

CHAIRMAN'S STATEMENT

The Management team of the Group

From left to right:

Dai Zhenhua

Song Lin

Zhu Jinkun

Yu Min

Xu Zhiming

Dennis Kwok

The continuous support from CRH, our parent company, and a dedicated management team together set the scene for the Group to grow and enhance shareholders' value.



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I present the Annual Report of China Resources Logic Limited (the "Company") and its subsidiaries (the "Group") for the nine months ended December 31, 2000 to the shareholders.

RESULTS

The Directors have resolved, as announced on August 30, 2000, that the financial year end date of the Company be changed from March 31 to December 31. The Group's audited consolidated loss for the nine months ended December 31, 2000 was approximately HK\$16.6 million, representing a reduction of loss of approximately HK\$142.6 million or 89.6% as compared to the twelve months ended March 31, 2000.

DIVIDENDS

The Directors do not recommend the payment of dividend for the nine months ended December 31, 2000.

BUSINESS REVIEW

For the nine months ended December 31, 2000, the Group was solely engaged in the manufacture and sale of office furniture in Mainland China. The turnover for this period amounted to approximately HK\$125.5 million, representing a decrease of approximately HK\$35.5 million or 22% as compared to the twelve months ended March 31, 2000.

The significant drop in turnover, however, was the direct result of the change in financial year end date from March 31 to December 31, as well as the closure of the Hong Kong branch which formed part of the reformation plan of the furniture business since October 1999. The objective of the reform is to focus our furniture business on the office furniture market in Mainland China which is expected to have not only higher growth potential but also better profit margin.

The Group's furniture operation in Mainland China had recorded a remarkable increase in sales turnover from approximately HK\$110 million for the twelve months ended March 31, 2000 to approximately HK\$125.5 million for the nine months ended December 31, 2000. At the same time, the gross margin had also increased by 2% as compared to the last financial year. These positive changes were attributable to a significant improvement of the overall economy in Mainland China and the implementation of certain management measures including, inter alia, a continuing program on cost control and effective sales and marketing strategies.

In order to optimize the benefits derived from a consolidation of production facilities, the Group had decided to relocate the factory in Guangzhou to Zhuhai for which a special provision of approximately HK\$3.2 million was made during the period under review.

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RESTRUCTURING

- **Change of controlling shareholder**

On November 17, 2000, China Resources Enterprise, Limited ("CRE") had transferred all its interest of the Company to China Resources (Holdings) Company Limited ("CRH"). After the transfer, CRH had a direct shareholding of 74.4% of the issued share capital of the Company.

- **Change of name**

Pursuant to a resolution passed at a Special General Meeting held on January 22, 2001, the name of the Company was changed from Logic International Holdings Limited to China Resources Logic Limited with effect from January 23, 2001. The Directors considered that the new name could better reflect the Company's strong bonding with the CRH group as well as the Group's renewed business strategy.

- **Acquisition of technology related assets and businesses from CRH**

During the period under review, the Group successfully conducted a restructuring plan with a view to positioning the Group as the listed technology arm of the CRH group. Detailed description of the plan are contained in the listing document issued by the Company on December 30, 2000. The core of the restructuring exercise consisted of the acquisition of: (i) the compressor business; (ii) the semiconductor business, and (iii) the IT business, from the CRH group.

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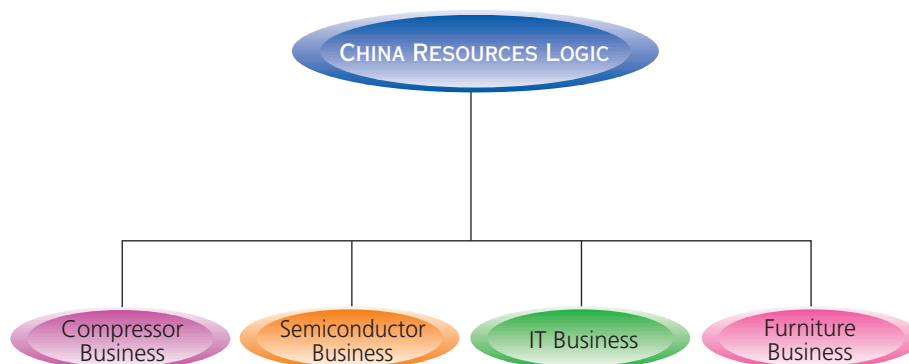


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The acquisitions were approved by the shareholders in the Special General Meeting held on January 22, 2001 and were completed officially on February 1, 2001. The aggregate consideration for the acquisitions which amounted to approximately HK\$852 million was satisfied in full by the issuance of convertible bonds of the Group on February 1, 2001.

Included in the aggregate consideration of approximately HK\$852 million was an amount of approximately HK\$487 million attributable to the interest of China Resources Cooling Technology Co., Ltd. ("CR Cooling Technology") to be acquired by the Group. CR Cooling Technology would hold a majority interest in two equity joint ventures (collectively referred to as "CR Cooling Technology Group"). The consideration was determined based on a price-earning multiple of about 5.24 times of the forecast proforma combined profit after taxation and minority interests excluding extraordinary items for the year ended December 31, 2000 ("Combined Profit") of CR Cooling Technology Group. The audited Combined Profit reported subsequently amounted to HK\$92,927,000.

The simplified Group structure by business unit after restructuring is as follows:



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Compressor business

The compressor business of the Group is principally engaged in the manufacture and sale of air-conditioner compressors. Its production facilities are located in Shenyang in Mainland China. With an annual production capacity of over 1,400,000 units of air-conditioner compressors, it was the fourth largest air-conditioner compressor's manufacturer in Mainland China in the year 2000. At present, construction of a new production line within the existing factory premises is underway which, when completed, will increase the annual production capacity to 2,000,000 units.

Semiconductor business

The major assets acquired by the Group from CRH include the production facilities for product design and development, fabrication, testing and packaging of 4-inch wafers. The production facilities are capable of producing consumer and telecommunication ICs, at an annual production capacity of about 360,000 pieces.

It is noteworthy that CRH has undertaken to provide a guarantee to the Company that the profit of semiconductor business will not be less than HK\$29.9 million in 2001.

The Semiconductor business.... the production facilities are capable of producing consumer and telecommunication ICs, at an annual production capacity of about 360,000 pieces.



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IT business

The principal activities of the IT business include (i) information technology consulting and strategic planning services; (ii) enterprise application services; (iii) infrastructure planning and deployment services; and (iv) data center services.

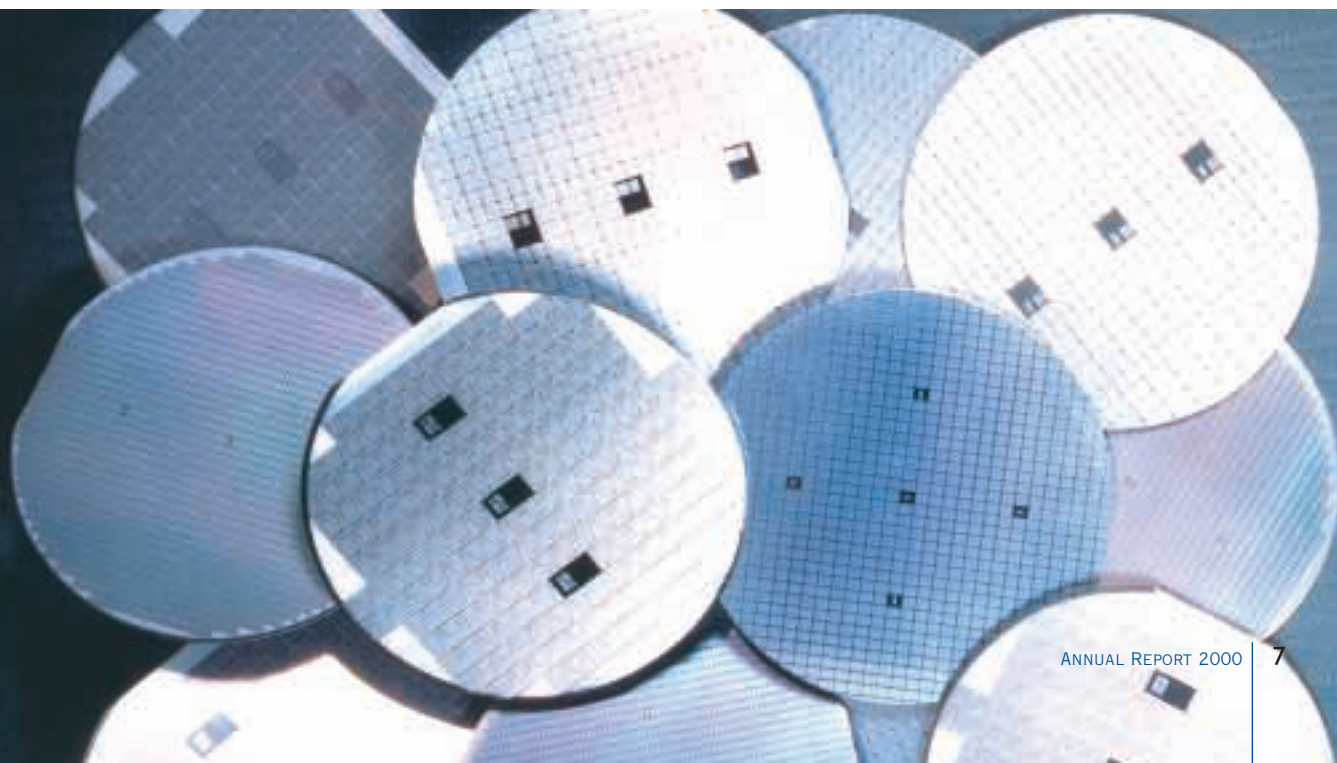
LIQUIDITY AND CAPITAL RESOURCES

In April 2000, the Group raised approximately HK\$350 million by way of an issuance of new shares to CRH and CRE. Part of the proceeds was used to repay its loans in full and the rest was retained as working capital. The Group has remained free of debt since May 2000.

To further strengthen the financial position of the Group, pursuant to the closure of the Hong Kong branch, one of the Group's properties in Hong Kong had been disposed of at the price of approximately HK\$61.6 million.

As at December 31, 2000, the Group was debt free and had a bank balance of approximately HK\$192 million.

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REWARD FOR EMPLOYEES

As at December 31, 2000, the number of salaried staff of the Group in both Hong Kong and Mainland China was approximately 1,000. Staff bonus was distributed based on the performance of the respective companies and the employees concerned. Share options were granted by the Directors to certain staff members as appropriate.

FUTURE PROSPECTS

The Group is determined to become one of the leading technology companies in the region. In this regard, the Directors believe that, capitalising on the vast market potential resident in the region, availability of technical expertise, and the parent company's resources and business network, the Group is well positioned to achieve this aim in the long run.

At present, it is the Group's strategy to develop and to expand its technology-related businesses through organic growth and acquisition. The Group is also focusing on exploring other opportunities, which have the characteristics of being technology related, profitable as well as having good potential for growth and relatively high entry barrier.

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To attain market leadership in each of the Group's core businesses, the following strategies will be pursued:

- **Compressor business**

Further consolidation of the compressor business in Shenyang with a view to enlarging its market share in Mainland China will be the main focus in 2001.

Looking forward, the Group expects that Mainland China will become one of the major production bases for air-conditioner compressor in the future. With our solid foundation in the compressor industry, the Group is confident to become one of the leading compressor manufacturers in the world.

- **Semiconductor business**

Despite the fact that the boom experienced in 2000 is not likely to recur, the Directors expect that the global semiconductor market will continue to grow in the next few years. Moreover, the Group considers that the demand for IC in bipolar and Bi-CMOS process will remain strong in the coming year. Coupled with the stable and promising business in consumer IC, the Directors are strongly of the view that the semiconductor business will be able to contribute substantially to the Group's profit in 2001.

The compressor business... construction of a new production line within the existing factory premises is underway which, when completed, will increase the annual production capacity to 2,000,000 units.



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In the long run, the Group considers that the current trend in shifting the fabrication process of ICs and components from the US to Asia will prevail. It is believed that this trend will create further demand for wafer fabrication in Asia. It is the intention of the Group to capture the significant growth potential of this market in the Asian region, particularly in Mainland China.

- **IT business**

Currently, members of the CRH group are the major clients of our IT business, providing us with a steady and reliable income base. Looking forward, the Group considers that the IT business will enable the Group to capture the growth potential resident in this industry.

- **Furniture business**

In light of China's expected entry into the World Trade Organisation and the major construction and development that are going to take place in the western region in Mainland China, the Directors believe that the demand for quality furniture will increase and, consequently, the operating results of the furniture business will be further improved. Furthermore, the Group is considering to make use of the existing distribution network in Mainland China for improving the marketing and sales function of other businesses of the Group, especially the IT business.

The continuous support from CRH, our parent company, and a dedicated management team together set the scene for the Group to grow and enhance shareholders' value.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to the Group's employees for their hard work and dedication to achieving the Group's business goal.

On behalf of the Board

SONG LIN

CHAIRMAN

Hong Kong, April 17, 2001