

Chairman's Statement



Dear shareholders,

The Company was incorporated following the restructuring on 10 September 2004 and its H Shares were successfully listed on 20 December 2004 on the main board of the Stock Exchange. I am profoundly honoured to be recommended with trust by the Directors to take the position of the Chairman of the first Board. The successful listing of the Company's H Shares is a milestone symbolising the Company having entered into a new phase of development. However, we can sense that the Company will face many different various kinds of challenges in its future development. For this, I deeply feel the great responsibility to be borne by me.

Overview of results

Last year, the Group continued to take the lead in the colour CPTs market in the PRC and its global market share further expanded. Capitalising its scale advantage, unique cost leverage as a result of its complete support, flexible manufacturing system, all-round product mix, solid customer base and efforts of the Board, management and all employees of the Company, the Group achieved an encouraging operation results and maintained a high profit margin, kept a stable growth in the production, sales and profit of its principal operation colour CPTs and CPT components, though faced by declining prices of CPTs as well as rising prices of certain raw materials.

For the year ended 31 December 2004, the Group sold approximately 13,674,000 sets of colour CPT in aggregate, representing an increase of 23.1% over last year; realised sales revenue of RMB4,949.683 million, representing an increase of 15.9% over last year; Net profit RMB385.327 million, representing an increase of 22% over last year. Earnings per share is RMB0.25. The overall gross profit amounted to 21.3%.

Business review

2004 was a remarkable year for the Company, as the Company completed its restructuring and stepped into the international capital market within the year. The Company's H Shares were listed on the main board of the Stock Exchange on 20 December 2004, issuing a total of 485,294,000 H Shares (including sale of 44,120,000 State-owned legal person shares) and raising a total fund of HK\$766.8 million (including raised fund of HK\$69.7 million from sale of 44,120,000 State-owned legal person shares).

In the past year, the Group continued to strengthen its colour CPTs operation and optimise its product structure. A production line for 21" colour CPTs with an annual production capacity of 2 million set of CPTs was established. The Group also utilised technology renovation to enhance the existing production capacity and product mix of the production line of colour CPTs. Besides, the production line of super large sized CPTs with high definition is under smooth construction. Further, in respect of CPT components, the Group continues to enhance the production capacity of key CPT components. The accomplishment of the supportive projects of glass bulb and shadow mask further reinforced the cost leverage of the Group. Meanwhile, the proportion of external sales of CPT components grew steadily. The sales revenue from CPT components in 2004 increased by 26.5% compared with 2003. In addition, the research and development of the new products of PDPs, colour CPTs, CPT components progressed smoothly, creating satisfactory conditions for the on-going development of the Group.

Future prospects

As the PRC macro-economy is expected to maintain its speedy growth, the disposable income of the general population in the PRC will hopefully increase continuously. This is expected to drive the demand for colour television sets, thus the demand for CPTs will increase accordingly. Integration in the industry will bring about further opportunities for the Group. As production lines of CRT television sets and CPTs in Europe and America shut down and the trend of moving such production lines to developing countries such as the PRC continues, the PRC's role as the centre for manufacturing of colour television sets and CPTs in the world will be further enhanced. The PRC's status as a global manufacturing center for colour television sets and colour CPTs will be further strengthened. The export of colour television sets and CPTs in the PRC will keep growing fast and the Group has excellent prospects for future development.

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However, competition in the display industry is becoming intense with declining prices for flat panel television sets as well as the increasing performance. The challenge posed by the development of flat panel display to CRT market will be ever more striking. CRT televisions and CPT industry are facing with intense competition more than ever. Particularly at the beginning of 2005 with sluggish market demand, the price of CPTs further declined while the cost of certain raw materials increased.

Facing a market environment with opportunities and challenges, the Group will fully utilize its competitive leverage to grasp every chance in the coming time. We will mobilise all the employees, economise operations and innovate technology to lower cost as well as to optimise the product mix. The Group strives to develop overseas market and step into global competition with low cost and high quality products, consolidating the leading position of the Group in CPT industry in the PRC, and endeavors to increase its global market shares. Also, the Group will proactively research and develop technology for flat panel display device such as PDPs. By being persistent, accumulating capability and capitalising on opportunities, we will continue to grow.

Acknowledgement

I have pleasure to extend the gratitude on behalf of the Board to the shareholders, business partners and every sector for their care and support to the Company. I also desire to express my heartfelt gratitude to all management and employees for their dedicated efforts at work. I wish we can exert out synergetic endeavour to overcome various kinds of difficulties in order to achieve the business target of the Company in the coming year.

IRICO Group Electronics Company Limited
Ma Jinquan
Chairman

Xianyang, the PRC
24 March 2005

