

## **CHAIRMAN'S STATEMENT AND REVIEW OF OPERATIONS AND RESULTS**

### **RESULTS**

The Group's audited consolidated turnover for the financial year amounted to \$1,101 million, representing an increase of 7.8 times as compared to the nine months period ended 31st December, 2000. The Group's gross profit margin for the financial year was 39.1%, a significant improvement over the gross profit margin of 27.7% for the nine months period ended 31st December, 2000. The Group's operating profit for the financial year was HK\$250 million representing a margin of 22.7%. The Group's profit attributable to shareholders and basic earnings per share for the financial year was HK\$131.4 million and HK8.71 cents respectively whilst for the comparative nine months period ended 31st December, 2000, the Group recorded a loss of HK\$16.6 million. Apart from improved Office Furniture Business, the turnaround of the results of the Group was mainly due to the acquisition of the Compressor, Semiconductor and Information Technology Service Businesses during the year.

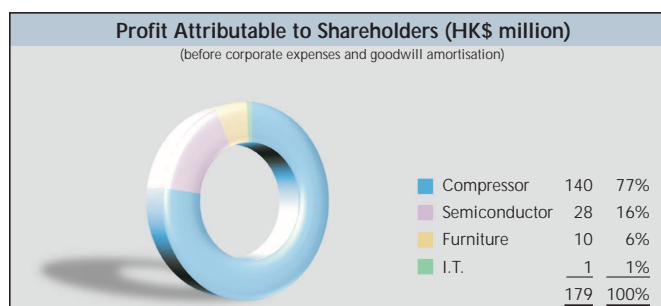
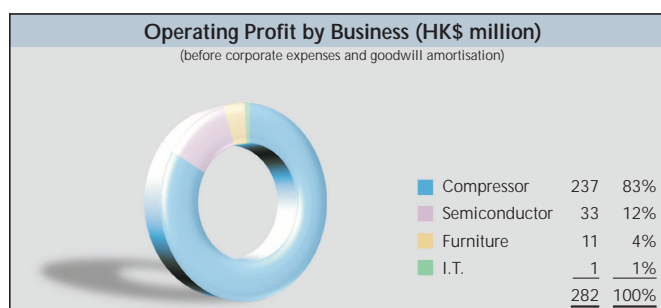
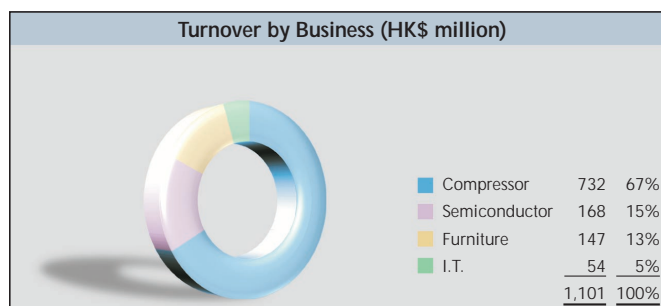
### **FINAL DIVIDEND**

The Directors do not recommend the payment of dividend for the year ended 31st December, 2001. The Directors proposed that the Group's profit for the year of HK\$131.4 million be carried to reserves.

### **BUSINESS REVIEW**

After the Acquisition and completion of re-structuring, the Group has now 4 core businesses namely (i) the Compressor Business, (ii) the Semiconductor Business, (iii) the Information Technology Business and (iv) the Office Furniture Business. The total consideration for the acquisition of the 3 new businesses from CRH was HK\$851.7 million and was satisfied by the issue of Convertible Bond of same amount by the Company to CRH. New directors have also been appointed to manage and develop the above-acquired businesses.

Turnover, operating profit and profit attributable to shareholders distribution for the year ended 31st December, 2001 among the businesses are as depicted graphically below with Compressor Business commanding the lion's share of the Group's total business:



### Compressor Business



The Group's Compressor Business is one of the top four suppliers of residential air-conditioner compressor in mainland China with a market share of about 10%.

For the period from February to December 2001, a record compressor sales volume of 1,636,000 units were achieved. Turnover amounted to HK\$732 million. The Compressor Business has made a significant contribution to the Group's operating profit with good margin. Such good margin, apart from the buoyant residential air-conditioner compressor market, was mainly brought about by successful material localisation program and tight cost control measures. The Compressor Business achieved an impressive operating profit (before corporate expenses and goodwill amortisation) of HK\$237 million for the year ended 31st December, 2001 with strong operating cash flow of HK\$209 million during the year. This in turn provides a solid foundation for further development of the Compressor Business.

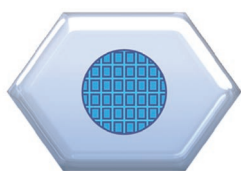
At present, residential air-conditioner has a low penetration rate of only about 25% in urban households in mainland China. With the growth of upper and middle class population in mainland China, more people will be able to afford air-conditioners. Furthermore, air-conditioners normally need to be replaced after 7 to 8 years of usage otherwise the energy efficiency ratio decreases which leads to increase in electricity consumption. This therefore represents huge potential demand for residential air-conditioners in both new and replacement markets. Since the Group's Compressor Business is a key supplier to the leading residential air-conditioner manufacturers in mainland China, the Group will continue to benefit from such increase in demand for residential air-conditioners.

In April 2001, with the completion of Phase III production line and its commencement of production in May 2001, the production capacity of the Compressor Business of the Group has been increased from an annual production of 1,400,000 units of air-conditioner compressor to 2,200,000 units (the "Phase III expansion").

In October 2001, the Compressor Business, through China Resources (Shenyang) Sanyo Compressor Co., Ltd., ("CR Shenyang Sanyo") entered into agreements for purchase of two additional production lines at a consideration of Japanese Yen 2.98 billion from its partners, Sanyo

Electric Co., Ltd. and Toyota Tsusho Corporation for the manufacture of C-R20F series rotary compressor ("Line 1") and C-R25F/C-R33F series rotary compressor ("Line 2") products. It is expected that the operation of Line 1 will commence in mid-2002 and that for Line 2 is mid-2003. This represents a further expansion of air-conditioner compressor production capacity with an enhanced product portfolio ("Phase IV expansion plan"). After the implementation of this expansion, the Group's air-conditioner compressor production capacity is expected to increase by about 900,000 units per year to about 3,100,000 units per year.

### Semiconductor Business



The Group's semiconductor business include, among others, (a) the production facilities for design, fabrication, packaging and testing of 4-inch wafers for consumer integrated circuits ("IC") used in clocks, watches, toys, telecommunication and other consumer products with an annual production capacity of about 360,000 pieces of 4-inch wafers and (b) a fabless IC design house established in April 2001.

Even though global demand for IC's has decreased in 2001, there was still a growing demand of IC's in mainland China. The profit margins of 4-inch wafer products though lower than those for 8-inch and 12-inch wafers, are less price sensitive and relatively immuned to the price volatility in the global semiconductor market. Turnover of the consumer IC's produced by the Group's Semiconductor Business amounted to HK\$168 million. Despite the downward pressure on selling price, the gross profit margin achieved by the Semiconductor Business was at a respectable 29% because of stringent cost control measures and relative low depreciation of 4-inch wafer production line. The Semiconductor Business achieved an operating profit (before corporate expenses and goodwill amortisation) of HK\$33 million for the period ended 31st December, 2001 with positive operating cash flow of HK\$28 million for the same period.

In February 2002, the Company has acquired a 55% equity interest in Wuxi China Resources Semico Microelectronics Company Limited ("Semico"), an equity joint-venture company incorporated in mainland China. Semico is a fabless IC design house engaging in the design, testing and sale of IC products and chips. With a unique design technique, Semico's products are principally used in the fields of consumer electronics appliances and telecommunication devices including,

among others, calculators, display module of fixed line telephones, black and white Super-twisted-nematic-LCD, remote controls and voice synchronizers.

With the trend of vertical specialization in the semiconductor industry, apart from dedicated foundries, dedicated packaging and testing service providers, fabless IC design houses have blossomed in recent years. The acquisition represents a good investment opportunity with relatively low capital investment.

Semico's current business focus on consumer and telecommunication ICs is in line with the Group's strategy on semiconductor business. Semico's strong market presence, rich product portfolio and about 120 experienced engineers and technicians together with the existing design team of the Group will provide a solid platform for the Group to further enhance its designing capabilities.

In addition to profit contribution, Semico is in a strong position to become one of the leading design houses in the consumer IC market. Semico's established marketing channels in mainland China will help the Group strengthen its foundation for further penetration into the mainland China semiconductor market.

The other 45% equity interests in Semico is held by China Huajing Electronic Group Corporation ("China Huajing Group"), a state-owned enterprise incorporated in Wuxi Jiangsu, mainland China. China Huajing Group is one of the largest semiconductor enterprises in mainland China, principally engaged in the businesses of designing, fabrication, packaging, testing and sale of IC's and discrete devices.

### **Information Technology ("IT") Business**



Resources Link Network Limited ("Resolink"), a wholly owned subsidiary of the Company, provides a portfolio of IT services. These include business consulting services, enterprise application, infrastructure services, value-added IT production distribution services, retail solutions, and content management. Resolink is also engaged in the development of software and the related consulting services. At present, the major customers of Resolink are CRH and its subsidiaries (together "CRH Group"). The IT services rendered to them provide Resolink with a solid customer base and steady income. Turnover for the Group's IT

Business amounted to HK\$54 million for the year ended 31st December, 2001. The IT Business achieved an operating profit (before corporate expenses and goodwill amortisation) of HK\$1.3 million in the year.

### Office Furniture Business



The Group is one of the leading quality office furniture manufacturers and suppliers in mainland China with established and well known brand name. The Group offers a one-stop office furniture service from design, manufacture to maintenance. The Group has streamlined its operation after reorganised its Hong Kong sales operation into distributorship and completing the consolidation of the production factories in mainland China. Production is now centralised in Zhuhai, making the production more cost-effective and efficient, resulting in saving in materials and labour costs as well as the shortening of production lead time. At present, the Group has over 20 regional distribution channels across mainland China including 8 branches in major cities.

The Group's business for the provision of quality office furniture in mainland China benefits from the latter's continual growth of its overall economy particularly that of the major cities such as Beijing and Shanghai. The performance of the Office Furniture Business has significantly improved. Turnover was HK\$147 million and operating profit (before corporate expenses and goodwill amortisation) of HK\$11 million was achieved during the year.

### PROSPECTS

The acquired Compressor, Semiconductor, IT Businesses have made positive contribution to the Group and provided a base for steady growth and expansion of the Group. After the streamlining of the Furniture Business operation, the Furniture Business has recorded a profit compared to a loss in the preceding period.

The Group will continue to seek suitable opportunities to enlarge its air-conditioner compressor market share in mainland China. With the increase in production capacity and enhanced product portfolio via Phase IV expansion plan, the future sales of the Group will be able to satisfy local and export demand. From the point of view of long term strategic development, the Group will continue to strengthen its relationship and form strategic partnerships with leading air-conditioner manufacturers in mainland China. The Group's Compressor Business

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would also enhance its product research and development through co-operation with its existing joint-venture Japanese partner so as to constantly enhance its product portfolio and to keep up with the latest cooling technology to increase its competitiveness.

The acquisition of Semico represents a good opportunity for the cooperation between the Group and China Huajing Group and signifies the commencement of a strategic relationship with China Huajing Group. In order to have a more solid position in mainland China semiconductor market, the Group expects to explore more business opportunities and cooperation with both international and domestic mainland China enterprises in the future.

In mainland China, domestic supply of IC could not by far satisfy total market demand and an increasing number of electronics companies has moved their production bases to mainland China. The growth potential of the semiconductor industry in mainland China, especially for consumer electronics appliances and telecommunication devices, will remain robust in the foreseeable future.

The Group will continue to focus on its long-term strategy to develop its Semiconductor Business in order to capture the market potential of the semiconductor industry. The acquisition of Semico in February 2002 represents an initial move in this direction to broaden the Group's earning base and to make the Semiconductor Business another key income and profit contributor along its air-conditioner Compressor Business.

Over the next few years, the Group will continue to expand by organic growth and by external acquisitions. The Group will continue to explore opportunities to expand its production bases and markets in mainland China by forming strategic partnerships with both overseas and Chinese enterprises.

## FINANCIAL REVIEW

### Cash Flow

The Acquisition completed during the year had a fundamental effect on the Group's cash flow position. Net cash flow from operating activities of existing and newly acquired businesses was HK\$263 million. Net cash outflow from investing activities in the year mainly comprised of HK\$254

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million of net cash brought in through the Acquisition, while the payment made during the year for the construction of the Compressor Business Phase III and IV expansion plans had reduced the amount of cash by HK\$259 million. Net cash outflow from financing activities was mainly as a result of the net partial repayment of the short term bank loan in the Compressor Business which amounted to HK\$47 million. Overall, the Group had cash and cash equivalent of HK\$258 million as at 31st December, 2001, representing an increase of HK\$65 million since the beginning of the year.

By contrast, in the nine months period ended 31st December, 2000, the major source of cash inflow comes from non-operating activities such as (i) issuance of new shares by the Group to CRH and China Resources Enterprise, Limited in April 2000, which raised HK\$350 million and (ii) the disposal of one of the Group's properties in Hong Kong with net proceeds of HK\$62 million.

#### **Liquidity and Financial Resources**

As at 31st December, 2001, the Group had total interest bearing debts of HK\$1,030 million and cash balance of HK\$258 million, with a gearing ratio (calculated as net debt divided by shareholders' funds plus minority interests) of 102%. The increase in the Group's gearing was mainly due to the issuance of Convertible Bond of HK\$851.7 million on 1st February, 2001 to its parent holding company as consideration for the Acquisition. Excluding the Convertible Bond, the Group is in a positive net cash position. The Convertible Bond with a coupon rate of 2% p.a., is redeemable by 1st February, 2004, (i.e. the Maturity Date) and with an option to the bond holder to convert into shares of the Company any time between 1st February, 2001, to 1st February, 2004 (both days inclusive) at the conversion price of HK\$0.9108 per share. There has been no exercise of the Convertible Bond during the year. The rest of the borrowing was for financing of working capital of the Group. The interest cover of the Group for the year was at a healthy level of 10 times.

As at 31st December, 2001 the Group has secured bank borrowings of HK\$41 million with assets of aggregate net book value of HK\$74 million as collaterals. Besides, bank deposits and notes receivables of HK\$118 million and HK\$19 million respectively were pledged to secure general banking facilities granted to a subsidiary of the Company. Apart from this, the Group has no other committed borrowing facilities.



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The funding requirement of the Phase IV expansion plan will be financed by internally generated funds of the Group as well as bank borrowings.

For day-to-day liquidity management and maintaining flexibility in funding, the Group has access to sufficient uncommitted short-term facilities provided by its bankers.

### **Financial Management and Treasury Policy**

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates on specific transactions. It is the Group's policy not to engage in speculative activities.

Most of the Group's assets and liabilities are denominated in Hong Kong dollars and Renminbi with some payable for machinery and parts denominated in Japanese Yen. The Group does not expect significant exposure to foreign exchange fluctuations in this regard.

### **Capital Structure**

As at 31st December, 2001, the gearing ratio (calculated as net debt divided by shareholders' funds plus minority interests) of the Group was 102%. This is mainly due to the issuance of Convertible Bonds to CRH. Excluding the Convertible Bond, the Group's is in a positive net cash position. Since the Maturity Date of the Convertible Bonds is about 2 years from now, the Group has no intention to change the mix of its equity and debt structure for the foreseeable short-term period.

The outstanding debts are mainly denominated in Hong Kong dollars and Renminbi, details of the loans outstanding are as depicted in Note 19 to the accounts.

### **Significant Investments, Acquisitions and Disposals**

During the year under review the Group had successfully completed a restructuring exercise with a view to position the Group as the listed industrial and technology arm of the CRH Group. 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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The Acquisition were approved by the shareholders in the Special General Meeting held on 22nd January, 2001 and were completed officially on 1st February, 2001. The aggregate consideration for the acquisitions which amounted to approximately HK\$851.7 million was satisfied in full by the issuance of Convertible Bonds of equivalent value on 1st February, 2001. In the Acquisition, CRH had provided a profit guarantee to the Company on the audited consolidated after-tax profit for the year ended 31st December, 2001 of the Semiconductor Business. The independent non-executive directors of the Company have reviewed the audited consolidated financial statements of the Semiconductor Business for the period from 1st February, 2001 to 31st December, 2001 and confirmed that the profit guarantee given by CRH has been achieved.

During the year, the Group has incurred a total capital expenditure (including technical know-how) of HK\$237 million in the construction of its Compressor Business's Phase III expansion. The said amount of HK\$237 million represented 83% of the Group's total capital expenditure up to 31st December, 2001. The Phase III expansion was completed in April 2001 as originally scheduled.

Following the completion of Phase III, in order to capture the growth potential and strengthen the Company's market position in the air-conditioner Compressor Business in mainland China, the Company has implemented Phase IV expansion plan in October 2001. The total investment of Phase IV expansion plan (including acquisition cost of 2 production lines and technical know-how) amounts to about HK\$438 million. Up to 31st December, 2001 the cumulative amount incurred regarding the Phase IV expansion plan was about HK\$34.6 million.

Besides expansion plans of the Compressor Business, it is also the Group's long term strategy to develop its Semiconductor Business. In February 2002, the Group has acquired 55% interest of Wuxi China Resources Semico Co., Ltd. ("Semico") with cash consideration of about RMB28.6 million.

### **Going Concern**

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

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## SHARE OPTION SCHEME

On 26th November, 2001, the Company has terminated the share option scheme of the Company adopted on 15th October 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of changes in Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in relation to share option scheme. On 21st February, 2002, upon approval of its shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme.

A summary showing the Old Share Option Scheme and the New Share Option Scheme is set out in the Report of Directors; and their respective movement are detailed in the Report of Directors and Note 21 to the Financial Statements.

The Company considers that it is not appropriate to state the value of the share options granted during the year because generally accepted pricing models of options normally value options which were transferable (share options granted by the Company were strictly non-transferable). Besides, some parameters under the generally accepted pricing model could only be derived from historical statistical data. Since the Company's businesses was restructured on 1st February, 2001 such that the present businesses are significantly different from that before restructuring, adequate population of historical data to derive reliable figures to be used in the estimation of the value of the Company's share options is not available. Owing to the reason set out above, the Company consider that any calculation of the value of the Company's share options would not be meaningful and would be misleading to the shareholders.

No charge is recognised in the income statement in respect of the value of options granted in the year.

## REWARD FOR EMPLOYEES

As at 31st December, 2001, the Group employs approximately 3,180 employees in Hong Kong and mainland China. The Group values human resources and recognizes the importance of attracting and retaining quality staff for its continuous success. Staff bonus and incentives are

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awarded basing on individual performance and share options are granted by the Board of Directors to certain employees as the Board considers appropriate.

#### APPRECIATION

On behalf of the Board, I would like to express my appreciation and gratitude to our shareholders for their support and all the Group's employees for their hard work and dedication in carrying out their duties and in achieving the Group's business goal.

On behalf of the Board

**SONG LIN**

*CHAIRMAN*

Hong Kong, 25th March, 2002