

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

Despite sluggish global semiconductor environment in 2006, the semiconductor market in the PRC still experienced rapid growth, contributing to the continual improvement in the Group's Semiconductor Business during the year, with rising turnover and profit contribution, provided concrete reasons for optimism in the long term development of the Group's Semiconductor Business.

二零零六年，儘管全球半導體營商環境疲弱，惟中國半導體市場仍得以快速增長，本集團的半導體業務經營持續改善，營業額及經營溢利貢獻繼續上升，使本集團對其半導體業務長遠的發展更具信心。



業績

本集團於二零零六年七月收購華潤上華科技有限公司（「華潤上華」）的大部份權益所帶來的貢獻，進一步推高半導體業務的業績。然而，住宅空調壓縮機行業產能過剩及本集團壓縮機業務原材料價格上漲，影響本集團年內的整體表現。儘管如此，本集團的壓縮機業務仍為本集團的營業額及盈利帶來正面貢獻。

本集團於本年度的經審核綜合營業額達3,451,000,000港元，較二零零五年增加13%。本集團於年內的毛利率為25%（二零零五年：27%）。本集團於年內的經營溢利由去年的429,000,000港元減少16%至359,000,000港元，經營溢利率為10%（二零零五年：14%）。本集團於年內的股本持有人應佔溢利和每股基本盈利分別為232,000,000港元及8.57港仙（二零零五年：分別為317,000,000港元及11.90港仙）。

末期股息

董事議決建議於二零零七年六月五日向於二零零七年五月十五日名列本公司股東名冊之股東派付截至二零零六年十二月三十一日止年度的末期股息每股1.00港仙（二零零五年：每股2.00港仙）。

RESULTS

The results of the Semiconductor Business is further boosted by the contribution from CSMC Technologies Corporation ("CSMC"), whose majority interests was acquired by the Group in July, 2006. However, the excess capacity of the residential air-conditioner compressor industry and the rising cost of raw materials of the Group's Compressor Business have affected the overall performance of the Group during the year. Nevertheless, the Group's Compressor Business still contributed positively to the Group's turnover and profitability.

The Group's audited consolidated turnover for the year amounted to HK\$3,451 million, representing an increase of 13% from that of 2005. The Group's gross profit margin for the year was 25% (2005: 27%). The Group's profit from operations for the year has decreased by 16% from HK\$429 million of 2005 to HK\$359 million, representing an operating margin of 10% (2005: 14%). The Group's profit attributable to equity holders and basic earnings per share for the year were HK\$232 million and 8.57 HK cents respectively (2005: HK\$317 million and 11.90 HK cents respectively).

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of 1.00 HK cent per share for the year ended 31st December, 2006 (2005: 2.00 HK cents per share), payable on 5th June, 2007 to shareholders on the register of members of the Company on 15th May, 2007.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧



暫停辦理股份過戶登記

本公司將於二零零七年五月八日起至二零零七年五月十五日(包括首尾兩天)期間,暫停辦理股份過戶登記。為符合獲派建議股息的資格,填妥的過戶表格連同有關股票須最遲於二零零七年五月七日下午四時三十分交回本公司的股份過戶登記分處秘書商業服務有限公司,地址為香港灣仔皇后大道東28號金鐘匯中心26樓。

業務回顧

於二零零六年本集團半導體業務表現繼續改善,綜合收益達2,087,000,000港元,年內又與STATS ChipPAC Ltd.合組合營企業及收購華潤上華的大部份權益,進一步為本集團奠下穩固的強化平台,開拓中國龐大而增長迅速的半導體市場。

本集團壓縮機業務並未達到預期表現,乃由於業內產能過剩及原材料價格上漲所致。然而,隨著擴充成功,壓縮機業務已由一家領先的中國空調壓縮機供應商晉身全球主要供應商之一,並已準備就緒於不久的將來當產能過剩情勢好轉時獲取豐碩成果。

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 8th May, 2007 to 15th May, 2007, both days inclusive. In order to qualify for the proposed dividend payment, completed transfer forms accompanied by the relevant share certificates must be lodged with the Branch Registrar of the Company, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 7th May, 2007.

BUSINESS REVIEW

The Group's Semiconductor Business has continued to improve its performance during 2006 with consolidated revenue hitting HK\$2,087 million, the joint venture with STATS ChipPAC Ltd. and the acquisition of the majority interests of CSMC during the year further provided the Group with a solid strengthened platform to tap into the huge and expanding semiconductor market in the PRC.

The Group's Compressor Business did not perform as well as expected due to excess production capacity in the industry and rising raw material costs. However, with expansion successfully carried out, the Compressor Business has transformed from a leading PRC air-conditioner compressor supplier to become a major global supplier and is poised to reap rewards once the excess production capacity situation reverses in the near future.



Semiconductor Business

半 導 體 業 務



Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

半導體業務

現時國內的半導體行業只能滿足中國集成電路和分立器件約20%的總需求。近年，中國集成電路的需求快速增長，預期在可見將來增長勢頭依然強勁。中國市場發展潛力龐大，是本集團擴充半導體業務的大好良機。由於本集團半導體業務生產的集成電路產品壽命相對較長，屬於技術成熟的集成電路市場產品，並以中國為目標市場，比較以全球為目標的高端市場產品，價格波動相對輕微，半導體業務因而能夠維持穩定的毛利率。本集團將會繼續加強技術專長，為中國價格平穩但高速增長的消費類集成電路市場生產更高檔產品。本集團將繼續應用成功的業務模式，即使用成熟技術，從而以相對較低的資本開支進軍中國不斷發展的集成電路和分立器件市場。

截至二零零六年十二月三十一日止年度，半導體業務營業額由去年錄得的1,430,000,000港元增加46%至2,087,000,000港元。年內，毛利率為29%，去年則為22%。毛利率增加乃主要由於產品結構的優化和調整，生產線產能利用率提升及若干生產設備使用壽命的調整所致。預期於二零零七年該等設備使用率進一步上升後，毛利率將提升至更高水平。截至二零零六年十二月三十一日止年度，半導體業務的經營溢利為250,000,000港元（二零零五年：153,000,000港元），增幅為63%。

Semiconductor Business

At present, the domestic semiconductor industry satisfies only approximately 20% of the total demand for IC's and discrete devices in the PRC, which has been growing rapidly in recent years and is expected to do so for the foreseeable future. This represents an excellent market environment for the expansion of the Group's Semiconductor Business. Since the IC's produced by Group's Semiconductor Business have relatively longer product life cycle and belong to the mature technology IC market segment targeting the PRC market, they are relatively immune to volatile price fluctuations found in high end market segments meant for global markets and thus contribute to the Semiconductor Business's stable gross profit margin. The Group will continuously enhance its technical expertise to produce higher value-added products within this stable-price yet high-growth IC market segment in the PRC. The Group will diligently apply its successful business model of using mature technology and hence relatively low capital expenditure in tapping profitably into the growing PRC's IC and discrete device market.

The turnover of the Semiconductor Business increased to HK\$2,087 million for the year ended 31st December, 2006 from the HK\$1,430 million recorded in previous year, an increase of 46%. The gross profit margin for the year was 29% compared to 22% of previous year. The increase in gross profit margin were mainly due to the adjustment and improvement in product mix, increase in production utilization rate and the effect of revision in useful lives of certain manufacturing equipment. Gross margin is expected to improve further when these operations are further ramped up in 2007. The Semiconductor Business achieved an operating profit of HK\$250 million for the year ended 31st December, 2006 (2005: HK\$153 million), an increase of 63%.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

本集團現時為中國半導體行業最大開發商兼生產商之一，其半導體業務包括：

集成電路設計業務

無錫華潤矽科微電子有限公司是中國大陸技術和規模領先的集成電路設計公司，該公司以數字和數模混合信號處理技術為主導，設計開發MCU、音視頻處理SoC等半導體集成電路產品，廣泛應用於電視、音響、DVD及MP3播放機、電子遊戲機、通訊設備和語音合成等領域。

近年新成立的華潤矽威科技(上海)有限公司及無錫華潤芯功率半導體設計有限公司從事電源管理IC和新型電力電子器件的開發和設計，這些產品具有廣闊的市場前景。從二零零六年下半年起，此兩類產品已開始面市，相信將會對公司設計業務增長帶來積極的貢獻。

晶圓代工業務

華潤上華是目前中國規模最大的6英寸晶圓代工企業，連同本集團於二零零四年新投資的一條6英寸晶圓生產線已逐步量產，本集團現擁有的6英寸晶圓代工總產能規模已相當可觀。公司合共擁有3條6英寸晶圓生產線，具備每月超過10萬片的6英寸晶圓代工能力及0.35微米功能，具備各種MOS、雙極和BICMOS，以及DMOS等工藝平台供客戶選擇。未來，本集團屬下6英寸晶圓代工將致力於向模擬產品代工轉型，以期達至更好的經營效益。

The Group is one of the largest players in the PRC semiconductor industry and the Group's Semiconductor Business includes:

IC Design Operation

Wuxi China Resources Semico Co., Ltd., one of the leading PRC fabless design houses in terms of technology and scale, uses digital and mixed-signal technologies to design and develop semiconductor IC products such as MCU and audio and video processing SoC applied in consumer electronics such as television, hi-fi, DVD and MP3 players, game consoles, telecommunication devices, voice synthesisers, etc.

The recently established CR PowTech (Shanghai) Limited and InPower Semiconductor (WuXi) Co., Ltd. are engaged in the development and design of power management IC and IGBT devices, which have very promising market prospects. These two types of products have been launched since the second half of 2006, and the Company believes that the products will contribute positively to the growth of the design operations.

Foundry Operation

CSMC is currently the largest 6-inch open foundry operator in the PRC. Together with the ramping up production of a 6 inch wafer fabrication line newly invested by the Group in 2004, the current total production capacity of 6 inch wafer of the Group has attained significant scale. The Company has three 6 inch wafer fabrication lines in total, with a production capacity of over 100,000 6-inch wafers per month and 0.35μm capability, providing various technical platforms such as MOS, bipolar and BICMOS and DMOS for customers. In future, the Group will focus on transforming its 6-inch open foundry operation into analogue foundry to achieve higher value-added operations.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

集成電路封測業務

本集團已與全球領先的集成電路封測代工企業STATS ChipPAC Ltd.合資設立無錫華潤安盛科技有限公司，該公司現亦是中國大陸專注集成電路封測代工業務的重點企業之一，主要面向世界知名的半導體廠商提供集成電路封測代工服務，有引線封裝測試技術處於國內領先地位，月封裝能力達到25億線。本公司持有該合資公司75%的股份。

作為對本集團集成電路封測業務的支持，賽美科微電子(深圳)有限公司已成為國內規模最大的晶圓中測代工商。

分立器件業務

無錫華潤華晶微電子有限公司是中國大陸功率型半導體分立器件開發和製造領域的標杆，該公司年產4-6英寸分立器件晶圓1,500,000片，是中國大陸分立器件芯片和成品的主要供應商。本集團設於香港的華潤半導體有限公司是中國光電晶體管系列產品的主要供應商。公司開發的上述分立器件產品應用於綠色照明、家用電器、工業控制和個人計算機等領域。

IC Testing & Packaging Operation

The Group formed a joint venture called Wuxi CR Micro-Assemb Tech. Ltd., with STATS ChipPAC Ltd., a leading global IC assembly and testing foundry operator. The joint venture, also one of the key enterprises focused in IC testing and packaging foundry operations in the PRC, mainly provided IC assembly and testing foundry services for internationally well-known semiconductor enterprises with its leading wire bond packaging testing technology in the PRC and a packaging capacity of 2.5 billion wires per month. The Company holds 75% equity interest of the joint venture.

Semicon Microelectronics (Shen Zhen) Co., Ltd. has become the largest wafer test open foundry operator in the PRC to support the Group's IC testing and packaging operation.

Discrete Device Manufacturing Operation

Wuxi China Resources Huajing Microelectronics Co., Ltd. is a leader in the development and manufacture of power semiconductor discrete devices in the PRC. With an annual capacity of 1.50 million 4-6 inch wafers for discrete devices, this company is a major supplier of discrete device wafers and finished products in the PRC. China Resources Semiconductor Company Limited, established by the Group in Hong Kong, is a major supplier of the phototransistor products in the PRC. The above discrete device products developed by the Company are applied in promising sectors including energy saving lights, home appliances, industrial control and personal computers.



Compressor Business

壓 縮 機 業 務



Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

壓縮機業務

本集團與合營企業夥伴日本三洋電機合作的壓縮機業務，是國內具領導地位的住宅空調壓縮機供應商之一。

隨著中國行業產能的增加，於二零零六年中國住宅空調壓縮機市場疲軟。年內原料成本上漲使情況更進一步受壓。

於二零零六年營業額為1,364,000,000港元，較二零零五年1,433,000,000港元減少5%。然而，壓縮機業務繼續為本集團帶來可觀的經營溢利貢獻。其毛利率和經營溢利率分別為18%及8%（二零零五年：分別為30%及19%）。是項業務於年內錄得經營溢利114,000,000港元，較二零零五年的277,000,000港元下降59%。

壓縮機業務第五期擴產計劃已成功完成，將壓縮機業務的年產能提升至6,000,000台。一旦行業過剩產能於未來數年內被消化，本集團將處於有利位置，定能抓緊國內及海外住宅空調機市場日益增長的需求。市場增長的動力來自：(i)中國內地人民日益富裕；(ii)中國城市的住宅空調機滲透率不高；及(iii)全球氣候變暖導致空調機出口需求增加。

於二零零四年，三洋電機於合營企業所持股權由13%增至34.25%，證明三洋電機對該合營企業的過往表現及其日後業務前景充滿信心。本集團視持續提升與三洋電機的關係及合作為主要業務策略，可為壓縮機業務帶來長遠利益。憑藉成功擴充產能，壓縮機業務已由中國空調壓縮機供應商翹楚躋身全球主要供應商之列。

Compressor Business

The Group's Compressor Business, with Sanyo Electric of Japan as a joint-venture partner, is one of the leading suppliers of residential air-conditioner compressors in the PRC.

The PRC residential air-conditioner compressor market has softened in 2006 with the increase in industry capacity in the PRC during 2006. This situation is further aggravated by the increase in cost of raw materials during the year.

During 2006, turnover amounted to HK\$1,364 million, which represents a decrease of 5% over the HK\$1,433 million turnover in 2005. Nevertheless, the Compressor Business has continued to make a significant contribution to the Group's operating profit. Its gross and operating margins were 18% and 8% respectively (2005: 30% and 19% respectively). An operating profit of HK\$114 million was achieved during the year, a decrease of 59% over the HK\$277 million for 2005.

The annual production capacity of the Compressor Business has reached 6 million units with the completion of Phase V Expansion. Once the industry's excess production capacity is digested over the next few years, the Group is well poised to capture the growing demand for the residential air-conditioners in both the PRC and overseas markets, which will continue to be brought about by (i) growing affluence among the Chinese population, (ii) low penetration rate of residential air-conditioners in the PRC, and (iii) global climate warming leading to higher export demand of air-conditioners.

Sanyo Electric increased its equity shareholding in the joint-venture from 13% to 34.25% in 2004. This signified Sanyo Electric's confidence in the joint-venture's past performance and its future business prospect. The Group views the continual enhancement of relationship and co-operation with Sanyo Electric as a key business strategy which will bring long term benefits to the Compressor Business. With production capacity expansion successfully carried out, the Compressor Business has transformed from a leading PRC air-conditioner compressor supplier to become a major global supplier.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

前景

本集團將繼續致力透過內部增長、對外併購，努力尋求與海外和國內企業合組策略合作夥伴的機遇，繼續拓展本集團半導體業務。

在半導體業務方面，中國市場對模擬集成電路的需求急劇增長，本集團將可繼續從中受惠。本集團於二零零二年收購一家具領導地位的中國半導體企業以及其後成功進行重組及整合，為本集團創造了堅實的中國生產平台。為進一步鞏固本集團半導體生產平台及提升日後競爭力，本公司與 **STATS ChipPAC Ltd.** (世界主要的集成電路封裝及測試代工服務供應商之一) 於二零零六年六月訂立合資協議，以拓展測試及封裝業務。

本集團之集成電路設計公司，為中國領先集成電路設計公司，於年內大幅擴大其模擬集成電路產品組合，並加強其設計能力。本集團於近年從美國引進一批高質素的半導體設計人才，並將繼續招攬海外受訓的半導體專才，以提升本集團持續發展集成電路和分立器件的生產及設計的能力。

本集團經營晶圓代工業務的聯營公司華潤上華曾進行重組、集資及引進戰略性夥伴，以及其後於二零零四年在香港聯交所上市，為本集團晶圓代工業務的迅速擴展鋪路。本集團於二零零六年七月收購華潤上華的控制性權益，使本集團晉升為中國半導體行業最大企業之一。本集團經已晉身為中國技術成熟集成電路的翹楚，在製造和封裝模擬集成電路及分立器件、經營集成電路設計、提供晶圓代工服務方面享有舉足輕重的地位。

PROSPECTS

The Group will continue to expand its Semiconductor Business by organic growth, external acquisitions and by exploring the forming of strategic partnerships with both overseas and Chinese enterprises.

For the Semiconductor Business, the Group will continue to focus on and benefit from the rapidly increasing demand in the PRC for analogue IC's. The acquisition of a leading PRC semiconductor enterprise in 2002 and its subsequent successful restructuring and integration, provided the Group with a solid Chinese manufacturing platform. To further strengthen its semiconductor manufacturing platform and enhance its future competitiveness, the Company entered into a joint venture agreement in June, 2006 with STATS ChipPAC Ltd., one of the world's leading IC assembly and testing foundry service providers, to expand its test and assembly business.

The Group's fabless design operations are leading IC design houses in the PRC and have significantly increased its analogue IC's product portfolio during the year as well as enhancing their design capabilities. The Group has recruited high caliber semiconductor design experts from the United States in recent years and will continue to recruit overseas trained semiconductor experts to enhance the continuous development of its IC and discrete device manufacturing and design capabilities.

The restructuring, funding and the invitation of strategic partners carried out by the Group's open foundry associated company, CSMC and its subsequent listing on the HK Stock Exchange in 2004, paved the way for the rapid expansion of the Group's foundry business. The Group acquired a controlling interest in CSMC in July, 2006 and this catapulted the Group into one of the largest semiconductor entities in the PRC. The Group has become the market leader in the mature technology IC market segment of the PRC with dominant positions in manufacturing and packaging analogue IC's and discrete devices; operating fabless design house as well as providing open foundry service technology.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

本集團於二零零六年斥資1,102,000,000港元，以收購華潤上華的大部份權益和購買更多半導體生產設備。本集團半導體業務已成為本集團的主要增長動力，為本集團提供穩固平台，以進軍中國日益擴展的龐大半導體市場。本集團預期在二零零七年和其後年度的總收益當中，半導體業務的收益貢獻將繼續佔有相當比重。本集團將致力招攬優秀專才、與外國夥伴結成策略聯盟和科技聯盟，務求持續提升本身在消費類集成電路和分立器件市場中的技術實力。

至於壓縮機業務方面，近年中國空調機市場增長，加上目前中國空調機滲透率不高，本集團對於此項業務的長遠潛力充滿信心。本集團壓縮機業務將可繼續在中國爭取更大的市場份額，抓緊住宅空調機市場長遠的龐大潛在需求。

於二零零四年，本集團壓縮機業務與三洋電機訂立設備購買合同及技術特許使用協議，購買三條生產線，以生產15F及20F系列住宅及商用空調旋轉式壓縮機產品。是項安排已將本集團每年的壓縮機產能提升至現時的約6,000,000台。

與三洋電機之安排對本集團壓縮機業務與三洋電機而言均屬互惠互利。產能提升後將可讓本集團抓緊中國需求日增所締造的商機。本集團壓縮機業務亦從三洋電機取得新國際市場、產能及技術，對三洋電機而言則可進一步利用合營企業的生產力及成本效益，提升其本身的住宅空調機業務。

The Group spent some HK\$1,102 million of capital expenditure during 2006 to acquire the majority interests of CSMC and purchase additional semiconductor production equipment. The Group's Semiconductor Business has become the key growth drivers of the Group, providing the Group with a solid platform to tap into the huge and expanding semiconductor market in the PRC. The Group foresees the revenue contribution from its Semiconductor Business will continue to account for a very significant share of the Group's total revenue in 2007 and thereafter. The Group will strive to continually enhance its technical capability within the consumer IC and discrete device market segment via infusion of talents and forging strategic and technical alliances with foreign partners.

For the Compressor Business, the Group is confident of its long term potential as evidenced by the growth of air-conditioner market in the PRC in recent years and the present low penetration rate of air-conditioners in the PRC. The Group's Compressor Business will strive to enlarge its market share in the PRC to further capture the huge potential demand for residential air-conditioners.

In 2004, the Group's Compressor Business entered into an Equipment Purchase Contract and Technology License Agreements with Sanyo Electric for the purchase of three production lines for the manufacture of 15F and 20F series rotary compressor products for residential and commercial air-conditioners. The arrangement has increased the Group's annual production capacity of compressors to some 6 million units currently.

The arrangement with Sanyo Electric is for the mutual benefit of both the Group's Compressor Business and Sanyo Electric. The increased capacity will enable the Group to capture the business opportunities arising from the growing demand in the PRC. The Group's Compressor Business also acquires new international market, production capacity and technology from Sanyo Electric while Sanyo Electric can further leverage on the production and cost efficiency of the joint venture to enhance its own residential air-conditioner business.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

隨著產能增至6,000,000台及進一步改善生產技術，本集團壓縮機業務已成為領先全球住宅空調壓縮機供應商之一。此外，三洋電機增加其於本集團壓縮機業務的股權，標誌著三洋電機對該業務極具信心，亦反映三洋電機作為重要策略業務夥伴的長遠承諾，致力為本集團壓縮機業務拓展國內及全球市場。

預期半導體業務及壓縮機業務將於二零零七年及其後年度，繼續為本集團營業額及盈利能力帶來正面貢獻。

財務回顧

現金流量

年內，經營業務現金流入淨額為607,000,000港元，較去年增加16%，此乃主要由於本集團半導體業務之經營溢利上升。

本集團於年內的資本開支為703,000,000港元，其中90%及10%分別用作擴充及提升半導體業務及壓縮機業務的現有生產設施。上述所需資金乃由本集團經營業務的現金流量、銀行借貸及庫存現金撥付。截至年結日，本集團可動用的庫存現金為521,000,000港元，較去年底增加51,000,000港元，增幅為11%。現金結存中76%及7%分別為人民幣及港元，而其餘則為日圓及美元。

流動資金和財務資源

本集團的資金政策為使用經營業務所得現金流量及適當水平的借貸，作為主要擴展及收購所需資金的主要來源。截至年結日，本集團的借貸總額為2,229,000,000港元，較去年底增加63%。該顯著增加的原因是提取貸款以自願有條件收購華潤上華的大部份的已發行股本。借貸中77%列作流動負債，須於一年內償還，其餘須於五年內償還。人民幣及港元貸款分別佔借貸總額16%及72%，而其餘則為美元。為數119,000,000港元之銀行貸款乃以本集團資產作抵押。所有借貸均為按浮動利率計息的銀行貸款。

With its capacity increased to 6 million units and production technology further enhanced, the Compressor Business of the Group has become one of the leading global suppliers of residential air-conditioner compressors. Moreover, Sanyo Electric's increased shareholding in the Group's Compressor Business signifies an important gesture of confidence, which reflects Sanyo Electric's long term commitment as a key strategic business partner for the expansion of the Group's Compressor Business in both local and global markets.

It is expected that both the Semiconductor Business and the Compressor Business will continue to contribute positively to the Group's turnover and profitability in 2007 and thereafter.

FINANCIAL REVIEW

Cash Flow

The net cash inflow from operations during the year amounted to HK\$607 million which was 16% higher than that of previous year. The increase was mainly due to the increase in the operating profit of the Group's Semiconductor Business.

The Group has spent HK\$703 million in capital expenditure during the year of which 90% and 10% respectively were used to fund the expansion and upgrading of existing production facilities of the Semiconductor Business and Compressor Business. The above required funding was financed by the operating cash flow, bank borrowings and cash on hand of the Group. As at the end of the year the Group's free cash on hand was HK\$521 million representing an increase of HK\$51 million or 11% against that at last year end. Among the cash balance 76% and 7% were denominated in Renminbi and Hong Kong dollar respectively and the remaining in Japanese Yen and US dollar.

Liquidity and Financial Resources

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. As at the end of the year, the Group has total borrowings of HK\$2,229 million which represents an increase of 63% over that of last year end. The significant increase was due to loan drawdown in the voluntary conditional offer to acquire the majority interests of the issued share capital of CSMC. 77% of the borrowings are considered as current liabilities and repayable within one year, the remaining are repayable in five years. Renminbi and HK dollar denominated borrowings accounted for 16% and 72% of the total borrowings respectively with the rest denominated in US dollar. Bank loans of HK\$119 million was secured by assets of the Group. All borrowings are interest bearing bank loans on floating rate terms.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

截至年結日，本集團的借貸淨額為1,708,000,000港元。截至年結日，本集團的負債比率（按借貸淨額除股本總值計算）為45%，去年底則為30%。經營業務現金流量淨額對利息支出為7倍，屬於穩健水平。整體而言，本集團的財務狀況及流動資金為穩健良好。

本集團獲授1,300,000,000港元於二零零七年到期的循環信貸及定期貸款備用額及2,439,000,000港元之其他銀行信貸備用額。備用額為無抵押，並以浮動利率計息。於年結日，本集團經已使用總備用額的58%。備用額連同穩健的經營業務現金流量，為本集團提供充裕資金來源作可見未來擴展及營運資金之用。除上文所述的已承諾備用額外，本集團並無其他已承諾借貸備用額。

資產抵押

於二零零六年十二月三十一日，本集團向銀行抵押賬面值為211,000,000港元的若干資產，以獲取銀行授出的借貸、信用狀及僱員按揭貸款。

或然負債

於二零零六年十二月三十一日，本集團就附屬公司之僱員獲授的按揭貸款提供為數4,000,000港元的擔保。

財務管理和庫務政策

本集團的財務風險管理由香港總部的司庫負責。本集團的庫務政策以管理利率及外幣匯兌波動風險為主要宗旨之一。本集團的一貫政策為不參與任何投機活動。

本集團大部分資產和負債均以港元和人民幣為計算單位，而若干項目則以日圓及美元為計算單位。本集團預期不會面對重大的外匯波動風險。

The net borrowings of the Group was HK\$1,708 million as at the year end. The gearing ratio of the Group at the end of the year, calculated as net borrowings over total equity, was 45%, compared to 30% as of last year end. The net operating cash flow to interest expense was at the healthy level of 7 times. On the whole, the financial position and liquidity of the Group is healthy and stable.

The Group has been granted HK\$1,300 million revolving credit and term loan facilities with maturity in 2007 as well as HK\$2,439 million other banking facilities. The facilities are unsecured and with floating interest rates. As at the end of the year, 58% of the total facilities has been drawn down. The facility together with healthy operating cash flow will provide sufficient funding for foreseeable expansion and working capital requirement. Other than the above mentioned committed facilities, the Group has no other committed borrowing facilities.

Charge of Assets

As at 31st December, 2006, certain Group's assets with carrying values of HK\$211 million were pledged with banks to secure bank borrowing, letter of credits and employees' mortgage loans.

Contingent Liabilities

As at 31st December 2006, the Group provided guarantees of HK\$4 million on mortgage loans for employees of a subsidiary.

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. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. 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 dollar and Renminbi with certain items denominated in Japanese Yen and US dollar. The Group does not expect significant exposure to foreign exchange fluctuations in this regard.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

資本結構

截至年底，本集團之股東資金為2,755,000,000港元，較去年底增加358,000,000港元，升幅為15%。年內，本公司分別向其股東派付二零零五年度末期股息53,000,000港元及二零零六年中期股息28,000,000港元。

重大投資、收購和出售事項

收購華潤上華

於二零零六年五月十五日，本集團提出自願有條件收購建議（「收購建議」），以收購華潤上華股本中全部已發行股份。收購建議於二零零六年六月二十八日成為無條件，而本集團獲得佔華潤上華全部已發行股本約29.8%之有效接納。

收購建議已於二零零六年六月二十八日成為無條件並於二零零六年七月十二日前可供接納。截至二零零六年七月十二日（包括該日），本集團已合共獲得華潤上華全部已發行股本約72.9%（包括於收購建議前已持有之股權）。就接納收購而應付之代價以現金約452,000,000港元及發行93,631,354股本公司新股形式支付。

由於電子消費產品的需求增加，導致全球，特別是中國半導體市場不斷發展。本集團及華潤上華正抓緊增長機會，利用成熟技術（從而資本支出及成本相對較低）的共同策略，以具競爭優勢的條件滿足快速增長的集成電路市場的需求。本集團及華潤上華的合併將使雙方能掌握該快速發展的業務所提供的商機，進一步提升競爭力，符合本集團及華潤上華的業務戰略。本集團相信，華潤上華將於不遠未來為本集團的營業額及溢利作出重要貢獻。該次收購為本集團未來發展及成為中國半導體行業翹楚的計劃踏出重要戰略性一步。

Capital Structure

As at the end of the year the shareholders' fund of the Group was HK\$2,755 million, representing an increase of HK\$358 million or 15% compared to that of last year end. During the year, HK\$53 million and HK\$28 million were paid to shareholders of the Company as final dividend for the year 2005 and interim dividend for the year 2006 respectively.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Acquisition of CSMC

On 15th May, 2006, the Group has made a voluntary conditional offer (the "Offer") to acquire all the issued shares in the share capital of CSMC. The Offer became unconditional on 28th June, 2006 whereby the Group has by then obtained valid acceptances representing about 29.8% of the entire issued share capital of CSMC.

The Offer remained open for acceptance up to 12th July, 2006 after it becomes unconditional on 28th June, 2006. Up to and including 12th July, 2006, the Group has obtained a total of about 72.9% (including the shareholding it held before the Offer) of the entire issued share capital of CSMC. The acceptances were satisfied by cash of some HK\$452 million and the issue of 93,631,354 new shares of the Company.

The semiconductor market, globally and particularly in the PRC, continues to grow due to the increase in demand for consumer electronic products. Both the Group and CSMC are leveraging this growth with their common strategy of using mature technology (hence lower capital expenditure and costs) to competitively service the rapidly growing IC market. The consolidation of the Group and CSMC would enable both entities to capture the opportunities offered by this rapidly growing business segment and further increase their competitiveness, which are in line with the business strategies of the Group and CSMC. The Group believes that CSMC will make substantial contribution to the Group's turnover and profit in the near future. The acquisition is an important strategic step in the Group's future development and in its plans to become a leading player in the PRC semiconductor industry.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

與新科金朋合組合營企業

於二零零六年六月二十二日，本公司及其附屬公司無錫華潤安盛科技有限公司（「安盛科技」）與新科金朋集團（「新科」）訂立一份資產買賣協議，藉收購若干資產（「資產」）而提升安盛科技的產能，及擴闊其產品及服務種類。涉及代價為35,000,000美元，其中首筆付款額12,000,000美元，代價餘額分四期按年支付，由二零零七年至二零一零年於每年的最後一個營業日支付。首筆付款額12,000,000美元全數以借款資金撥付。餘額23,000,000美元將部份由內部資源支付，而部份將來自新科轉介予安盛科技的客戶產生的收益支付。

於二零零六年六月二十二日，本公司與其全資附屬公司無錫華潤微電子（控股）有限公司（「無錫華潤微電子」）與新科成立一間合營企業。於合營企業成立前，無錫華潤微電子全資擁有曼安森技術有限公司（「曼安森」），而曼安森則全資擁有安盛科技。合營公司成立後，無錫華潤微電子持有曼安森75%之股份，新科則持有25%。安盛科技仍為曼安森全資擁有。

本公司及新科之投資總額分別為30,000,000美元及10,000,000美元，用於認購曼安森之股份。本公司及新科於曼安森之投資將增加安盛科技之註冊股本，使其由人民幣100,000,000元增至40,000,000美元之等值人民幣。

Joint venture with STATS ChipPAC

On 22nd June, 2006, the Company and its subsidiary, Wuxi CR Micro-Assemb Tech. Ltd. ("ANST"), has entered into an Asset Sale and Purchase Agreement with STATS ChipPAC Group ("SCL"), for the purchase of certain assets (the "Assets") so as to enable ANST to increase its production capacity and expand its range of products and services. The consideration is US\$35,000,000 with an upfront payment of US\$12,000,000. The balance of the consideration is payable by 4 instalments on the last business day of each year from 2007 to 2010. The upfront payment of US\$12,000,000 is wholly financed by borrowed funds. The balance of US\$23,000,000 will be satisfied partly by internal resources and partly by revenue derived from customers introduced by SCL to ANST.

On 22nd June, 2006, the Company and its wholly owned subsidiary, Wuxi China Resources Microelectronics (Holdings) Limited ("Wuxi CRM") has established a joint venture with SCL. Before the joint venture, Wuxi CRM wholly owns Micro Assembly Technologies Limited ("MAT"), which, in turn, wholly owns ANST. After the establishment of the joint venture, Wuxi CRM holds 75% of the shareholdings in MAT whilst SCL holds 25%. ANST remains wholly owned by MAT.

The total investment made by the Company and SCL is US\$30,000,000 and US\$10,000,000 respectively and are used for subscription of shares in MAT. The investment by the Company and SCL in MAT was used to increase the registered capital of ANST from RMB100,000,000 to the RMB equivalent of US\$40,000,000.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

新科是世界領先集成電路封裝及測試代工供應商之一，為集成電路封裝及測試服務的高端產品提供全套解決方案。新科及安盛科技現時於不同市場內向各自客戶提供集成電路封裝及測試代工服務。隨著新科向安盛科技轉讓資產及作為曼安森的合夥人兼參與人，合資公司安盛科技將可大大擴充產能，提升營運水平及憑藉新科轉介國際客戶拓寬客戶基礎。購買資產連同新科向安盛科技轉介客戶，可讓安盛科技有能力滿足高速增長的中國集成電路市場及海外客戶需求。此外，該等措施將讓安盛科技擴大產能及業務規模，擴展產品種類及服務範圍，尤其是安盛科技迄今尚未開展的測試服務範圍。預期安盛科技將於不久將來為本集團的收益及溢利帶來重要貢獻。

持續經營業務

按目前的財政預測和可供動用的備用額計算，本集團具備充裕財務資源在可見將來持續經營業務。因此，編製財務報表時繼續採用持續經營業務基準。

購股權計劃

於二零零一年十一月二十六日，本公司終止於一九九四年十月十五日採納的購股權計劃（「舊購股權計劃」）。由於香港聯交所更改有關購股權計劃的證券上市規則（「上市規則」），故本公司採納了全新購股權計劃（「新購股權計劃」）。於二零零二年二月二十一日，本公司獲股東批准修訂新購股權計劃，擴闊有權參與新購股權計劃的參與者的範圍。

舊購股權計劃及新購股權計劃的概要，以及有關該等計劃各自的變動詳情，載於董事會報告書及綜合財務報表附註33。

SCL is one of the leading IC assembly and testing foundry provider in the world providing full turnkey solutions for high value added range of IC packaging and testing services. Both SCL and ANST are currently providing IC assembly and testing foundry services to their respective customers in different market segments. With the Assets transfer to ANST and with SCL as a partner and participation in MAT, the joint venture company, ANST will be able to significantly expand its production capacity, upgrade its operation and broaden its customer base with the referral of international customers by SCL. The purchase of the Assets, together with the referral customers by SCL to ANST will enable ANST to benefit from having the ability to meet the booming Chinese IC market requirement as well as demand from overseas customers. Further, these measures will allow ANST to increase significantly its production capacity and business scale, and expand its range of products and service coverage, especially test services which are hitherto not carried out by ANST. It is expected that ANST will contribute significantly to the Group's revenue and profit in the near future.

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.

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 HK 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 and their respective movements are detailed in the Directors' Report and in Note 33 to the consolidated financial statements.

Chairman's Statement and Review of Operations and Results

主席報告書與業務及業績回顧

獎勵僱員

於二零零六年十二月三十一日，本集團在香港和中國共聘用約9,173名員工。本集團一向重視人才，深明吸納和留聘優秀員工是本集團繼續致勝之道。本集團會按若干員工的個別表現而發放花紅及購股權，相信此舉有助本集團吸納及留聘優秀員工，並鼓勵員工發揮最佳表現。

致謝

本集團有賴各業務夥伴、客戶及股東的鼎力支持和全體員工努力不懈的竭誠服務以達致本集團的目標，本人謹代表董事會向彼等致以衷心謝意。

承董事會命
華潤勵致有限公司
主席
朱金坤

香港，二零零七年三月二十八日

REWARD FOR EMPLOYEES

As at 31st December, 2006, the Group employs approximately 9,173 employees in Hong Kong and the PRC. The Group values human resources and recognizes the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees basing on individual performance. The Group believes this will assist the Group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our most sincere appreciation to our business partners, customers and shareholders for their unfailing support as well as 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
ZHU JINKUN
Chairman
CHINA RESOURCES LOGIC LIMITED

Hong Kong, 28th March, 2007