

Report of the Directors

The Board hereby presents the report of the Directors and the audited accounts of the Group for the year ended 31 December 2004 to the shareholders.

Principle operations

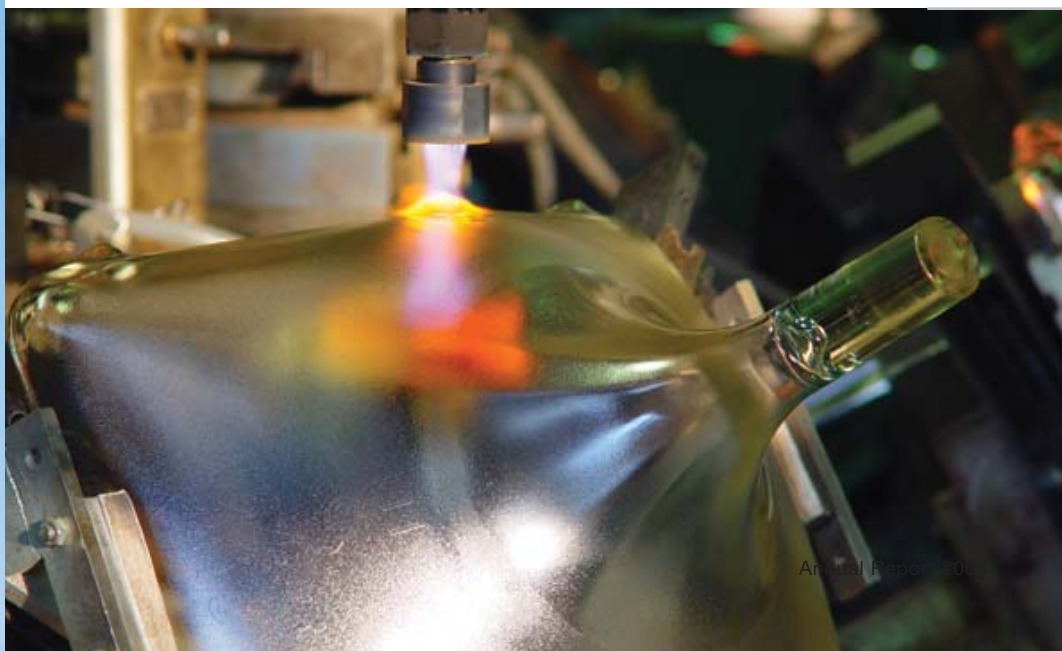
The Group is principally engaged in the production and sales of CPTs and CPT components.

Results and financial status

The annual results of the Group for the year ended 31 December 2004 and its financial status as at the same day prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") are set out on page 40 to page 82 of this annual report.

Dividends

Subsequent to the reorganisation of the Group, in accordance with the relevant PRC laws and regulations, and the Articles of Association of the Company, the retained profit available for distribution by the Company is deemed to be the lower of the amount determined in accordance with the Accounting Standards and Accounting System for Business Enterprises in the PRC ("PRC GAAP") and the amount determined in accordance with HK GAAP. In accordance with the Company's accounting policies, dividend income is recognized upon determination of rights to claim payments. As a result, as at 31 December 2004, the 2004 final dividend to be paid by the subsidiaries are not reflected in the Company's accounts in accordance with HK GAAP, and there is no retained profit available for distribution after deduction of the special dividend under the reorganisation. Details are set out in note 9 and 31 to the accounts of the annual report and the Company's prospectus dated 8 December 2004.



Financial highlights

The consolidated results and summary of assets and liabilities of the Group for the past four years are set out on page 5 of the annual report.

Major suppliers and customers

During the year, the Group's purchase of goods and services from its largest supplier represented approximately 7% while its purchase from the five largest suppliers represented approximately 25%. The Group's sales of goods and services to its largest customer represented approximately 18%, while its sales to the five largest customers accounted for approximately 62%.

The Group has purchased certain goods and / or services from certain companies, and these suppliers were connected persons of the Company. Details are set out in note 34 to the accounts.

Fixed assets

Details of fixed assets of the Group in the year are set out in note 14 to the accounts.

Reserves

Details of the reserves of the Group and of the Company during the year are set out in note 31 to the accounts.

Purchase, sale and redemption of shares

The Company had not redeemed any of its shares during the year. Neither had the Company nor any of its subsidiaries purchased or sold any of its issued shares during the year.

Directors and Supervisors

28 The particulars of Directors and Supervisors during the year and up to the date of this report are as follows:

Executive Directors

Ma Jinquan	Chairman
Tao Kui	Vice chairman
Xing Daoqin	President
Guo Mengquan	Executive Director
Zhang Shaowen	Executive Director
Yun Dajun	Vice president and chief financial controller

Directors and Supervisors (*continued*)

Non-executive Directors

Zhang Xingxi Non-executive Director

Independent non-executive Directors

Feng Fei	Independent non-executive Director
Xu Xinzong	Independent non-executive Director
Feng Bing	Independent non-executive Director
Wang Jialu	Independent non-executive Director
Zha Jianqiu	Independent non-executive Director

Supervisors

Niu Xinan	Chairman of the Supervisory Committee
Fu Jiuquan	Shareholder Supervisor
Zhang Weichuan	Employee Supervisor
Sun Haiying	Independent Supervisor
Wu Xiaoguang	Independent Supervisor

The profiles of Directors, Supervisors and senior management are set out on page 21 to page 26 of this annual report.

Re-election of Directors and Supervisors

The existing Directors and Supervisors of the Company were elected at the Annual General Meeting held on 9 September 2004. The terms of appointment were three years and till 2007. All the existing Directors and Supervisors will continue to serve their office.

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Remuneration of Directors and the five highest paid individuals

Details of the remuneration of directors and the five highest paid individuals of the Group are set out in note 11 to the accounts.

Management contracts

Save for the connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Interests and short positions of Directors and Supervisors

As at 31 December 2004, none of the Directors, Supervisors, chief executives or members of senior management of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and / or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or which was otherwise required to be entered in the register of interests to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in force as at 31 December 2004.

During the year of 2004 and as at 31 December 2004, none of the Directors, Supervisors, chief executives or members of senior management of the Company or any of their respective spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

Directors' and Supervisors' interests in contracts

Save for the services contracts entered into by the Directors and Supervisors in relation to their services to the Company, no contract of significance or proposed contracts of significance, to which the Company or any of its subsidiaries, holding companies or jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Service contracts of the Directors and Supervisors

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No Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Share capital

Details of the share capital of the Company are set out in note 30 to the accounts.

Interests and short positions of substantial shareholders and other persons

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2004 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC Nominees Limited had interests in 483,674,000 H Shares of the Company (representing 99.67% of the H Share capital).

Notes:

J. P. Morgan Chase & Co. through its controlled corporations had interests in 42,364,000 H Shares of the Company (representing approximately 8.73% of the H Share capital), which included a lending pool of 8,622,000 H Shares.

Pictet Asset Management on behalf of Pictet Funds Asian Equities had direct interests in 43,000,000 H Shares of the Company (representing approximately 8.86% of the H Share capital).

Derby Steven P., Goldfarb Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

Morgan Stanley through its controlled corporations had interests in 154,268,000 H Shares of the Company (representing approximately 31.79% of the H Share capital) and a short position in 73,000,000 H Shares of the Company (representing approximately 15.04% of the H Share capital). Of the aforesaid interests and short position, the holding of 145,068,000 H Shares and a short position of 73,000,000 H Shares was duplicated as a result of the following holding.

China International Capital Corporation (Hong Kong) Limited ("CICCHK") and China International Capital Corporation Hong Kong Securities Limited ("CICC Securities") had direct interests in 145,068,000 H Shares of the Company (representing approximately 29.89% of the H Share capital). In addition, CICCHK was also holding a short position in 73,000,000 H Shares of the Company (representing approximately 15.04% of the H Share capital). The aforesaid interests and short position in the Company's H Shares were principally as a result of the stabilising actions undertaken by CICCHK during the period from 20 December 2004 to 12 January 2005 as detailed in the prospectus of the Company dated 8 December 2004 and the announcement of the Company dated 17 January 2005. Central Huijin Investment Company Limited, Morgan Stanley and their controlled corporations were taken to be interested in the said interests and short position by virtue of their respective shareholding interests in CICCHK and CICC Securities.

Use of proceeds raised by issue of H Shares

The Company has issued H Shares in December 2004, which were listed on the the Stock Exchange on 20 December 2004. The net proceeds raised (after deduction of fees and payable to the PRC National Social Security Fund) amounted to approximately HK\$642,000,000.

The net proceeds raised are being used in accordance with the section headed "Use of Net Proceeds" set out in the Company's prospectus dated 8 December 2004. For the year ended 31 December 2004, the actual use of proceeds raised by the Company are set out as follows:

Use of proceeds	Planned <i>(HK\$ million)</i>	Actual <i>(HK\$ million)</i>
Part of the total investment in the large screen CPT production company (K-Line)	157	142
Repayment to IRICO Group Corporation to offset the same amount previously drawn on the current account of IRICO Group Corporation as part of the total investment in K Line mentioned above	157	97
Part of the total capital expenditure in the production line of CPT components	162	0
Research and development of CPTs, CPT components and new display devices	94	30
Working capital for new projects	75	66
General operating capital	remaining capital	0

Designated deposit and overdue time deposit

As of 31 December 2004, the Group had no designated deposits in any financial institutions in the PRC. All of the Group's bank deposits are lodged in commercial banks in the PRC, and the Group is in compliance with the relevant laws and regulations.

Continuing connected transactions

For the year ended 31 December 2004, there were various continuing connected transactions between the Group and IRICO Group Corporation, Xian Guangxin Electronic Co., Ltd. ("Xian Guangxin"), IRICO Display Technology Co., Ltd. ("IRICO Display"), Xianyang IRICO Electronics Parts Co., Ltd. ("IRICO Shadow Mask"), Shaanxi Rainbow Phosphor Material Co., Ltd. ("IRICO Phosphor"), Xianyang Cailian Packaging Material Company Limited ("Xianyang Cailian"), details of which are set out in the Company's prospectus dated 8 December 2004.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the otherwise applicable announcement and / or independent shareholders' approval requirements in connection with these continuing connected transactions (the "Waiver").

For the year ended 31 December 2004, the approved annual cap and the actual revenue or expenditure in respect of each continuing connected transactions are set out below:

	Approved annual cap for 2004	Actual revenue or expenditure for 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Supply of fuel, coal, industrial chemicals products and raw materials to IRICO Group Corporation	66,277	66,081
Supply of industrial chemicals products, parts and raw materials to IRICO Display, IRICO Phosphor and IRICO Shadow Mask	204,391	183,551
Purchase of foam plastics, gloves, wood brackets, convergence magnets and raw materials from IRICO Group Corporation	172,193	168,024
Purchase of phosphor and shadow mask from IRICO Phosphor and IRICO Shadow Mask	104,458	80,579
Purchase of packaging materials, adhesive tapes and plastic materials from Xianyang Cailian	43,733	43,389
Utilities obtained from IRICO Group Corporation	426,750	420,761
Social and ancillary services obtained from IRICO Group Corporation		
(a) Schools	10,106	10,036
(b) Social welfare facilities	2,814	2,814
(c) Security services	800	214
(d) Environmental hygiene and landscaping services	1,200	1,000
Rental payable to IRICO Group Corporation	30,827	30,827
Land use rights leasing fees payable to IRICO Group Corporation	4,218	4,218
Equipment leasing fees payable to Xian Guangxin	1,500	1,500
Trademark licensing fees payable to IRICO Group Corporation	5,215	4,950

Continuing connected transactions (*continued*)

The independent non-executive Directors had reviewed these continuing connected transactions and confirmed to the Board that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had provided a letter to the Directors of the Company confirming that the continuing connected transactions:

- (1) had received the approval by the Board of the Company;
- (2) were in accordance with the pricing policies disclosed in the Company's prospectus dated 8 December 2004;
- (3) had been entered into in accordance with the relevant agreements governing these transactions; and
- (4) had not exceeded the caps set out in the Waiver.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in the Waiver and Chapter 14A of the Listing Rules.

Bank loans

34 As at 31 December 2004, details of bank loans of the Group are set out in note 27 to the accounts.

Pre-emptive right

There are no provisions for pre-emptive rights under the Company's articles of association or relevant laws and regulations which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 36 to the accounts.

External guarantee

During the year, the Group did not have any provision of external guarantees.

Material litigation

The Group was not involved in any litigation or arbitration of material importance during the year.

Code of best practice

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice (“Code of Best Practice”), as set out in Appendix 14 to the Listing Rules, throughout the year.

Model code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors (the “Model Code”). Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution reappointing PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board
Ma Jinquan
Chairman

Xianyang, the PRC
24 March 2005