

1 Group reorganisation and basis of preparation

IRICO Group Electronics Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 10th September 2004 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") effective as of 31st December 2003 with details set out in the Accountants' Report to the Company's prospectus dated on 8th December 2004. The Company issued 1,500,000,000 ordinary shares of RMB1 per share to IRICO Group Corporation in exchange for the core assets and businesses of IRICO Group Corporation relating to production and sale of colour picture tubes ("CPTs") and CPT-related components and materials ("Transferred Businesses"). In addition, the Company completed its initial public offering and placing of shares on 20th December 2004. As a result, the issued share capital of the Company increased from 1,500,000,000 shares to 1,941,174,000 shares. Gross fund raised amounted to approximately HK\$767 million (equivalent to approximately RMB816 million).

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated accounts for the years ended 31st December 2003 and 2004 present the consolidated results and the state of affairs of the Group as if the Reorganisation was effective at the beginning of the earliest period presented.

The accounts have been prepared under the historical cost convention as modified by the revaluation of other investments, in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs"). The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

As the Company was incorporated on 10th September 2004, there are no comparative figures for the Company's balance sheet as at 31st December 2004.

Notes to the Accounts

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 Principal accounting policies *(continued)*

(b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and any unamortised goodwill / negative goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of fixed assets is calculated to write off the cost of the assets less accumulated impairment losses and estimated residual values using a straight line method over their estimated useful lives as follows:

Land use rights	over the unexpired lease term
Buildings	10-40 years
Machinery for electronics production	15 years
Machinery for glass production	6 years
Other machinery	18 years
Office equipment and others	5 years

No depreciation is provided on construction in progress.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

Notes to the Accounts

2 Principal accounting policies (*continued*)

(c) Fixed assets and depreciation (*continued*)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account. The impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(d) Intangibles

Expenditure on licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(e) Investments

(i) Long-term investments

Long-term investments are equity investments held for an identified long term purpose and are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are investments held for trading purpose and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2 Principal accounting policies (*continued*)

(f) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that the outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Notes to the Accounts

2 Principal accounting policies *(continued)*

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases and rentals payable net of any incentives received from the leasing company are charged to the profit and loss account evenly over the periods of the respective leases.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(n) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(o) Employee benefits

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2 Principal accounting policies *(continued)*

(p) Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

(q) Grants

Grants related to income are deferred and are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

Grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight line basis over the expected lives of the related assets.

(r) Revenue recognition

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincide with the time when the goods are delivered to customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service income is recognised when the relevant service is rendered.

Operating lease rental income is recognised on a straight-line basis over the period of leases.

(s) Segment information

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. The Group's revenues, expenses, assets, liabilities and capital expenditures are primarily attributable to the production and sale of CPT. The business segment of other CPT components contributed less than 10 per cent of the revenues, results and total assets of the Group and are not reported separately.

The Group's principal market is Mainland China and its sales to ultimate overseas customers were conducted through certain export agent companies in the Mainland before 13th October 2004. After 13th October 2004, the Company obtained the export right from related authorities and directly sold its products to overseas markets. However, the direct export sales made by the Group contributed less than 10 per cent of the revenues and results of the Group. Accordingly, no geographical segment is presented.

Notes to the Accounts

3 Turnover and revenues

The Group is principally engaged in the manufacturing of colour picture tube ("CPT") for coloured television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc and provision of related packaging, engineering and trading services. Revenues recognised during the year are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Turnover		
Sales of CPTs	4,466,767	3,888,156
Sales of CPT components	482,916	381,625
	4,949,683	4,269,781
Other revenues		
Interest income	5,524	20,721
Sales of raw materials, scraps and packaging materials	47,154	34,309
Other service income	2,472	5,345
Dividends from long-term investments	396	—
Rental income	940	883
	56,486	61,258
	5,006,169	4,331,039

4 Other operating expenses

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Cost of raw materials and scraps sold	11,528	8,690
Cost of other services provided	31	4,510
Loss on disposal of fixed assets	7,153	13,104
Other PRC taxes including education and construction levies	24,872	25,396
Provision for doubtful debts	302	1,182
Write-down of inventories to net realisable value	10,278	10,936
Donation	749	2,588
Realised and unrealised losses on other investments	11,814	—
Loss on disposal of a long-term investments	—	3,309
Impairment loss on a long-term investments	5,940	—
Others	6,608	3,889
	79,275	73,604

5 Operating profit

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Operating profit is stated after (crediting) / charging the following:		
Wages and salaries	409,638	417,050
Retirement benefit contributions	46,769	38,782
Welfare and other expenses	69,861	53,896
Total staff costs excluding directors' emoluments	526,268	509,728
Cost of inventories sold (including cost of raw materials and scraps sold)	3,822,721	3,187,837
Auditors' remuneration	2,083	474
Depreciation	242,819	285,587
Amortisation of intangible assets	54,150	50,315
Operating lease rentals in respect of machinery and equipment	1,500	1,500
Operating lease rentals in respect of land use rights and buildings	35,045	—
Provision for warranty	12,973	16,533
Research and development costs	46,980	31,610
Grant received and amortisation of deferred income on grant received	(4,688)	(4,587)
Gain on disposal of other investments	(1,037)	(2,983)
Write-back of provision for doubtful debts	(5,200)	—

6 Finance costs

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Interest on bank loans wholly repayable within five years	55,360	48,829
Finance charge on discounting of bills to banks	7,606	7,759
Total	62,966	56,588

Notes to the Accounts

7 Taxation

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
PRC enterprise income tax ("EIT") Company and subsidiaries		
— Current	136,243	164,207
— Deferred (note 29)	(1,775)	9,729
	134,468	173,936

The provision for PRC current EIT is calculated based on the statutory income tax rate of 33% of the assessable income of the Company and its subsidiaries as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described in the note below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated profit and loss account.

The Group's effective tax rate differs from the statutory rate principally due to following factors:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Profit before taxation	650,250	623,116
Calculated at statutory rate of 33%	214,583	205,628
Income under tax exemption and reduction (note)	(80,155)	(25,430)
Income not subject to taxation	(2,876)	(2,067)
Expenses not deductible for taxation purpose	2,916	2,513
Tax credit arising from purchase of equipment locally in the PRC	—	(6,708)
	134,468	173,936

7 Taxation (*continued*)

Note:

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10th September 2004 to 31st December 2004, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% from 10th September 2004 to 31st December 2004.

IRICO Display Devices Co., Ltd., a subsidiary of the Company, has obtained the approval from the relevant authorities for its entitlement to the OUWC Policy for the year ended 31st December 2003. Accordingly, EIT was accrued for and paid at a rate of 15% for the year ended 31st December 2003. For the year ended 31st December 2004, the operations of IRICO Display Devices Co., Ltd. have met the requirements under the OUWC Policy, and accordingly, EIT has also been provided at 15%.

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% in 2003 and 2004.

Caizhu (Zhongshan) Electronic Glass Plant was established in 1992 without active operation until 2002. It has been granted the status of high technology company since 2003, and accordingly, EIT was provided at 15% in 2003 and 2004.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay income tax at 15% for 2003 and 2004.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2003 and 2004.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is still in the exemption period. Xianyang IRICO Electronics Shadow Mask Co., Ltd., established in 2003 is in the pre-operating stage and has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

Notes to the Accounts

8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB189,916,000.

9 Dividend / profit distribution

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Special dividend (note (a))	204,923	—
Profit distribution (note (b))	—	146,084
	204,923	146,084

Notes:

- (a) As described in note 1 to the accounts, the Reorganisation of the Group was consummated on 31st December 2003 but the formal incorporation of the Company was on 10th September 2004 ("Incorporation Date"). According to the "Provisional Regulations Concerning the Management of State Capital and Certain Accounting Treatment for Enterprises Restructuring into Companies" from the Ministry of Finance of the PRC, all the net profit accrued from the operations of the Transferred Businesses transferred to the Company, as reported under the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP"), prior to the Incorporation Date was attributable to the ultimate parent company. As a result, the Company was required to make a special distribution which represents the net profit determined under PRC GAAP accrued from the Transferred Businesses from 1st January 2004 to 9th September 2004 (one day before the Incorporation Date, "Immediate Pre-incorporation Date") amounting to RMB204,923,000, to the ultimate parent company (see also Note 31). The special dividend was recorded in due to the ultimate holding company as at 31st December 2004.
- (b) The profit distribution for the year ended 31st December 2003 represented profit distribution paid by the Group to the ultimate holding company prior to the establishment of the Company. The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

No final dividend was declared or proposed for the year ended 31st December 2004.

10 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB385,327,000 (2003: RMB315,825,000) and based on the weighted average of 1,516,922,000 (2003: 1,500,000,000) shares in issue, assuming that the 1,500,000,000 shares issued pursuant to the Reorganisation had been in issue throughout both years.

There were no dilutive potential shares during the years ended 31st December 2003 and 2004 and accordingly no diluted earnings per share is presented.

11 Directors' and senior managements' emoluments

(a) Directors' emoluments

Details of emoluments paid and payable to the directors of the Company by the Group in respect of their services rendered for managing the businesses of the Group during the year are as follows:

	2004	2003
	Rmb'000	<i>Rmb'000</i>
Fees	163	—
Salaries and allowances	1,996	160
Discretionary bonuses	—	1,384
Retirement benefit contributions	38	26
	2,197	1,570

No directors waived or agreed to waive any emolument during the year. Fee paid to independent non-executive directors amounted to RMB163,000 for the year (2003: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to RMB1,000,000	12	12

(b) Supervisors' emoluments

	2004	2003
	Rmb'000	<i>Rmb'000</i>
Fees	55	—
Salaries and allowances	920	70
Discretionary bonuses	—	672
Retirement benefit contributions	21	12
	996	754

Notes to the Accounts

11 Directors' and senior managements' emoluments (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2004 include 5 directors (2003: 4) whose emoluments are reflected in the analysis presented in (a) above. The emoluments payable to the remaining individual for the year ended 31st December 2003 were as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Salaries and allowances	—	23
Discretionary bonuses	—	248
Retirement benefit contributions	—	4
	—	275

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

12 Retirement benefit schemes and housing benefits

The retirement benefits of full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to monthly pensions made by the Group to these plans ranging from 18% to 20% of the employees' basic salary for the year.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in note 5 and note 11 above.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group was required to contribute on a monthly basis to these funds based on 5% of the salaries of the employees before 30th June 2004. Effective from 1st July 2004, the Group increased its housing fund contribution ratio to 20% of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contribution amounted to RMB11,696,000 for the year ended 31st December 2004 (2003: RMB3,255,000).

13 Intangible assets

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Licences for technical knowledge			
At beginning of the year / upon incorporation	112,605	145,979	22,412
Additions	8,619	16,941	2,576
Amortisation	(54,150)	(50,315)	(3,454)
At end of the year	67,074	112,605	21,534
Represented by:			
Cost	330,638	322,019	93,178
Accumulated amortisation	(263,564)	(209,414)	(71,644)
	67,074	112,605	21,534

Notes to the Accounts

14 Fixed assets

Group

	Land use rights and buildings for in the PRC <i>RMB'000</i>	Machinery for electronics production <i>RMB'000</i>	Machinery for glass production <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost							
At 31st December 2003	471,218	2,397,551	646,603	691,244	102,630	198,407	4,507,653
Additions	10,019	27,317	—	67,854	14,651	1,184,972	1,304,813
Acquisition of a subsidiary	—	126	—	4,577	—	—	4,703
Transfer from construction in progress ("CIP")	7,246	204,665	226,450	33,492	4,217	(476,070)	—
Disposals	(4,087)	(27,419)	(78,524)	(73,172)	(9,809)	—	(193,011)
At 31st December 2004	484,396	2,602,240	794,529	723,995	111,689	907,309	5,624,158
Accumulated depreciation							
At 31st December 2003	163,124	1,056,925	413,542	395,847	70,579	—	2,100,017
Charge for the year	24,540	94,021	67,615	46,515	10,128	—	242,819
Disposals	(890)	(22,427)	(72,161)	(70,391)	(8,495)	—	(174,364)
At 31st December 2004	186,774	1,128,519	408,996	371,971	72,212	—	2,168,472
Net book value							
At 31st December 2004	297,622	1,473,721	385,533	352,024	39,477	907,309	3,455,686
At 31st December 2003	308,094	1,340,626	233,061	295,397	32,051	198,407	2,407,636

14 Fixed assets (*continued*)

Company

	Machinery for electronics production <i>RMB'000</i>	Machinery for glass production <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost						
Upon incorporation	754,824	260,617	370,652	71,550	698,558	2,156,201
Additions	11,173	—	29,285	2,433	130,538	173,429
Transfer from CIP	193,698	226,450	25,032	4,071	(449,251)	—
Disposals	(7,861)	—	(1,674)	(5,318)	—	(14,853)
At 31st December 2004	951,834	487,067	423,295	72,736	379,845	2,314,777
Accumulated depreciation						
Upon incorporation	395,556	243,002	124,536	52,724	—	815,818
Charge for the period	8,811	2,757	8,693	2,502	—	22,763
Disposals	(5,611)	—	(897)	(4,134)	—	(10,642)
At 31st December 2004	398,756	245,759	132,332	51,092	—	827,939
Net book value						
At 31st December 2004	553,078	241,308	290,963	21,644	379,845	1,486,838
Upon incorporation	359,268	17,615	246,116	18,826	698,558	1,340,383

At 31st December 2004, the net book value of the fixed assets pledged as security for the Group's short-term bank loans (note 27) amounted to RMB321,973,000 (2003: RMB359,273,000).

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
The Group's interests in land use rights and their net book values are analysed as follows:		
Medium term lease (10 to 50 years)	39,171	27,493
Short-term lease (below 10 years)	325	4,107
	39,496	31,600

Notes to the Accounts

15 Investments in subsidiaries

	Company 2004 <i>Rmb'000</i>
Investments, at cost	
– Listed company in the PRC	1,082,418
– Unlisted	729,857
	1,812,275

The Group's interest in a listed subsidiary in the PRC represents domestic legal person shares which are not freely transferable on the stock market under the prevailing PRC listing rules. Market value is not presented for those shares as such information is not meaningful.

Particulars on the Company's subsidiaries are detailed in note 36.

16 Associated companies

	Group	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Group share of net assets, unlisted	18,218	18,022

Particulars on the Group's associated companies are detailed in note 36.

62 17 Long-term investments

	Group	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Unlisted investments, at cost	33,500	33,621
Provision for impairment loss	(9,440)	(3,621)
	24,060	30,000

Long-term investments substantially comprise the investment in equity interests in Western Trust & Investment Co., Ltd. The directors consider that the underlying value of these investments were not less than their carrying values as at 31st December 2004.

18 Inventories

	Group		Company
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Raw materials	243,496	341,390	158,811
Work-in-progress	281,152	204,397	139,149
Finished goods	415,585	169,751	191,816
Consumables	8,001	7,132	5,471
	948,234	722,670	495,247
Write-down to net realisable value	(17,678)	(17,352)	(7,400)
	930,556	705,318	487,847

At 31st December 2004, inventories that were carried at net realisable value amounted to approximately RMB 120,940,000 (2003: RMB33,065,000).

19 Accounts receivable

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. Ageing analysis of accounts receivable at year end are as follows:

	Group		Company
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
0 to 90 days	605,884	222,029	235,812
91 to 180 days	44,403	20,952	271
181 to 365 days	4,259	15,569	2,284
Over 1 year	3,006	107,970	1,530
	657,552	366,520	239,897
Provision for doubtful debts	(3,006)	(108,419)	(1,530)
	654,546	258,101	238,367

Notes to the Accounts

20 Trade bills receivable

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
0 to 180 days	628,015	1,023,684	130,862

As at 31st December 2004, trade bills receivable amounting to RMB41,319,000 was pledged to secure short-term bank loans (note 27).

21 Loan to a subsidiary

	Company
	2004
	<i>Rmb'000</i>
Loan to a subsidiary	30,000

Loan to a subsidiary is unsecured, carry interest at 5.31% per annum and repayable on 9th November 2005.

22 Other investments

	Group	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Funds - listed in the PRC	2,955	—
Stocks - listed in the PRC	—	2,024
Bonds - listed in the PRC	1,685	2,000
	4,640	4,024

23 Due from / (to) related parties

	Note	Group 2004 Rmb'000	2003 Rmb'000	Company 2004 Rmb'000
Due from				
Trade balances:	(a)			
China National Electronics Imp. & Exp. Caihong Company		—	31,453	—
Shenzhen Hongyang Industry & Trade Co., Ltd.		7,949	3,884	—
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		3,421	6,641	3,421
Shaanxi IRICO Construction Engineering Co. Ltd.		—	8,096	—
Shenzhen IRICO Electronic Co. Ltd.		30	—	—
		11,400	50,074	3,421
Due to				
Trade balances:	(a)			
China National Electronics Imp. & Exp. Caihong Company		—	30,361	—
China Electronic Devices Industry (Shenzhen) Co., Ltd.		—	2,854	—
Caihong Labour Services Company		10,218	12,605	2,214
Shenzhen IRICO Electronics Co., Ltd.		7,126	4,149	2,100
Shaanxi IRICO Construction Engineering Co., Ltd.		—	209	—
Xian IRICO Plastic Industry Co., Ltd.		827	998	—
Xianyang Caihong Adhesive Belt Co., Ltd.		1,390	515	453
Xianyang Caihong Electronic Materials Co.		293	—	—
Xianyang Cailian Package Material Company		1,577	—	—
Sakurai Denshikogyo Co., Ltd.		1,694	—	—
		23,125	51,691	4,767

Non-trade balances:	(b)			
China National Electronics Imp. & Exp. Caihong Company		—	8,264	—
Hainan IRICO Industry and Trading Co., Ltd.		—	2,431	—
The ultimate holding company		349,178	—	263,525
		349,178	10,695	263,525

		372,303	62,386	268,292

Notes:

- (a) The trade balances in respect of sales and purchases are under the Group's normal trading terms.
- (b) Except for amounts of RMB79,000,000 (2003: Nil) of the Group due to the ultimate holding company as at 31st December 2004 which carry interest at 5.31% per annum and are repayable on 9th November 2005, the non-trade balances are unsecured, interest free and have no fixed repayment terms (note 34(i)).

Notes to the Accounts

24 Due to minority shareholders

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade balances	4,436	10,046	1,455

The trade balances in respect of purchases are under the Group's normal trading terms.

25 Cash and bank balances

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Pledged balances	21,000	—	21,000
Unpledged balances	1,096,516	747,186	460,465
Cash and bank balances	1,117,516	747,186	481,465

All the cash and bank balances are denominated in Renminbi and deposited with banks in the PRC except for the equivalent amounts of RMB215,149,000 (2003: RMB798,000) at 31st December 2004 which is denominated in foreign currencies. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31st December 2004, cash and bank balances included deposit of RMB21,000,000 which was pledged to secure short-term bank loans (note 27).

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26 Accounts payable

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
0 to 90 days	559,390	417,028	342,281
91 to 180 days	1,616	9,340	—
181 to 365 days	186	5,114	—
Over 1 year	415	297	71
	561,607	431,779	342,352

27 Short-term bank loans

	Group	Company	
	2004	2003	
	Rmb'000	Rmb'000	
		2004	
		Rmb'000	
Secured (note (a))	500,000	260,000	200,000
Unsecured (note (b))	920,000	370,000	790,000
	1,420,000	630,000	990,000

Notes:

- (a) Bank loans of approximately RMB300 million (2003: RMB260 million) are secured by certain buildings and machinery of the Group (note 14) as at 31st December 2004. Bank loans of approximately RMB200 million were secured by certain amounts of bank deposits (note 25) and trade bills receivable (note 20) of the Group as at 31st December 2004.
- (b) Bank loans of approximately RMB270 million as at 31st December 2003 were guaranteed by the ultimate holding company. Such guarantee was released during 2004.
- (c) Bank loans bore interests ranging from 3.51% to 5.02% (2003: 4.05% to 5.31%) per annum for the year ended 31st December 2004.
- (d) As at 31st December 2004, the unutilised banking facilities of the Group amounted to approximately RMB570 million.

28 Deferred income

Deferred income represents grant received from the United Nations by the Group for its ODS (Ozone Depleting Substance) cleansing replacement project for acquiring machineries to treat the ozone depleting substance produced during the production process. This deferred income is amortised to the profit and loss account on a straight-line basis over the expected lives of the corresponding assets of 5 years.

Notes to the Accounts

29 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% except for certain subsidiaries mentioned in note 7 which are subject to tax concession to pay income tax at 15%.

The movements on the deferred tax liabilities / (assets) are as follows:

	Group		Company
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
At beginning of the year / upon incorporation	(8,172)	135,357	—
Deferred taxation (credited) / charged to profit and loss account	(1,775)	9,729	2,307
Distribution upon Reorganisation	—	(153,258)	—
At end of the year	(9,947)	(8,172)	2,307
Deferred tax assets	(28,041)	(23,729)	(230)
Deferred tax liabilities	18,094	15,557	2,537
Net deferred tax (assets) / liabilities as shown in balance sheet	(9,947)	(8,172)	2,307

The movements in deferred tax liabilities and assets (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

Group

Deferred tax liabilities

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	Accelerated tax depreciation <i>RMB'000</i>	Different tax rate enacted for undistributed profits of a subsidiary <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December 2002	141,948	100,293	242,241
Charged to profit and loss account	14,649	19,462	34,111
Distribution upon Reorganisation	(141,040)	(119,755)	(260,795)
At 31st December 2003	15,557	—	15,557
Charged to profit and loss account	2,537	—	2,537
At 31st December 2004	18,094	—	18,094

29 Deferred taxation (continued)

Group

Deferred tax assets

	Depreciation and amortisation <i>RMB'000</i>	Provision for doubtful debts, inventories and impairment of fixed assets and long- term investments <i>RMB'000</i>	Accrual for staff benefits and welfare <i>RMB'000</i>	Elimination of unrealised profit from intra-group transactions <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December 2002	(20,301)	(68,357)	(3,673)	(193)	(14,360)	(106,884)
Credited to profit and loss account	(2,520)	(2,951)	(6,810)	(6,879)	(5,222)	(24,382)
Distribution upon Reorganisation	14,705	69,342	3,908	—	19,582	107,537
At 31st December 2003	(8,116)	(1,966)	(6,575)	(7,072)	—	(23,729)
(Credited) / charged to profit and loss account	(2,214)	(1,260)	516	(1,354)	—	(4,312)
At 31st December 2004	(10,330)	(3,226)	(6,059)	(8,426)	—	(28,041)

Company

Deferred tax liabilities

	Accelerated tax depreciation <i>RMB'000</i>
Upon incorporation	2,087
Charged to profit and loss account	450
At 31st December 2004	2,537

Notes to the Accounts

29 Deferred taxation (continued)

Company

Deferred tax assets

	Provision for doubtful debts, inventories and impairment of fixed assets and long-term investments <i>RMB'000</i>	Accrual for staff benefits and welfare <i>RMB'000</i>	Total <i>RMB'000</i>
Upon incorporation	(1,799)	(1,771)	(3,570)
Charged to profit and loss account	1,569	1,771	3,340
At 31st December 2004	(230)	—	(230)

30 Share capital

	Number of domestic shares of RMB 1 each	Number of H shares of RMB 1 each	Total number of shares of RMB1 each	RMB'000
Issued and fully paid:				
Upon the Reorganisation	1,500,000	—	1,500,000	1,500,000
Domestic shares converted to H shares	(44,120)	44,120	—	—
Allotted and issued upon listing of H shares	—	441,174	441,174	441,174
At 31st December 2004	1,455,880	485,294	1,941,174	1,941,174

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The Company was incorporated on 10th September 2004 with an initial share capital of RMB1,500,000,000, all of which were credited as fully paid, in consideration for the transfer of the relevant assets, liabilities and equity interests in various entities to the Company pursuant to the Reorganisation referred to in note 1. These domestic shares rank pari passu in all aspects with each other.

The share capital presented in the consolidated balance sheet as at 31st December 2003 represented the initial share capital issued by the Company in exchange of the relevant assets, liabilities and interests in various entities pursuant to the Reorganisation, which was deemed to have been in issue at the beginning of earliest period presented, in accordance with the basis of preparation set out in note 1.

30 Share capital (continued)

During the year, the Company completed its initial public offering and placing of 485,294,000 H shares with a par value of RMB1.00 each at a price of HK\$1.58 (equivalent to RMB1.68) per H share in cash for an aggregate consideration of HK\$767 million (equivalent to approximately RMB816 million), which comprised 441,174,000 new H Shares issued by the Company and 44,120,000 shares issued to the ultimate holding company pursuant to an approval from the State Assets Commission to convert such relevant domestic shares owned by the ultimate holding company into H shares as part of the public offering. As a result, the issued share capital of the Company increased to 1,941,174,000 shares, comprising 1,455,880,000 domestic shares and 485,294,000 H shares, representing 75% and 25% of the issued capital respectively.

The H shares rank *pari passu* in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

31 Reserves

Group	Capital reserve <i>Rmb'000</i> <i>(note (b))</i>	Statutory surplus reserve <i>Rmb'000</i> <i>(note (e))</i>	Statutory public welfare fund <i>Rmb'000</i> <i>(note (f))</i>	Retained profit <i>Rmb'000</i> <i>(note (c), (d))</i>	Total <i>Rmb'000</i>
2004					
As at 1st January 2004	679,758	—	—	—	679,758
Profit for the year	—	—	—	385,327	385,327
Special dividend	—	—	—	(204,923)	(204,923)
Premium on issue of shares	299,865	—	—	—	299,865
Share issuance costs	(63,490)	—	—	—	(63,490)
Contribution of ultimate holding company (note 33(b))	4,739	—	—	—	4,739
Transfer to reserves	—	15,687	7,843	(23,530)	—
As at 31st December 2004	920,872	15,687	7,843	156,874	1,101,276
2003					
As at 1st January 2003	1,316,132	—	—	—	1,316,132
Profit for the year	—	—	—	315,825	315,825
Profit distribution	—	—	—	(146,084)	(146,084)
Capitalisation upon Reorganisation	169,741	—	—	(169,741)	—
Distribution to ultimate holding company upon Reorganisation (note (a))	(806,115)	—	—	—	(805,115)
As at 31st December 2003	679,758	—	—	—	679,758

Notes to the Accounts

31 Reserves (continued)

Company

	Capital reserve <i>Rmb'000</i> <i>(note (b))</i>	Statutory surplus reserve <i>Rmb'000</i> <i>(note (e))</i>	Statutory public welfare fund <i>Rmb'000</i> <i>(note (f))</i>	Retained profit/ (accumulated loss) <i>Rmb'000</i> <i>(note (c), (d))</i>	Total <i>Rmb'000</i>
Upon incorporation	726,248	—	—	85,776	812,024
Profit for the period	—	—	—	104,140	104,140
Special dividend	—	—	—	(204,923)	(204,923)
Premium on issue of shares	299,865	—	—	—	299,865
Share issuance costs	(63,490)	—	—	—	(63,490)
Transfer to reserves	—	15,687	7,843	(23,530)	—
As at 31st December 2004	962,623	15,687	7,843	(38,537)	947,616

Note:

- (a) This represented net assets not transferred to the Company from the ultimate holding company upon Reorganisation effective as of 31st December 2003. The Group was not liable for the ownership, creditor's rights, rights, interests, liabilities and obligations (including any potential liabilities and obligations) of these net assets which were retained by the ultimate holding company after the Reorganisation.
- (b) As described in note 1, the accounts of the Group for the years ended 31st December 2003 and 2004 have been prepared as if the Group had been in existence throughout the years and as if the relevant assets, liabilities, equity interests in various entities were transferred to the Company by the ultimate holding company on 1st January 2003. Upon incorporation of the Company on 10th September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital as described in note 30 with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company pursuant to the Reorganisation.
- (c) As described in note 1 and 9 to the accounts, the consummation of the Reorganisation was on 31st December 2003. As a result, the net profit derived from the Transferred Businesses from 1st January 2004 to the Immediate Pre-incorporation Date, amounting to RMB85,776,000 was also reported as the profit of the Company for 2004. Retained profit of the Group and the Company upon incorporation of the Company represents the undistributed profit of the Group. Pursuant to the Reorganisation, undistributed profit of the Group for the period from 1st January 2004 to 9th September 2004 was attributable to the ultimate holding company and the Company has agreed to distribute such amount to the ultimate holding company by way of a special dividend (see also note 9). Accordingly, the amount was not capitalised by the Group and the Company upon incorporation of the Company.
- (d) Subsequent to the Reorganisation, in accordance with the relevant PRC regulations and Articles of Association of the Company, retained profit available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRS. As at 31st December 2004, there is no retained profit available for distribution.
- (e) **Statutory surplus reserve**
- In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with PRC GAAP to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. The Company decided to make a 10% transfer as statutory surplus reserve for the year ended 31st December 2004.
- (f) **Statutory public welfare fund**
- In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation determined in accordance with PRC GAAP to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital. The Company decided to make a 5% transfer as statutory public welfare fund for the year ended 31st December 2004.

Notes to the Accounts

32 Commitments

(a) Capital expenditure commitments

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	200,308	133,670
— Construction and renovation of production lines for CPT components	181,569	600,280
— Land use rights	—	6,630
	381,877	740,580
Contracted but not provided for		
— Construction and renovation of production lines for CPTs	136,983	77,926
— Construction and renovation of production lines for CPT components	161,056	242,952
	298,039	320,878
	679,916	1,061,458

(b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases are payable in the following periods:

	Land use rights and buildings		Machinery and equipment	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
First year	35,334	—	1,500	750
Second to fifth years	35,190	—	750	—
	70,524	—	2,250	750

33 Notes to consolidated cash flow statement

(a) Cash generated from operations

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Operating profit	713,020	679,766
Interest income	(5,524)	(20,721)
Dividend income	(396)	—
Loss on disposal of fixed assets	7,153	13,104
Provision for / (write-back of) doubtful debts	(4,898)	1,182
Write-down of inventories to net realisable value	10,278	10,936
Realised and unrealised loss / (gain) on other investments	10,777	(2,983)
Loss on disposal of long-term investments	—	3,309
Impairment loss on long-term investments	5,940	—
Depreciation	242,819	285,587
Amortisation of deferred income on grants received	(3,475)	(2,613)
Amortisation of intangible assets	54,150	50,315
Operating profit before changes in working capital	1,029,844	1,017,882
Decrease / (increase) in accounts and trade bills receivable	48,902	(295,811)
Increase in inventories	(226,741)	(260,984)
(Increase) / decrease in other receivables, deposits and prepayments	(67,405)	22,658
Decrease in due from related parties and minority shareholders — trade	38,674	9,812
Increase in accounts and trade bills payable	40,958	154,547
Decrease in other payables and accruals	(15,092)	(81,188)
(Decrease) / increase in due to related parties and minority shareholders — trade	(34,176)	12,330
Net cash generated from operations	814,964	579,246

Notes to the Accounts

33 Notes to consolidated cash flow statement (continued)

(b) Acquisition of a subsidiary

	2004 RMB'000
Net assets acquired	
Fixed assets	4,703
Inventories	8,775
Accounts and other receivables	48,047
Cash and bank balances	37,583
Accounts and other payables	(68,464)
Minority interests	(7,655)
	22,989
Contribution from ultimate holding company	(4,739)
	18,250
Satisfied by cash	18,250

Analysis of the net inflow in respect of the acquisition of a subsidiary:

	2004 RMB'000
Cash consideration	(18,250)
Cash and bank balances acquired	37,583
Net cash inflow in respect of the acquisition a subsidiary	19,333

33 Notes to consolidated cash flow statement (continued)

(c) Analysis of changes in financing during the year

	Share capital and capital reserve <i>Rmb'000</i>	Amounts due to related companies — non-trade <i>Rmb'000</i>	Minority interests <i>Rmb'000</i>	Short-term and long-term bank loans <i>Rmb'000</i>	Dividend payable <i>Rmb'000</i>	Pledged bank balances <i>Rmb'000</i>
At 31st December 2002	2,816,132	242,063	912,836	1,160,000	87,614	—
Profit distribution declared	(146,084)	—	—	—	146,084	—
Minority share of profit	—	—	133,355	—	—	—
Dividend payable to minority shareholders	—	—	(272)	—	—	—
Transfer from retained profit	315,825	—	—	—	—	—
Distribution to ultimate holding company upon Reorganisation	(606,115)	—	—	—	—	—
Cash outflow from financing	(200,000)	(231,368)	(38,759)	(100,000)	(87,614)	—
At 31st December 2003	2,179,758	10,695	1,007,160	1,060,000	146,084	—
Special dividend declared	—	204,923	—	—	—	—
Minority share of profit	—	—	130,455	—	—	—
Minority interests arising from acquisition of a subsidiary	—	—	7,655	—	—	—
Contribution from ultimate holding company	4,739	—	—	—	—	—
Unpaid share issuance costs	(26,417)	—	—	—	—	—
Cash inflow/(outflow) from financing	703,966	133,560	(16,404)	360,000	(146,084)	(21,000)
At 31st December 2004	2,862,046	349,178	1,128,866	1,420,000	—	(21,000)

Notes to the Accounts

34 Related party transactions

Significant related party transactions, which in the opinion of the directors, were carried out in the normal course of the Group's business are as follows:

(Income) / expenses	<i>Note</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Purchase of raw materials and services	(a)		
China National Electronics Imp. & Exp. Caihong Company	(b)	246,526	454,459
Caihong Labour Services Company		103,447	94,329
Shannxi IRICO General Service Corporation		50,082	40,295
Xianyang Cailian Packaging Materials Co., Ltd.		26,416	29,676
Shenzhen IRICO Electronics Co., Ltd.		12,874	15,821
Xianyang Caihong Adhesive Belt Co., Ltd.		5,242	5,671
Xian Caihong Plastic Co., Ltd.		11,731	2,854
Shenzhen Hongyang Industry & Trade Company		1,621	—
		457,939	643,105
Sale of goods	(a)		
China National Electronics Imp. & Exp. Caihong Company	(b)	(347,015)	(638,156)
Shenzhen Hongyang Industry & Trade Company		(32,920)	(30,255)
IRICO Utilities Plant		(32,248)	(22,774)
Shannxi IRICO General Service Corporation		(592)	(397)
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		(585)	(477)
Caihong Labour Services Company		(154)	(169)
Shenzhen IRICO Electronics Co. Ltd.		(58)	—
Xian IRICO Electric Co., Ltd		(109)	—
		(413,681)	(692,228)
Rental expense to Xian Guangxin Electronics Co., Ltd.	(c)	1,500	1,500
Trademark licence fee to the ultimate holding company	(d)	4,950	2,850
Utility charges to IRICO Utilities Plant	(e)	420,761	344,886
Rental expense to the ultimate holding company	(f)	35,045	—
Social and ancillary service charges to the ultimate holding company	(g)	14,064	—
Management fee from the ultimate holding company	(h)	(8,172)	(10,941)
Loans from the ultimate holding company	(i)	(79,000)	—
Interest income		—	(11,751)

34 Related party transactions (*continued*)

Notes:

- (a) Sales to and purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.
- (b) Sales to and purchase from China National Electronics Imp. & Exp. Caihong Company were discontinued before the listing of the Company.
- (c) Rental expense of machinery and equipment at RMB125,000 per month paid to Xian Guangxin Electronics Co., Ltd., a fellow subsidiary of the Group, was determined based on the terms stipulated in a lease agreement entered into between the parties involved. The lease agreement was signed on 28th June 2001 for a period of three years and was renewed for another two and a half years up to 31st December 2006.
- (d) Licence fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31st December 2006. In accordance with the agreement signed by the rest entities of the Group, the licence fee is to be paid from 1st January 2004 and the agreement is for a term of 3 years up to 31st December 2006 unless terminated by either party with a three-month prior notice.
- (e) Various kinetic energy charges were paid / payable by the companies of the Group to IRICO Utility Plants based on the agreed rates for the years ended 31st December 2003 and 2004 respectively.
- (f) From 1st January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31st December 2004 amounted to RMB35,045,000.
- (g) Social and ancillary service charges for the provision of staff welfare services are paid / payable to the ultimate holding company on a cost reimbursement basis.
- (h) Management fee received/receivable from IRICO Utilities Plant, a unit of the IRICO Colour Picture Tube Plant held by the ultimate holding company, was levied based on 3% of the sales amount of IRICO Utilities Plant for financing and management service provided by the Group as agreed by the parties involved. This transaction was discontinued upon the incorporation of the Company.
- (i) Pursuant to an agreement entered into on 16th December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19th December 2004 and offset its amount due to the ultimate holding company. Such loans amount to RMB79,000,000 as at 31st December 2004, which are unsecured, carry interest at 5.31% per annum and are repayable on 9th November 2005 (note 23(b)).

35 Ultimate holding company

The directors regard IRICO Group Corporation, a company established in China, as being the ultimate holding company.

Notes to the Accounts

36 Particulars of subsidiaries and associated companies

As at 31st December 2004, the Company has direct and indirect interests in the following subsidiaries and associated companies, all of which were established in the PRC.

Company name	Registered capital	Attributable equity interest	Principal activities
Subsidiaries			
<i>Directly held:</i>			
IRICO Display Devices Co., Ltd.	RMB421,148,800	56.14%	Production and development of the electronic products and raw materials for colour display devices
IRICO Kunshan Industry Co., Ltd. (note (1))	RMB60,000,000	80%	Production of the rubber parts of CPTs
Shaanxi IRICO Phosphor Material Co., Ltd.	RMB90,000,000	45%	Production of phosphor for various types of CPTs
Xian IRICO Zixun Co., Ltd. (note (2))	RMB130,000,000	45%	Production and sales of the parts and components for display devices and the electronic communication products
Xianyang Caiqin Electronic Device Co., Ltd.	RMB25,000,000	87.16%	Production and sales of pin, anode button, multi-form and frit for CPTs
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	60%	Sales of shadow mask, frames and electronic products for CPTs
Xianyang IRICO Electronics Shadow Mask Co., Ltd.	US\$5,000,000	75%	Development and production of the flat shadow mask and the coordinating products for CPTs
Zhuhai Caizhu Industrial Co., Ltd. (note (3))	RMB50,000,000	90%	Manufacture of electronic devices and components

36 Particulars of subsidiaries and associated companies (*continued*)

Company name	Registered capital	Attributable equity interest	Principal activities
Subsidiaries (<i>continued</i>)			
IRICO Display Technology Co., Ltd.	US\$2,500,000	75%	Production and sale of CPTs, black-and white picture tubes and ancillary electronic components
Xianyang IRICO Digital Display Co., Ltd. (note (4))	RMB650,000,000	51%	Production and sales of CPTs
<i>Indirectly held:</i>			
Beijing Goldenbridge Translation Portnetwork Co., Ltd.	RMB40,000,000	70%	Provision of technical service relating to network information
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	75%	Production and sales of frit for CPTs
Caizhu (Zhongshan) Electronic Glass Plant	RMB5,500,000	100%	Development of special paper products, and the production of frit for CPTs
Kunshan Caihong Yingguang Electronics Co., Ltd	US\$4,500,000	60%	Production of procession alloy and other products for colour and black and white picture tubes
Nanjing Reide Phosphor Co., Ltd.	US\$443,300	45%	Production and processing of recycled phosphor and related products for various types of CPT
Associated companies — indirectly held			
Caihua Development Co., Ltd.	RMB10,000,000	42.5%	Sales of household electrical appliances
Xian IRICO Plastic Industry Co., Ltd.	RMB10,000,000	30%	Production of deflection yoke spacers and balancers for colour display devices
Xian New Century International Club Co., Ltd.	RMB48,000,000	41.67%	Provision of catering services and the operation of amenity centers

Notes to the Accounts

36 Particulars of subsidiaries and associated companies (*continued*)

Notes:

- (1) The company is a stated-owned enterprise established in the PRC on 20th June 1990 and converted to a limited liability company on 7th September 2004. It is directly held by the Company at 80% and indirectly held at 7.5%.
- (2) The company is directly held by the Company at 45% and indirectly held at 31%.
- (3) The company is a state-owned enterprise established in the PRC on 9th January 1990 and converted to a limited liability company on 2nd September 2004.
- (4) The company is directly held by the Company at 51% and indirectly held at 28%.

37 Approval of accounts

The accounts were approved by the board of directors on 24th March 2005.