicable Date	0.455

- (c) The closing price of the Shares as quoted on the Stock Exchange on the Last Trading Date was HK\$0.335.
- (d) The closing price of the Shares as quoted on the Stock Exchange on the last Business Day on which the Shares were traded before the publication of the Announcement was HK\$0.435.
- (e) Shares in CRH (Microelectronics) Limited and CRH are not listed on any stock exchange. As such, no market price information is available relating to shares in CRH (Microelectronics) Limited and CRH.

Upon the incorporation of CRH (Microelectronics) Limited on 8 July 2011, one New Share was allotted to CRH, credited as nil paid.

Apart from the above, no transactions with respect to shares in CRH (Microelectronics) Limited and CRH took place during the Relevant Period.

#### 4. DISCLOSURE OF INTERESTS

##### (a) Directors' interests and short positions in the Shares and the shares of CRM's associated corporations

As at the Latest Practicable Date, the following Directors had the following interests and short positions in the shares, underlying shares and debentures of CRM or any of its associated corporations (within the meaning of Part XV of the SFO) which: (a) were required to be notified to CRM and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to CRM and the Stock Exchange.

##### A. *Interests of the Directors in the Shares*

Name of Director	Capacity	Number of Shares	Approximate percentage of interest relative to the total issued share capital of CRM
Mr. Wang Guoping	Beneficial owner	9,589,872	0.109%
Mr. Elvis Deng Mao-song	Beneficial owner	6,797,812	0.077%
Dr. Peter Chen Cheng-yu	Beneficial owner	39,623,200	0.451%
Mr. Du Wenmin	Beneficial owner	1,458,000	0.017%
Professor Ko Ping Keung	Beneficial owner	458	0.001%
Mr. Luk Chi Cheong	Beneficial owner	1,165,912	0.013%

B. *Interests of the Directors in associated corporations of CRM*

## (i) Shares of China Resources Enterprise, Limited (“CRE”)

Name of Director	Capacity	Number of shares	Approximate percentage of interest relative to the total issued share capital of CRE
Mr. Du Wenmin	Beneficial owner	100,000	0.004%

## (ii) Shares and options of China Resources Power Holdings Company Limited (“CRP”)

Name of Director	Capacity	Number of shares	Number of options	Exercise price per share (HK\$)	Date of grant	Approximate percentage of interest relative to the total issued share capital of CRP
Mr. Wang Guoping	Beneficial owner	18,000	—	—	—	0.001%
Mr. Du Wenmin	Beneficial owner	297,000	183,240	2.75	12/11/2003	0.010%
Mr. Shi Shanbo	Beneficial owner	500,000	—	—	—	0.011%

## (iii) Shares and options of China Resources Land Limited (“CRL”)

Name of Director	Capacity	Number of shares	Number of options	Exercise price per share (HK\$)	Date of grant	Approximate percentage of interest relative to the total issued share capital of CRL
Mr. Du Wenmin	Beneficial owner	790,000	250,000	1.23	01/06/2005	0.019%
Mr. Shi Shanbo	Beneficial owner	140,000	—	—	—	0.003%

## (iv) Shares of CRG

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of interest relative to the total issued share capital of CRG</b>
Mr. Elvis Deng Mao-song	Beneficial owner	8,000	0.001%
Mr. Du Wenmin	Beneficial owner	54,000	0.003%
Mr. Shi Shanbo	Beneficial owner	50,000	0.003%
Mr. Wong Tak Shing	Beneficial owner	80,000	0.004%

## (v) Shares of China Resources Cement Holdings Limited (“CRC”)

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of interest relative to the total issued share capital of CRC</b>
Mr. Wang Guoping	Beneficial owner	850,000	0.013%
Mr. Elvis Deng Mao-song	Beneficial owner	50,000	0.001%
Mr. Shi Shanbo	Beneficial owner	280,000	0.004%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of CRM or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to CRM and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules and which were required pursuant to Section 352 of the SFO to be entered into the register referred to therein.

**(b) INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO**

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of CRM) had, or were deemed to have, interests or short positions in the Shares and underlying Shares which fall to be disclosed to CRM and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were entered into the register required to be kept under Section 336 of the SFO:

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Long position/ Short position</b>	<b>Number of Shares</b>	<b>Approximate percentage of interest relative to the total issued share capital of CRM</b>
CRNC ( <i>Note 1</i> )	Interest of controlled companies	Long position	5,326,855,822	60.6%
CRCL ( <i>Note 1</i> )	Interest of controlled companies	Long position	5,326,855,822	60.6%
CRC Bluesky ( <i>Note 1</i> )	Interest of controlled companies	Long position	5,326,855,822	60.6%
CRH ( <i>Note 1 and 2</i> )	Interest of controlled companies	Long position	5,326,855,822	60.6%
Gold Touch Enterprises Inc. ( <i>Note 2</i> )	Beneficial owner	Long position	5,326,850,822	60.6%
Commotra Company Limited ( <i>Note 2</i> )	Beneficial owner	Long position	5,000	0.001%
Deutsche Bank Aktiengesellschaft ( <i>Note 3</i> )	Beneficial owner	Long position	443,350,908	5.04%
		Short position	65,155,908	0.74%

*Notes:*

- CRNC is a state owned enterprise which is the parent company of CRCL, which in turn is the parent company of CRC Bluesky, which is in turn the parent company of CRH. Each of CRNC, CRCL and CRC Bluesky is deemed to be interested in 5,326,855,822 Shares.
- Gold Touch Enterprises Inc. and Commotra Company Limited are direct wholly-owned subsidiaries of CRH and each directly held 5,326,850,822 and 5,000 Shares respectively as at the Latest Practicable Date. CRH is therefore deemed to be interested in 5,326,855,822 Shares held by Gold Touch Enterprises Inc. and Commotra Company Limited.

3. These Shares were held by Deutsche Bank Aktiengesellschaft in the respective capacities as detailed below:

Capacity	Number of Shares
Beneficial owner	65,185,908
Person having a security interest in share	378,165,000

(c) **Members of the CRM Group**

So far as is known to the Directors, as at the Latest Practicable Date, the following person was, directly or indirectly, interested in 10% or more of the share capital carrying rights to vote at general meetings of the following member of the CRM Group:

Member of the CRM Group	Name of substantial shareholder	Percentage of shareholding
Wuxi CR Micro-Assemb Tech. Ltd	STATS ChipPAC Ltd.	20%

Save as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, no other person, other than a Director or chief executive of CRM, had, or was deemed to have, any interests or short positions in the shares and underlying shares of CRM which are required to be disclosed to CRM 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 any members of the CRM Group.

**5. SHARE CAPITAL AND RIGHTS OF SHAREHOLDERS OF CRH (MICROELECTRONICS) LIMITED IN RESPECT OF CAPITAL, DIVIDENDS AND VOTING**

**Share capital of CRH (Microelectronics) Limited**

As at the Latest Practicable Date, the number of authorised and issued shares of CRH (Microelectronics) Limited were as follows:

<b>Number of authorised shares</b>	10,000,000,000 shares of US\$0.01 each
<b>Number of issued shares</b>	1 share of US\$0.01, credited as nil paid

Since 8 July 2011 (being the date of incorporation of CRH (Microelectronics) Limited) and up to and including the Latest Practicable Date, CRH (Microelectronics) Limited had in issue 1 New Share and has not repurchased any New Shares. Save as disclosed above, CRH (Microelectronics) Limited has not undergone any re-organisation of capital. As at the Latest Practicable Date, there were no options, warrants or conversion rights affecting any shares in the CRH (Microelectronics) Limited.

**Rights in respect of capital**

The New Shares to be issued pursuant to the Proposal will be issued and credited as fully paid and will rank pari passu with the existing New Shares at the date of issue.

Each New Share confers upon the shareholder the right to an equal share in the distribution of the surplus assets of CRH (Microelectronics) Limited on its liquidation.

**Rights in respect of dividends**

There is no dividend policy in respect of the New Shares. There is no guarantee that any dividends will be paid nor is there any dividend payment schedule in respect of the New Shares. Payment of dividend in respect of New Shares, if any, is dependent solely on whether such payment is lawful under the laws of the BVI and whether such payment is recommended or declared by the board of directors of CRH (Microelectronics) Limited.

**Rights in respect of voting**

The holders of New Shares shall be entitled to receive notice of general meetings of CRH (Microelectronics) Limited and shall have the right to one vote per share at such meetings.

A meeting of shareholders of CRH (Microelectronics) Limited is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50% of the votes of the New Shares entitled to vote on resolutions of shareholders to be considered at the meeting. A quorum may comprise a single shareholder or proxy and then such person may pass a resolution of shareholders.

**Transfer of New Shares**

CRH (Microelectronics) Limited will, on receipt of a written instrument of transfer signed by the transferor and containing the name and address of the transferee, enter the name of the transferee of a share in the register of members unless the directors resolve to refuse or delay the registration of the transfer when the transferor has failed to pay an amount due in respect of the share.

Shareholders of CRH (Microelectronics) Limited may mortgage or charge their New Shares and may request the company to enter in the register of members a statement that the New Shares held by them are mortgaged or charged and the name of the mortgagee or chargee. Whilst particulars of a mortgage or charge over New Shares are entered in the register of members as mentioned above, no transfer of any share the subject of those particulars shall be effected without the written consent of the named mortgagee or chargee.

The New Shares will be shares of an unlisted company with limited liability in the BVI. The issue and, or, transfer of New Shares will be strictly regulated pursuant to the articles of association and the rights of shareholders in CRH (Microelectronics) Limited will primarily be governed by the BVI Business Companies Act, 2004 (as amended from time to time), the laws of the BVI and the provisions of the articles of association of CRH (Microelectronics) Limited.

**Transactions with interested shareholders**

In the event any Shareholder, other than the CRH Group, has elected the Share Alternative and conditional on the Scheme of Arrangement becoming effective, the articles of association of CRH

(Microelectronics) Limited will be amended to include provisions which deal with certain transactions between CRH (Microelectronics) Limited and its interested shareholders so that certain protection will be afforded to disinterested shareholders. Details of the proposed amendments in such event are set on pages 58 to 59 in the Explanatory Statement in this document.

#### 6. DISCLOSURE OF INTERESTS IN SHARES IN CRH (MICROELECTRONICS) LIMITED AND CRH

As at the Latest Practicable Date, save as disclosed below, none of CRH (Microelectronics) Limited, the directors of CRH (Microelectronics) Limited and CRH, or any persons acting in concert with CRH (Microelectronics) Limited owned or controlled or were interested in any shares in CRH (Microelectronics) Limited or CRH or any convertible securities, warrants, options or derivatives in respect of any shares in CRH (Microelectronics) Limited or CRH.

Name of shareholder of CRH (Microelectronics) Limited	Capacity	Long/short position	Number of issued shares	Percentage of issued share capital
CRH	Beneficial owner	Long position	1	100%

Name of shareholder of CRH	Capacity	Long/short position	Number of issued shares	Percentage of issued share capital
CRC Bluesky	Beneficial owner	Long position	10,000	100%

*Note:* CRNC, established in the PRC on 31 December 1986, is a state owned enterprise which is the parent company of CRCL, which in turn is the parent company of CRC Bluesky, which is in turn the parent company of CRH.

As at the Latest Practicable Date:

- (a) none of the subsidiaries of CRM, nor any of the pension funds of CRM and its subsidiaries and any adviser to CRM as specified in class (2) of the definition of Associate under the Takeovers Code owned or controlled any shares in CRH (Microelectronics) Limited or CRH or any convertible securities, warrants, options or derivatives in respect of any shares in CRH (Microelectronics) Limited or CRH;
- (b) no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CRM or with any person who is an Associate of CRM by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code or with CRH (Microelectronics) Limited or CRH or any person acting in concert with CRH (Microelectronics) Limited;
- (c) no fund managers connected with CRM who managed funds on a discretionary basis owned or controlled any shares in CRH (Microelectronics) Limited or CRH or any convertible securities, warrants, options or derivatives in respect of any shares in CRH (Microelectronics) Limited or CRH; and



- (d) none of CRM, the Directors, CRH (Microelectronics) Limited or any persons acting in concert with CRH (Microelectronics) Limited had borrowed or lent any shares in CRM, CRH (Microelectronics) Limited or CRH or any convertible securities, warrants, options or derivatives in respect of any shares in CRM, CRH (Microelectronics) Limited or CRH.

## **7. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE**

### **7.1 Interests discloseable under Schedule I to the Takeovers Code**

As at the Latest Practicable Date:

- (a) CRH (Microelectronics) Limited did not hold any Shares.
- (b) no director of CRH (Microelectronics) Limited had any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.
- (c) save as disclosed in the Explanatory Statement on page 79 of this document, none of CRH (Microelectronics) Limited, its ultimate beneficial owner and any persons acting in concert with any of them had any interests in any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.
- (d) no one who owned or controlled shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM and CRH (Microelectronics) Limited had irrevocably committed to vote in favour of or against the resolutions in respect of the Proposal at the Court Meeting and at the EGM or accept the Option Payment.
- (e) no one had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CRH (Microelectronics) Limited or any persons acting in concert with it.
- (f) none of CRH (Microelectronics) Limited or any person acting in concert with it had borrowed or lent any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.

**7.2 Interests discloseable under Schedule II to the Takeovers Code**

As at the Latest Practicable Date:

- (a) CRM had no interests in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRH (Microelectronics) Limited and CRH.
- (b) save as disclosed in the Explanatory Statement on page 80 of this document and paragraph 4(a)(A) on page 232 of this Appendix III, no Directors had any interests in any Shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM.
- (c) no Director had any interests in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRH (Microelectronics) Limited and CRH.
- (d) no subsidiary of CRM, nor any pension fund of CRM or any of its subsidiaries owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics).
- (e) none of the advisers to CRM as specified in class (2) of the definition of Associate under the Takeovers Code owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.
- (f) no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CRM or with any person who is an associate of CRM by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code or with CRH (Microelectronics) Limited or any persons acting in concert with it.
- (g) no fund managers connected with CRM who managed funds on a discretionary basis owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.
- (h) the Directors who hold Shares have indicated they would vote in favour of the Scheme of Arrangement at the Court Meeting.
- (i) none of CRM nor any Directors had borrowed or lent any shares, convertible securities, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited.

**8. DEADLINGS IN SHARES****8.1 Dealings in Shares by the directors of CRH during the Relevant Period**

The dealings in Shares by the directors of CRH during the Relevant Period are as follows:

<b>Party</b>	<b>Sale/Purchase</b>	<b>Number of Shares</b>	<b>Dealing date</b>	<b>Dealing price (per Share) (HK\$)</b>
Mr. Zhu Jinkun	Sale	990,000	11 May 2011	0.44

**8.2 Other dealings in shares of CRM and CRH (Microelectronics) Limited during the Relevant Period discloseable under Schedule I to the Takeovers Code**

- (a) Save as disclosed in paragraph 8.1 above, none of CRH (Microelectronics) Limited, its ultimate beneficial owner or any persons acting in concert with any of them have dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited during the Relevant Period.
- (b) Save as disclosed in paragraph 8.1 above, none of the directors of CRH (Microelectronics) Limited and CRH has dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited during the Relevant Period.
- (c) As at the Latest Practicable Date, no person had given any irrevocable commitment to vote in favour of or against the Scheme of Arrangement.
- (d) As at the Latest Practicable Date, no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CRH (Microelectronics) Limited or with any person who is an Associate of CRH (Microelectronics) Limited by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code.

**8.3 Dealings in shares during the Relevant Period discloseable under Schedule II to the Takeovers Code**

- (a) CRM has not dealt for value in the shares, convertible securities, warrants, options or derivatives of CRH (Microelectronics) Limited and CRH during the Relevant Period.
- (b) No Directors have dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH or CRH (Microelectronics) Limited during the Relevant Period.
- (c) None of CRM nor any subsidiary of CRM, nor any pension fund of CRM or any of its subsidiaries has dealt for value in the Shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited during the Relevant Period.

- (d) No adviser to CRM as specified in class (2) of the definition of Associate under the Takeovers Code has dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM, CRH and CRH (Microelectronics) Limited during the Relevant Period.
- (e) As at the Latest Practicable Date, no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CRM or with any person who is an Associate of CRM by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code.
- (f) No fund managers managing funds on a discretionary basis which are connected with CRM have dealt for value in the Shares, convertible securities, warrants, options or derivatives in respect of the shares of CRM and CRH (Microelectronics) Limited during the Relevant Period.

## **9. DEALINGS IN SHARES IN CRH (MICROELECTRONICS) LIMITED AND CRH**

Save for the allotment and issue of one New Share to CRH, credited as nil paid, upon the incorporation of CRH (Microelectronics) Limited on 8 July 2011, no person has dealt for value in any shares in CRH (Microelectronics) Limited or CRH or any convertible securities, warrants, options or derivatives in respect of any shares in CRH (Microelectronics) Limited or CRH during the Relevant Period.

## **10. LITIGATION**

As at the Latest Practicable Date, none of the members of the CRM Group was engaged in any litigation or arbitration or claim of material importance to the CRM Group as a whole and no such litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the CRM Group.

As at the Latest Practicable Date, CRH (Microelectronics) Limited was not engaged in any litigation or arbitration or claim of material importance and no such litigation or claim of material importance was known to the directors of CRH (Microelectronics) Limited to be pending or threatened by or against CRH (Microelectronics) Limited.

## **11. MATERIAL CONTRACTS**

The members of the CRM Group have entered into the following material contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any member of the CRM Group, after the date falling two years preceding the date of the Holding Announcement, up to and including the Latest Practicable Date:

- (a) a shareholder's loan agreement dated 14 September 2009 and entered into between Jolly China Investments Limited ("Jolly China"), a then wholly-owned subsidiary of CRM now dissolved, together with Joyous China Investments Limited ("Joyous China"), a

wholly-owned subsidiary of CRH, as lenders and CSMC Asia as borrower pursuant to which the lenders have agreed to provide shareholders' loan in the aggregate amount of US\$202,000,000 to the borrower on a pro rata basis according to their respective shareholdings in the borrower;

- (b) a Deed of Novation dated 30 April 2010 and entered into between Jolly China and CSMC Technologies Corporation, pursuant to which Jolly China transferred and assigned to CSMC Technologies Corporation all the titles, rights, claims and demands, interests and benefits (present and future) of Jolly China in and contemplated under the shareholders agreement dated 19 March 2008, the shareholders loan agreement dated 30 April 2008 (including but not limited to provide shareholders' loan up to US\$95,000,000 to CSMC Asia), and the shareholders loan agreement dated 14 September 2009 (including but not limited to provide shareholders' loan US\$38,380,000 which is unsecured with interest referencing to normal commercial rate or a rate preferable to Jolly China) to CSMC Asia);
  
- (c) (i) a Hong Kong and United States Dollar Master Loan Agreement dated 22 November 2010 for a term of three years ending 31 December 2013 and entered into between CRM, China Resources Cement Holdings Limited, China Resources Enterprise, Limited, CRG, China Resources Land Limited, China Resources Power Holdings Company Limited (collectively "China Resources Group listed companies"), China Resources Gas (Holdings) Limited, China Resources Medications Group Limited, China Resources Textiles (Holdings) Company Limited, China Resources Chemical Holdings Limited and CSMC Asia (collectively "China Resources Group unlisted companies") and CRH, pursuant to which CRH and China Resources Group listed and unlisted companies and any of their subsidiaries which has become a party to the agreement may advance from China Resources Group listed companies and any of their subsidiaries which has become a party to the Agreement an aggregate amount not exceeding an annual cap under the agreement;

- (ii) a RMB Master Loan Agreement dated 22 November 2010 for a term of three years ending 31 December 2013 and entered into between CRCL and the China Resources Group listed companies, pursuant to which CRCL or any PRC incorporated subsidiary of a China Resources Group listed or unlisted company which has become a party to the agreement (but excluding Zhuhai Commercial Bank Co., Ltd. and China Resources SZITIC Trust Co., Ltd.) may advance from any PRC incorporated subsidiary of a China Resources Group listed company which has become a party to the agreement an aggregate amount not exceeding an annual cap under the agreement;

The annual cap to loans made by each of the China Resources Group listed companies and its subsidiaries under the Hong Kong and United States Dollar Master Loan Agreement and the RMB Master Loan Agreement are set out as follows:

China Resources Group listed company and its subsidiaries	Annual cap for the year ending 31 December,		
	2011 <i>(HK\$ million)</i>	2012 <i>(HK\$ million)</i>	2013 <i>(HK\$ million)</i>
CRM	300	350	400
China Resources Cement Holdings Limited	400	500	600
China Resources Enterprise, Limited	6,000	6,600	7,200
CRG	300	400	500
China Resources Land Limited	1,500	1,700	1,900
China Resources Power Holdings Company Limited	1,700	1,900	2,100

- (d) a strategic cooperation agreement dated 22 November 2010 for a term of three years ending 31 December 2013 and entered into between Zhuhai Commercial Bank Co., Ltd., China Resources SZITIC Trust Co., Ltd. and each of the China Resources Group listed companies pursuant to which, among other things, (i) Zhuhai Commercial Bank Co., Ltd. shall provide general banking services including deposit services to the China Resources Group listed companies and their subsidiaries; and (ii) China Resources SZITIC Trust Co., Ltd. shall provide trust services including cash management, investment trusts, asset management structured finance underwriting of bonds and shares to the China Resources Group listed companies and their subsidiaries. Provision of these services will be charged at a rate no less favourable than that for customers of Zhuhai Commercial Bank Co., Ltd. and China Resources SZITIC Trust Co., Ltd. The limit for the expected annual fees payable by the China Resources Group listed companies are set out as follows:

China Resources Group listed companies	Expected annual fees limit payable by China Resources Group listed companies to Zhuhai Commercial Bank Co., Ltd. for the year ended 31 December,		
	2011 <i>(HK\$ million)</i>	2012 <i>(HK\$ million)</i>	2013 <i>(HK\$ million)</i>
CRM	1	1.4	1.4
China Resources Cement Holdings Limited	2	2	2
China Resources Enterprise, Limited	13	13	13
CRG	2	2	2
China Resources Land Limited	5	5	5
China Resources Power Holdings Company Limited	20	24	29

China Resources Group listed companies	Expected annual fees limit payable by China Resources Group listed companies to China Resources SZITIC Trust Co., Ltd. for the year ended 31 December,		
	2011 (HK\$ million)	2012 (HK\$ million)	2013 (HK\$ million)
CRM	2	2	2
China Resources Cement Holdings Limited	3	5	8
China Resources Enterprise, Limited	10	10	10
CRG	2	3	5
China Resources Land Limited	5	7	10
China Resources Power Holdings Company Limited	20	24	29

- (e) a shareholders' loan agreement dated 13 January 2011 and entered into between Joyous China and CSMC Technologies Corporation as lenders and CSMC Asia as borrower, pursuant to which Joyous China and CSMC Technologies Corporation agreed to provide shareholders' loan up to US\$140,000,000 to CSMC Asia on a pro rata basis according to their respective shareholdings CSMC Asia for a term of 3 years;
- (f) a supplemental Deed dated 15 April 2011 and entered into between STAT ChipPAC Ltd., STAT ChipPAC Shanghai Co., Ltd, CRM, Micro Assembly Technologies Limited, Micro Assembly Technologies Limited, Wuxi China Resources Microelectronics (Holdings) Limited, Wuxi CR Micro-Assemb Tech. Ltd and CRM (Wuxi), pursuant to which the parties have agreed to make amendments to the asset sale and purchase agreement and the subscription agreement both dated 22 June 2006 and on further terms in connection with the capital injection exercise; and

Saved as disclosed above, none of the members of the CRM Group has entered into any material contracts (not being contracts entered into in the ordinary course of business) after the date falling two years preceding the date of the Holding Announcement, up to and including the Latest Practicable Date.

CRH (Microelectronics) Limited has not entered into any material contracts, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by CRH (Microelectronics) Limited after the date falling two years preceding the date of the Holding Announcement, and up to and including the Latest Practicable Date.



## 12. EXPERTS

The following are the qualifications of each of the experts who are named in this document or have given their opinion or advice which is contained in this document:

<b>Name</b>	<b>Qualification</b>
Anglo Chinese	A corporation licensed to carry on business in types 1, 4, 6 and 9 of the regulated activities as defined in the SFO
First Shanghai	A corporation licensed to carry on business in type 6 of the regulated activities as defined in the SFO

## 13. CONSENTS

Anglo Chinese and First Shanghai have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the texts of their respective letters and references to their names in the form and context in which they are included.

## 14. COSTS OF THE SCHEME OF ARRANGEMENT

In the event that the Scheme of Arrangement becomes effective, the costs of the Scheme of Arrangement will be borne by CRH (Microelectronics) Limited. The costs of the Scheme of Arrangement and of its implementation are expected to amount to approximately HK\$7 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme of Arrangement is not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee and is not approved at the relevant Shareholders' meeting(s) or does not become unconditional, all the expenses incurred by CRM in connection with the Scheme of Arrangement shall be borne by CRH (Microelectronics) Limited.

## 15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the office of CRM, at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong; (ii) the website of CRM at <http://www.crmicro.com>; and (iii) the website of the SFC at <http://www.sfc.hk> from the date of this document until the Effective Date or the date on which the Scheme of Arrangement lapses or is withdrawn, whichever is earliest:

- (a) the memorandum and articles of association of CRM;
- (b) the memorandum and articles of association of CRH (Microelectronics) Limited;
- (c) the annual reports of CRM for the two years ended 31 December 2010 and the interim report of CRM for the six months ended 30 June 2011
- (d) the letter from the Board, the text of which is set out on pages 11 to 24 of this document;

- (e) the letter of advice from Anglo Chinese, the text of which is set out on pages 25 to 27 of this document;
- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this document;
- (g) the letter of advice from First Shanghai, the text of which is set out on pages 30 to 55 of this document;
- (h) the audited financial statements of CSMC Asia for the year ended 31 December 2010;
- (i) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (j) the written consents referred to in the section headed “Consents” in this appendix; and
- (k) the order of the Grand Court, amongst other things, convening the Court Meeting.

#### 16. MISCELLANEOUS

- (a) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme of Arrangement.
- (b) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme of Arrangement or otherwise connected with the Scheme of Arrangement.
- (c) There is no agreement or arrangement or understanding (including any compensation arrangement) between CRH (Microelectronics) Limited, CRH or any person acting in concert with any of them (on the one part) and any of the Directors, recent directors, shareholders or recent shareholders of CRM (on the other part) having any connection with or dependence upon the Scheme of Arrangement.
- (d) There is no agreement or arrangement to which CRH or CRH (Microelectronics) Limited is a party which relates to the circumstances in which CRH or CRH (Microelectronics) Limited may or may not invoke or seek to invoke a condition to the Proposal.
- (e) The registered office of CRH (Microelectronics) Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. The correspondence address of CRH (Microelectronics) Limited is 44th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The registered and correspondence address of CRH and the correspondence address of Mr. Song Lin, Mr. Jiang Wei and Mr. Zhu Jinkun is at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The registered office of CRNC is 2701-2705, China Resources Building, No.8 Jianguomen North Avenue, Beijing, the PRC and that of CRCL is Units 2801, 2805 and 2806, 28th Floor, China Resources Building, 5001 Shennan East Road, Luohu District, Shenzhen, the PRC. The

correspondence address of each of Gold Touch Enterprises Inc. and Commotra Company Limited, which are the principal members of the parties acting in concert with CRH and CRH (Microelectronics) Limited, is 44th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

- (f) CRH (Microelectronics) Limited does not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Scheme of Arrangement to any other person.
- (g) The directors of CRH (Microelectronics) Limited are Mr. Yan Biao and Mr. Wei Bin. As at the Latest Practicable Date, the directors of CRH and CRNC were Mr. Song Lin, Mr. Qiao Shibo, Mr. Wang Yin, Mr. Jiang Wei, Mr. Ma Guoan, Mr. Chen Lang, Mr. Yan Biao, Mr. Zhu Jinkun, Mr. Wang Qun, Mr. Zhou Shengjian and Mr. Chen Shulin. The directors of Gold Touch Enterprises Inc. are Mr. Song Lin, Mr. Qiao Shibo, Mr. Jiang Wei and Mr. Yan Biao. The directors of Commotra Company Limited are Mr. Song Lin, Mr. Qiao Shibo, Mr. Jiang Wei, Mr. Yan Biao and Mr. Wei Bin.
- (h) The secretary and qualified accountant of CRM is Mr. Tim NGAN Siu Hung, HKICPA, ACCA. He is qualified as a Certified Public Accountant in Hong Kong.
- (i) The registered office of CRM is at Scotia Centre, P.O. Box 2804 GT, George Town, Grand Cayman, Cayman Islands. The principal place of business of CRM in Hong Kong is at Room 4609-4610, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (j) The share registrar and transfer office of CRM in Hong Kong is Computershare Hong Kong Investor Services Limited, which is situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (k) The principal place of business of Anglo Chinese is at 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (l) The principal place of business of First Shanghai is at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.
- (m) As at the Latest Practicable Date, there was no material contract entered into by CRH (Microelectronics) Limited or CRH in which any of the Directors had a material personal interest.
- (n) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between CRH (Microelectronics) Limited, CRH or any parties acting in concert with any of them, or any Associate of any of them, and any other person.
- (o) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between CRM or any of its Associate, and any other person.

- (p) As at the Latest Practicable Date, none of the Directors had entered into any service contract with CRM or any of its subsidiaries or associated companies for a fixed term contract with more than 12 months to run irrespective of notice period, or which has been entered into or amended within six months before the date of the Holding Announcement or which are continuous contracts with a notice period of 12 months or more.
- (q) As described in the Explanatory Statement, the Proposal is conditional on certain conditions being fulfilled or (to the extent applicable) waived. Any decision in relation to invoking or waiving a condition, to the extent that it can be waived or invoked, may be made by CRH (Microelectronics) Limited. The circumstances in which such a condition can be waived or invoked are set out in the Explanatory Statement on pages 61 to 63 of this document. Subject to the foregoing, there are no other arrangements or agreements to which CRH (Microelectronics) Limited is a party which relate to the circumstances in which CRH (Microelectronics) Limited may or may not invoke or seek to invoke a condition to the Proposal.
- (r) The emoluments of the directors of CRH (Microelectronics) Limited and CRH will not be affected by the Scheme of Arrangement or by any other associated transactions.
- (s) CRH (Microelectronics) Limited had no bank overdrafts or loans, or other similar indebtedness, mortgages, charges or guarantees or other material contingent liabilities as of the Latest Practicable Date.
- (t) CRH (Microelectronics) Limited was incorporated in the BVI with limited liability on 8 July 2011 for the purposes of the implementation of the Proposal. It has not conducted any business other than those for the purpose of the Proposal up to the Latest Practicable Date and only has nominal assets and liabilities. In view of the above, the Executive has confirmed that the requirement to disclose the financial information of CRH (Microelectronics) Limited in this document as required under paragraph 12(a) of Schedule I of the Takeovers Code is not applicable.
- (u) Settlement of the consideration to which any Shareholder is entitled under the Cash Alternative and the Share Alternative pursuant to the Proposal will be implemented in full in accordance with the terms of Cash Alternative and the Share Alternative which have been set out in the Scheme of Arrangement on pages 251 to 259 of this document, as the case may be, without regard to any lien, right of set-off, counterclaim or other analogous right to which CRH or CRH (Microelectronics) Limited may otherwise be, or claim to be, entitled against any such Shareholders. Settlement of the Option Payment will be made without regard to any lien, right of set-off, counterclaim or other analogous right to which CRH or CRH (Microelectronics) Limited may otherwise be, or claim to be, entitled against the Optionholders.
- (v) The English language text of this document shall prevail over the Chinese language text.

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**SCHEME OF ARRANGEMENT**

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**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION  
CAUSE NO. FSD 139 OF 2011 (CQJ)**

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**IN THE MATTER OF  
CHINA RESOURCES MICROELECTRONICS LIMITED  
AND IN THE MATTER OF  
SECTIONS 15 AND 86 OF THE COMPANIES LAW  
(2010 REVISION) (AS AMENDED) OF THE CAYMAN ISLANDS**

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**SCHEME OF ARRANGEMENT  
between  
CHINA RESOURCES MICROELECTRONICS LIMITED  
and  
THE HOLDERS OF SCHEME SHARES  
(as hereinafter defined)**

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**PRELIMINARY**

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Awarded Shares”	Shares awarded (but not yet allotted or issued) to employees and directors of the Group pursuant to an equity incentive plan of the Company as approved by its shareholders on 8 May 2004
“Cash Alternative”	HK\$0.48 per Scheme Share in cash under the Scheme of Arrangement
“Companies Law”	Companies Law (2010 Revision) (as amended) of the Cayman Islands
“Company”	China Resources Microelectronics Limited, a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on Main Board of The Stock Exchange of Hong Kong Limited (stock code: 597)
“Court”	the Grand Court of the Cayman Islands

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## SCHEME OF ARRANGEMENT

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“CRH”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong on 8 July 1983 with limited liability and the holding company of the Offeror and the Company
“CRH Group”	CRH and its subsidiaries, other than the Company
“Effective Date”	2 November 2011, being the date on which the Scheme of Arrangement, if sanctioned by the Court, becomes effective in accordance with the Companies Law
“Election Form”	the form of election to be completed by the holders of Scheme Shares (other than the CRH Group which has undertaken to elect the Share Alternative only) for the Share Alternative (or a combination of the Share Alternative and the Cash Alternative)
“Group”	the Company and its subsidiaries
“holder(s)”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	2 September 2011 being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“New CRM Share”	one Share to be issued by the Company to the Offeror in the manner set out in paragraph 1(a)(i) below
“New Shares”	shares of US\$0.01 par value each of the Offeror
“Offeror”	CRH (Microelectronics) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of CRH
“Record Date”	28 October 2011, being the date on which the entitlements of the Shareholders under the Scheme of Arrangement are determined

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## SCHEME OF ARRANGEMENT

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“Record Time”	4:30 p.m. (Hong Kong time) on the Record Date
“Register”	the register of members of the Company
“Scheme of Arrangement”	a scheme of arrangement between the Company and the Scheme Shareholders pursuant to Section 86 of the Companies Law in its present form or with or subject to any modification hereof or addition hereto or condition(s) which the Court may approve or impose
“Scheme Shareholders”	Shareholders of the Company
“Scheme Shares”	Shares held by the Scheme Shareholders (other than the New CRM Share)
“Share(s)”	shares of par value HK\$0.10 each in the share capital of the Company
“Share Options”	option(s) to acquire Shares pursuant to a share option scheme of the Company as approved by its shareholders on 27 May 2005
“Shareholder(s)”	holder(s) of the Share(s)
“Share Alternative”	one New Share for each Scheme Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

(B) The Company was incorporated as an exempted company on 28 January 2003 in the Cayman Islands under the Companies Law.

(C) The authorised share capital of the Company as at the Latest Practicable Date was HK\$2,000,000,000 divided into 20,000,000,000 Shares of HK\$0.10 each, 8,789,651,708 of which have been issued and are fully paid and the remainder are unissued.

(D) CRH, through its wholly-owned subsidiary, the Offeror, has proposed the privatisation of the Company by way of the Scheme of Arrangement.

(E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares which, for the avoidance of doubt, does not include the New CRM Share so that the Company shall, thereafter become a wholly-owned subsidiary of the Offeror.

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## SCHEME OF ARRANGEMENT

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- (F) On the Latest Practicable Date, assuming no Share Options are exercised and no Awarded Shares are allotted and issued before the Record Date, 5,328,718,119 Shares were legally and, or, beneficially owned by CRH and parties acting in concert with it and registered as follows:-

<b>Name of Shareholders</b>	<b>Name of registered holders</b>	<b>Number of Shares</b>
Gold Touch Enterprises Inc.	Gold Touch Enterprises Inc.	5,326,850,822
Commotra Company Limited	HKSCC Nominees Limited	5,000
Song Lin, a director of CRH	HKSCC Nominees Limited	1,245,533
Jiang Wei, a director of CRH	Jiang Wei	537,614
Zhu Jinkun, a director of CRH	HKSCC Nominees Limited	79,150

- (G) CRH, Gold Touch Enterprises Inc. and Commotra Company Limited, have undertaken that in relation to such Shares in which they are legally and, or, beneficially interested, all such Shares will remain so registered and they shall remain so legally and, or, beneficially interested in them until the date on which the Scheme of Arrangement becomes effective, is withdrawn or lapses and will procure that such Shares will not be represented or voted at the meeting convened by direction of the Court for the purpose of considering and, if thought fit, approving the Scheme of Arrangement.
- (H) The Scheme of Arrangement involves the cancellation and extinguishment of all of the Scheme Shares on the Effective Date and, in consideration and exchange therefor, the Scheme Shareholders (other than the CRH Group which has undertaken to elect the Share Alternative only) may elect to receive the Cash Alternative or the Share Alternative (or a combination of the Share Alternative and the Cash Alternative). Scheme Shareholders (other than the CRH Group which has undertaken to elect the Share Alternative only) may elect the Share Alternative in respect of all, or part only, of the Shares registered in their names.
- (I) CRH and the Offeror have agreed to appear by Counsel at the hearing of the petition to sanction the Scheme of Arrangement and to undertake to the Court (whether at the hearing or before hand) to be bound thereby and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to the Scheme of Arrangement, including without limitation, satisfying its obligations under the Scheme of Arrangement.

## THE SCHEME OF ARRANGEMENT

### PART I

#### Cancellation of the Scheme Shares

1. On the Effective Date:
  - (a) (i) the Company shall allot and issue one New CRM Share, credited as fully paid, to the Offeror;



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## SCHEME OF ARRANGEMENT

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- (ii) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (which, for the avoidance of doubt, does not include the New CRM Share);
- (iii) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror, credited as fully paid, the same number of Shares as the number of Scheme Shares cancelled and extinguished, less one; and
- (iv) the Company shall apply the amount of credit arising in its books of account as a result of the reduction of its issued share capital referred to in paragraph (a)(ii) above in paying up in full at par the New CRM Share and the new Shares issued to the Offeror, credited as fully paid, pursuant to paragraphs 1(a)(i) and 1(a)(iii) above.

### PART II

#### **Consideration for the cancellation and extinguishment of the Scheme Shares**

- 2. (a) In consideration of the cancellation and extinguishment of the Scheme Shares, each holder of Scheme Shares (other than the CRH Group which has undertaken to elect the Share Alternative only) will, at his, her or its election, receive from the Offeror:
  - (i) the Cash Alternative; and/or
  - (ii) the Share Alternative.
- (b) Any holder of Schemes Shares (other than the CRH Group which has undertaken to elect the Share Alternative only) that does not elect the Share Alternative as to any or all of his, her or its Scheme Shares will receive the Cash Alternative for those Scheme Shares in respect of which such an election was not made.
- (c) In consideration for the cancellation and extinguishment of the Scheme Shares held by the CRH Group, the Offeror shall issue to CRH or such member of the CRH Group as CRH may direct the same number of shares of the Offeror credited as fully paid, as the CRH Group previously held in the Company less one New Share already held by the CRH Group which shall be credited as fully paid up at par. In addition, CRH or such member of the CRH Group as CRH may direct shall subscribe for (and be issued) such further New Shares at HK\$0.48 per New Share as shall be necessary to fund the Cash Alternative (which requires CRH or such member of the CRH Group as CRH may direct to subscribe for (and be issued) the same number of additional New Shares as the number of Scheme Shares in respect of which the Cash Alternative is to be paid).

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## SCHEME OF ARRANGEMENT

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### PART III

#### Election Form

3. (a) The election referred to in Part II above may be made by the holders of Scheme Shares (other than the CRH Group which has undertaken to elect the Share Alternative only) in respect of all or any of their respective shareholdings in the Company, and such election shall be made by properly completing and signing the Election Form in accordance with the instructions appearing thereon (and, in the case of joint holders, signed by all the joint holders to which it relates, and in the case of a holder or a joint holder which is a body corporate, signed on its behalf by one of its directors or a duly authorised officer), which shall be lodged so as to be received by the share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30p.m. on 28 October 2011 or such later date as may be notified to the holders of Scheme Shares through announcements to be published at the websites of the Company and The Stock Exchange of Hong Kong Limited specified on the Election Form. No such election shall be valid unless the Election Form is properly completed in all respects. As Election Form so completed and delivered shall not be capable of amendment.
- (b) An Election Form shall be irrevocable and incapable of being withdrawn unless the Company expressly consents in writing to such withdrawal or revocation.
- (c) The Company shall have the right to reject any or all of the Election Forms that it determines are invalid or in improper form. In addition, the Company shall also have the right to treat any Election Form that has been completed in accordance with the instructions thereon, or has otherwise been completed incorrectly, as being valid, provided that the Company in its absolute discretion considers the omissions or errors to be immaterial. The Company shall not be obliged to give notice of any such defects or irregularities and will not incur any liability for failure to give any such notice.

### PART IV

#### General

4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of the Company to deliver up to the Company the certificates relating to the Scheme Shares.
5. (a) Not later than seven (7) days after the Effective Date, the director(s) of the Offeror shall unanimously resolve to issue to those holders of the Scheme Shares that elected for the Share Alternative the relevant number of shares in the Offeror as required by the Share Alternative.

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## SCHEME OF ARRANGEMENT

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- (b) Not later than seven (7) days after the Effective Date, the Offeror shall enter on its register of members the relevant details of those holders of Scheme Shares that elected the Share Alternative.
- (c) Not later than seven (7) days after the Effective Date, the Offeror shall issue to the CRH Group the same number of shares in the Offeror (credited as fully paid) as the CRH Group held in the Company at the Record Time less one New Share already held by the CRH Group which shall be credited as fully paid up at par. In addition, the CRH Group shall subscribe for and the Offeror shall issue to the CRH Group such further New Shares at HK\$0.48 per New Share as shall be necessary to fund the Cash Alternative (which requires the CRH Group to subscribe for and be issued the same number of additional New Shares as the number of Scheme Shares in respect of which the Cash Alternative is to be paid).
- (d) Not later than ten (10) days after the Effective Date, the Offeror shall issue share certificates in respect of the New Shares to the CRH Group (in accordance with paragraph 5(c) of this Clause 5) and to the holders of Scheme Shares that elected the Share Alternative, and shall send those share certificates, or cause them to be sent, to such holders at the same time.
- (e) Not later than ten (10) days after Effective Date, the Offeror shall send or cause to be sent to holders of Scheme Shares (other than the CRH Group which has undertaken to elect the Share Alternative only) cheques in respect of the sums payable to such holders that are to receive the Cash Alternative as to all or any of their Scheme Shares.
- (f) Unless otherwise indicated in writing to the share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all cheques to be despatched to holders of Scheme Shares that are to receive the Cash Alternative as to all or any of their Shares, and all share certificates in the Offeror to be despatched to holders of Scheme Shares that elected the Share Alternative, shall be sent by post in pre-paid envelopes addressed to such holders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (g) Unless indicated otherwise in writing to the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, all such cheques and/or share certificates shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time, or, in the case of joint Scheme Shareholders, at the address as appearing on the Register at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.
- (h) Cheques and/or share certificates shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in transmission.

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## SCHEME OF ARRANGEMENT

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- (i) Each such cheque and/or share certificate shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (g) of this Clause 5, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
  - (j) On or after the day being six calendar months after the posting of the cheques and/or share certificates pursuant to paragraph (g) of this Clause 5, the Offeror shall have the right to cancel or countermand payment of any such cheque and/or share certificate which has not been cashed or has been returned uncashed or not registered and shall place all monies and/or share certificates represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies and/or share certificates on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to Clause 2 of the Scheme of Arrangement to persons who satisfy the Company that they are respectively entitled thereto and the cheques and/or share certificates referred to in paragraph (g) of this Clause 5 of which they are payees have not been cashed or registered. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of the Scheme of Arrangement, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of any interest or withholding tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
  - (k) On the expiration of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Company shall transfer to the Offeror the balance (if any), of the sums standing to the credit of the deposit account referred to in paragraph (j) of this Clause 5 including accrued interest subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.
  - (l) Paragraph (k) of this Clause 5 shall take effect subject to any prohibition or condition imposed by law.
- 6. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
  - 7. The Scheme of Arrangement shall become effective as soon as a copy of the Order of the Court sanctioning the Scheme of Arrangement under Section 86 of the Companies Law shall have been duly registered by the Registrar of Companies in the Cayman Islands.
  - 8. Unless the Scheme of Arrangement shall have become effective on or before 31 December 2011 or such later date, if any, as the Offeror and the Company may agree or as the Court on application of the Offeror or the Company may allow, the Scheme of Arrangement shall lapse.

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## **SCHEME OF ARRANGEMENT**

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9. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Court may think fit to approve or impose.
  
10. All costs, charges and expenses of and incidental to the Scheme of Arrangement and the costs of carrying the Scheme of Arrangement into effect will be borne by the Offeror.

Date 5 September, 2011

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## NOTICE OF COURT MEETING

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IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

CAUSE NO. FSD 139 OF 2011 (CQJ)

IN THE MATTER of sections 15 and 86 of the Companies Law (2010 Revision) (as amended)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of **China Resources Microelectronics Limited**

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## NOTICE OF COURT MEETING

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**NOTICE IS HEREBY GIVEN** that, by an order dated 1 September 2011 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between China Resources Microelectronics Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at China Resources Banquet Hall, 50/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 28 September 2011 at 10:00 a.m. at which place and time all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong share registrar of the Company, at Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 5 September 2011 despatched to members of the Company on 5 September 2011.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

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## NOTICE OF COURT MEETING

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It is requested that forms appointing proxies be deposited at the Hong Kong share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or returned by facsimile at number (852) 2865 0990 (marked for the attention of "the Company Secretary"), not later than 10:00 a.m. on 26 September 2011, but if forms are not so lodged or returned they may be handed to the chairman of the Court Meeting, who has absolute discretion as to whether or not to accept them, at the Court Meeting pursuant to the Order.

By the Order, the Court has appointed Mr. Wang Guoping, a director of the Company, or failing him, Mr. Elvis Deng Mao-song, also a director of the Company, or failing him any other person who is a director of the Company at the time of the Court Meeting, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court  
**China Resources Microelectronics Limited**

Dated: 5 September 2011

*Registered Office*  
Scotia Centre  
4th Floor  
P.O. Box 2804GT  
George Town  
Grand Cayman  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*  
Room 4609-4610  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

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## NOTICE OF EGM

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### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of China Resources Microelectronics Limited (the “Company”) will be held at China Resources Banquet Hall, 50/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 28 September 2011 at 10:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

#### SPECIAL RESOLUTION

1. **THAT:**

- (a) Pursuant to the scheme of arrangement dated 5 September 2011 (the “Scheme of Arrangement”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement);
  - (i) the allotment and issue to CRH (Microelectronics) Limited (the “Offeror”) of one share, credited as fully paid up, in the capital of the Company (the “New CRM Share”) be and is hereby approved;
  - (ii) the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement which for the avoidance of doubt, excludes the New CRM Share); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

#### ORDINARY RESOLUTION

2. **THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the share capital of the Company shall



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## NOTICE OF EGM

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be increased and restored to its former amount by allotting and issuing to CRH (Microelectronics) Limited, credited as fully paid at par, the same number of ordinary shares of HK\$0.10 each in the share capital of the Company as the number of Scheme Shares cancelled and extinguished less one share of the Company already held by CRH (Microelectronics) Limited; and

- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied in paying up in full at par the New CRM Share and the shares allotted and issued to CRH (Microelectronics) Limited pursuant to resolution 2(a) above.

By Order of the Board  
**China Resources Microelectronics Limited**  
Mr. WANG Guoping  
Chairman

Dated: 5 September 2011

*Registered Office*  
Scotia Centre  
4th Floor  
P.O. Box 2804GT  
George Town  
Grand Cayman  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*  
Room 4609-4610  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A white form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 5 September 2011 despatched to members of the Company.
- (3) In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy thereof, must be lodged with the Hong Kong share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy

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## NOTICE OF EGM

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will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.

- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) At the extraordinary general meeting, the chairman of the extraordinary general meeting will exercise his power under article 76 of the articles of association of the Company to put all resolutions proposed at the extraordinary general meeting to a vote by way of a poll.
- (6) The register of members of the Company will be closed from 26 September 2011 to 28 September 2011 (both days inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 September 2011.