

Chairman's Statement

Chairman :
Mr. Xing Daoqin



Dear shareholders,

I am profoundly honoured to take the position of the Chairman of the Company on 5 August 2005 and deeply feel the great responsibility to be borne by me.

In 2005, the colour picture tube ("CPT") industry experienced unprecedented difficulties and challenges. Owing to the rapid growth of the flat panel display ("FPD") television sets, the sales volume of cathode ray tube ("CRT") television sets started to show a declining trend. This caused the total volume of sales by domestic CPTs manufacturers to decline for the first time following the rapid growth in recent years. The decline was over 23% in the first half of 2005, far beyond the expectation of the Company's management and the industry generally. At the end of 2005, analyst organisations including America's Stanford Resources Co. made considerable downward revisions to their previous forecast regarding CRT television set shipments.

In the first quarter of 2005, domestic television sets manufacturers made general adjustments to operating strategies and policies of CPTs inventories, resulting in a rapid reduction in the sales volume of CPTs in the short term and a surge in the inventories of CPTs. Business operations of CPT enterprises were further worsened by the decreasing CPTs prices and the soaring prices of certain raw materials. The Company managed to maintain a stable market share through implementation of active measures including strategies for exploring potentials and reducing costs.

Overview of results

During 2005, the Group sold 14,352,000 units of CPTs in total, representing an increase of approximately 5%, as compared with 2004. Sales revenue of CPTs for 2005 was RMB3,927,500,000, representing a decrease of 20.7% as compared with 2004. The overall gross profit margin was -11%. The loss attributable to the equity holders of the company was RMB754,547,000.

Last year, drastic price reduction and surging sales volume of FPD television sets, particularly of over 30" super large screen FPD television sets, had an increasingly noticeable replacement impact on CRT television sets, particularly on over 30" large screen CRT television sets. The speed of growth in FPD television sets was faster than generally expected by the industry. In the first quarter of 2006, Stanford Resources Co. made significant revisions to the forecast regarding 30"-34" CRT television sets and LCD television sets, and Displaysearch, another organisation in America preparing industry forecast, also made similar revisions. In light of this, the Board of Directors appointed a professional valuer to evaluate the value of the existing production facilities and construction in progress. Based on the evaluation report, the Group made provision for diminution in value of property, plant and equipment amounting to RMB567,659,000 for 2005, of which, provision for diminution in value of K line planned for production of super large screen high definition flat CPTs amounted to RMB320,325,000 and provision for diminution in value for other related production lines amounted to RMB247,334,000.

Business Review

In response to the severe difficulties, the Group adopted measures including strengthening marketing-driven strategy and cost-leading strategy, reinforcing the research and development of new display devices, optimizing the product mix, increasing sales volume, reducing product cost, so as to enhance competitiveness in the market.

In 2005, the Group developed 15" AK material and 21" AK material CPTs. 21" AK material CPTs realised scale production. 21" slim CPTs, 25" AK material CPTs and 28" 16:9 CPTs were also being developed.

Business Review *(continued)*

The Group has also developed 50" XGA PDP panels and modules and 60" XGA PDP panels and modules, and successfully developed sample television sets. 42" XGA PDP panels and modules are being developed. Following the successful development of phosphor to achieve scale production, the Group is developing other cathode materials as well as new components and parts.

The Group undertook various measures including management and technological innovation and further improvement of market expectation mechanism and marketing mode, and achieved an increase of 678,000 units in CPTs sales over 2004. The Group took steps to improve management and production efficiency, implemented cost reduction measures which focused on increasing product popularity, reducing cost and increasing quality, and effectively enhanced the competitive advantages of the products in the industry.

Owing to timely adjustments of strategies in 2005, the CPT components business of the Company not only ensured internal supply capability, but also actively explored the external market to increase revenue. In 2005, the Group accomplished sales revenue of RMB486,404,000 in CPT components, representing a year-on-year increase of 0.7%.



Future prospects

Adversely impacted by FPD television sets, the global CPT industry has started to decline, but will still own a considerable market share for a certain period of time. The Group is faced with difficult challenges and is in a phase of business repositioning. In such phase, the Group will on the one hand strengthen the existing CPTs business and on the other hand explore new businesses, with a view to achieving smooth and successful repositioning and maintaining sustainable development.

The Group will actively implement marketing-driven, cost-leading and new technology supporting strategies to push forward stable enterprise reform, so as to expand the Group's market and increase its market share. The Group will explore new technologies to further optimize product mix and reduce cost, so as to further strengthen product competitiveness. Meanwhile, the Group will also actively develop its component business and optimize product chain to increase revenue.

The Group will capitalize on the internal and external resources to explore new businesses and seek new areas of profit growth on two fronts in accordance with the principles of conducting broad research and surveys, scientific decisions and prudent investment policies. First, the Group will continue to explore the business of new display devices. The Group will speed up the industrialization of PDP devices, track and develop other flat screen CPTs, and will consider ways and means of entering into the new business with a view to actual implementation. Second, the Group will leverage on the advantage of the CPTs ancillary component business for new product research and development. The Group will strengthen the research and development of cathode materials, glass products and launch new products continuously.

Faced with a market environment which is fraught with challenges and opportunities, the management have the confidence and are determined to enhance the Group's competitiveness and to improve the Group's operating results and return for shareholders.

Acknowledgement

I have pleasure to extend the gratitude on behalf of the Board to shareholders, business partners and members of the community for their care and support for the Company, and express my heartfelt gratitude to all management members and employees for their dedicated efforts at work. I wish we can all 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 Co., Ltd.
Xing Daoqin
Chairman

Xianyang, the PRC
24 April 2006