1. General information of the Group

IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (together the "Group") manufactures, distributes and sells colour picture tubes ("CPTs") and CPT-related components and materials. The Group 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 at 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, the ultimate holding company of the Company, in exchange for the core assets and businesses of IRICO Group Corporation relating to production and sale of CPTs and CPT-related components and materials. 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.

The Reorganisation is accounted for using merger accounting as permitted by the Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the " HKICPA"). The consolidated income statement for the year ended 31st December 2004 presented the consolidated results of the Company and its subsidiaries as if the Reorganisation was effective at the beginning of the earliest period presented.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24th April 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 to the financial statements.

(All amounts in RMB thousand unless otherwise stated)

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements. The major and significant effects of the adoption of the new / revised standards and interperations of HKFRS on the Group's accounting policies and amounts disclosed are summarised as below:

(a) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests, share of net after-tax results of associated companies and other disclosures. Minority interests are now included in equity on the balance sheet and share of profits less losses of associates are presented net of taxation on the income statement. These changes in presentation have been applied retrospectively.

(b) The adoption of HKAS 24 "Related Parties Disclosure" has affected the presentation of related parties transactions and amounts due from / to related parties.

(c) The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the leasehold land and land use rights. Leasehold land and buildings were previously classified as "property, plant and equipment", and were carried at cost less accumulated depreciation and impairment. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease. Whereas the leasehold building is stated at cost less accumulated depreciation and impairment. The land element of the leasehold properties was previously included in "land use rights and buildings in the PRC" and is now disclosed as "Leasehold land and land use rights". The adoption of HKAS 17 resulted in:

	2005	2004
Decrease in property, plant and equipment	**(37,911)**	(39,496)
Increase in Leasehold land and land use rights	**37,911**	39,496

(All amounts in RMB thousand unless otherwise stated)

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS *(continued)*

(d) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries and associates, were previously classified as long-term investments and trading securities. Effective from 1st January 2005, the Group redesignated all long-term investments as available-for-sale financial assets. They are carried at fair vale, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Trading securities are carried at fair value.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. Accounts and other receivables were previously carried at cost less impairment, if any.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy did not have any material financial effect on the Group's financial statements.

The adoption of HKAS 39 has resulted in a change in accounting policy relating to the derecognition of financial assets. A financial asset shall be derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or an entity transfers the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39. The adoption of HKAS 39 resulted in:

	2005	2004
Increase in trade bills receivable	**203,335**	–
Increase in short-term bank borrowings	**203,335**	–

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new / revised HKFRS *(continued)*

The Group has carried out an assessment of the impact of following new HKFRS which have been issued but not yet effective and have not been early adopted by the Group. The adoption of these new HKFRS is not expected to result in substantial changes to the Group's accounting policies.

HKAS 1 Amendment	Presentation of Financial Statements — Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining Whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) - Int 6	Liabilities Arising From Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC) - Int 7	Financial Reporting in Hyperinfilationary Economics

2. Summary of significant accounting policies (*continued*)

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of significant accounting policies (*continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renmibi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, machineries, office equipments and others. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

—	Buildings	10 - 40 years
—	Machinery for electronics production	15 years
—	Machinery for glass production	6 -18 years
—	Other machinery	18 years
—	Office equipment and others	5 years

No depreciation is provided on construction in progress. All direct and indirect costs relating to the construction of property, plant and equipment including interest and financial costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Licenses for technical knowledge

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

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (*continued)*

2.8 Financial assets

The Group previously classified its investments in securities, other than subsidiaries and asssociates, as long-term investments and trading securities.

(a) 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 income statement. This impairment loss is written back to the income statement 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.

(b) 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 income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

Effective from 1st January 2005, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.8 Financial assets *(continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (note 2.10).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or` loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other net income", in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.10 to the financial statements.

2. Summary of significant accounting policies (*continued)*

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement

2.11 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.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Summary of significant accounting policies (*continued)*

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 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 formulas. 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.

2. Summary of significant accounting policies *(continued)*

2.15 Employee benefits *(continued)*

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.

Compensations for employee termination and early retirement are recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

2.18 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of significant accounting policies (*continued)*

2.19 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.20 Contingent liability

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 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.

2.22 Grants

Grants related to income are deferred and are recognised in the income statement 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 property, plant and equipments are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2. Summary of significant accounting policies (*continued)*

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by senior management under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC. Revenue and majority of its operating costs and cost of sales are denominated in RMB. No significant foreign exchange risk arising from future commercial transactions, recognized assets and liabilities is expected.

(ii) Price risk

The Group is exposed to commodity price risk. Since 1996, all color television set manufacturers in the PRC have lowered or even substantially lowered the selling prices of their products due to over-production. As a result, the profit margins of the color television set industry have decreased. As the CPT industry is the upstream industry of the color television set industry, the selling prices of CPTs also decreased. The Directors believe that the declining trend in the prices of color television sets has stabilized and any further decline in their prices will not have impacts on our profitability.

3. Financial risk management (*continued*)

3.1 Financial risk factors (*continued*)

(b) Credit risk

Sales to two (2004: three) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represents 55% (2004: 62%) of total turnover.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the financial statements.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group has significant interest-bearing assets mainly in the form of bank balances, but the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk arises from bank borrowings. The short-term bank borrowings are interest bearing at rates between 3.51% - 5.94% and are repayable according to the contract terms.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred taxation is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax assets are recognised for deductible temporary difference to the extent it is probable that future taxable profits will be available against which the deductible temporary differnce can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets has been recognised. A variety of other factors are also evaluated in all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidene that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the deductible temporary differences, the asset balance will be reduced and charged to income statement.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Estimated impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development.

As at 31st December 2005, the Group provided for an impairment loss of RMB567,659,000 (note 25) in respect of property, plant and equipment. The items being written down to recoverable amount due to there being business situation concerns over future profitability. The recoverable amounts of different production plants, cash generating units to which the property, plant and equipment belong, have been determined based on value-in-use calculations using cash flow projections determined by independent professional valuers based on financial budgets approved by senior management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated declining rates ranging from 5% per annum to 35% per annum for different cash generating units. The discount rates applied to cash flow projections range from 14.39% per annum to 15.27% per annum and 18.26% to 19.37% for years before 2010 and thereafter respectively.

If the revised estimated gross margin had been 10% lower than management's estimates at 31st December 2005, the Group would need to further reduce the carrying value of property, plant and equipment by RMB242,091,000.

If the revised estimated pre-tax discount rate applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates at 31st December 2005, the Group would need to further reduce the carrying value of property, plant and equipment by RMB55,466,000.

If the actual gross margin had been 10% higher or the pre-tax discounted rate had been 10% lower than management's estimates at 31st December 2005, the Group would be able to reverse the impairment losses by RMB126,072,000 and RMB50,758,000 that arose on these assets recognised in the current year.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Critical judgments in applying the Group's accounting policies

The following critical accounting judgements maybe applicable, among many other possible areas not presented in these consolidated financial statements.

(i) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgment is required. In making this judgment, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment

Group

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
Year ended 31st December 2005							
Opening net book amount							
- as previously reported	297,622	1,473,721	385,533	352,024	39,477	907,309	3,455,686
Effect of adoption of HKAS 17	(39,496)	—	—	—	—	—	(39,496)
Opening net book amount							
- as restated	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
Additions	206	68,821	—	34,399	3,558	338,118	445,102
Transfers	79	288,782	84,409	114,371	9,906	(497,547)	—
Transfer to inventories	—	—	—	—	—	(12,311)	(12,311)
Disposals	—	(8,926)	—	(1,293)	(1,153)	(1,525)	(12,897)
Depreciation charge	(20,365)	(160,630)	(92,860)	(60,317)	(12,817)	—	(346,989)
Impairment charge	—	(159,077)	—	(12,610)	—	(395,972)	(567,659)
Closing net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
At 31st December 2005							
Cost	437,618	2,884,203	878,938	861,163	114,101	734,044	5,910,067
Accumulated depreciation and impairment losses	(199,572)	(1,381,512)	(501,856)	(434,589)	(75,130)	(395,972)	(2,988,631)
Net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment *(continued)*

Group *(continued)*

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
At 1st January 2004							
Cost	433,712	2,397,551	646,603	691,244	102,630	198,407	4,470,147
Accumulated depreciation	(157,218)	(1,056,925)	(413,542)	(395,847)	(70,579)	—	(2,094,111)
Net book amount	276,494	1,340,626	233,061	295,397	32,051	198,407	2,376,036
Year ended 31st December 2004							
Opening net book amount							
- as previously reported	308,094	1,340,626	233,061	295,397	32,051	198,407	2,407,636
Effect of adoption of HKAS 17	(31,600)	—	—	—	—	—	(31,600)
Opening net book amount							
- as restated	276,494	1,340,626	233,061	295,397	32,051	198,407	2,376,036
Additions	462	27,317	—	67,854	14,651	1,184,972	1,295,256
Acquisition of a subsidiary	—	126	—	4,577	—	—	4,703
Transfers	7,246	204,665	226,450	33,492	4,217	(476,070)	—
Disposals	(3,197)	(4,992)	(6,363)	(2,781)	(1,314)	—	(18,647)
Depreciation charge	(22,879)	(94,021)	(67,615)	(46,515)	(10,128)	—	(241,158)
Closing net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
At 31st December 2004							
Cost	437,333	2,602,240	794,529	723,995	111,689	907,309	5,577,095
Accumulated depreciation	(179,207)	(1,128,519)	(408,996)	(371,971)	(72,212)	—	(2,160,905)
Net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment *(continued)*

Company

	Machinery for electronics production	Machinery for glass production	Other Machinery	Office equipment and others	Construction in progress	Total
Year ended 31st December 2005						
Opening net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
Additions	62,222	—	14,443	2,842	156,392	235,899
Transfers	267,621	84,409	27,759	9,250	(389,039)	—
Disposals	(827)	—	(10)	(702)	—	(1,539)
Depreciation charge	(83,455)	(32,371)	(27,683)	(7,199)	—	(150,708)
Impairment charge	(57,237)	—	(10,371)	—	(75,648)	(143,256)
Closing net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
At 31st December 2005						
Cost	1,215,784	571,476	459,612	76,817	147,198	2,470,887
Accumulated depreciation and impairment losses	(474,382)	(278,130)	(164,511)	(50,982)	(75,648)	(1,043,653)
Net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Upon incorporation						
Cost	754,824	260,617	370,652	71,550	698,558	2,156,201
Accumulated depreciation	(395,556)	(243,002)	(124,536)	(52,724)	—	(815,818)
Net book amount	359,268	17,615	246,116	18,826	698,558	1,340,383
Year ended 31st December 2004						
Opening net book amount	359,268	17,615	246,116	18,826	698,558	1,340,383
Additions	11,173	—	29,285	2,433	130,538	173,429
Transfers	193,698	226,450	25,032	4,071	(449,251)	—
Disposals	(2,250)	—	(777)	(1,184)	—	(4,211)
Depreciation charge	(8,811)	(2,757)	(8,693)	(2,502)	—	(22,763)
Closing net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
At 31st December 2004						
Cost	951,834	487,067	423,295	72,736	379,845	2,314,777
Accumulated depreciation	(398,756)	(245,759)	(132,332)	(51,092)	—	(827,939)
Net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838

(All amounts in RMB thousand unless otherwise stated)

5. Property, plant and equipment *(continued)*

The Group's depreciation charge of RMB317,648,000 (2004: RMB223,097,000) has been expensed in cost of sales, RMB872,000 (2004: RMB401,000) in selling and marketing costs and RMB28,469,000 (2004: RMB17,660,000) in administrative expenses.

The Group's impairment charge of RMB567,659,000 (2004: Nil) has been expensed in cost of sales.

The events and circumstances that led to the recognition of the impairment loss and the discount rates used in the current estimate of value in use are disclosed in note 4(a)(ii).

As at 31st December 2005, short-term bank borrowings of the Group amounting to RMB280,000,000 (2004: RMB300,000,000) are secured on the Group's buildings and machineries for the carrying amount of RMB284,673,000 (2004: RMB321,973,000) (note 22).

6. Leasehold land and land use rights - Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
Opening net book amount - as previously reported	**–**	–
Effect of adoption of HKAS 17	**39,496**	31,600
Opening net book amount - as restated	**39,496**	31,600
Additions	**–**	9,557
Amortisation charge	**(1,585)**	(1,661)
Closing net book amount	**37,911**	39,496
Outside Hong Kong, held on leases of:		
- between 10 to 50 years	**37,590**	39,171
- less than 10 years	**321**	325
	37,911	39,496

(All amounts in RMB thousand unless otherwise stated)

7. Intangible assets

Group

	Licenses for technical knowledge	Computer Software	Total
Year ended 31st December 2005			
Opening net book amount	67,074	—	67,074
Additions	1,399	1,543	2,942
Amortisation charge	(55,643)	(383)	(56,026)
Closing net book amount	12,830	1,160	13,990
At 31st December 2005			
Cost	332,037	1,543	333,580
Accumulated amortisation and impairment	(319,207)	(383)	(319,590)
Net book amount	12,830	1,160	13,990
At 1st January 2004			
Cost	322,019	—	322,019
Accumulated amortisation and impairment	(209,414)	—	(209,414)
Net book amount	112,605	—	112,605
Year ended 31st December 2004			
Opening net book amount	112,605	—	112,605
Additions	8,619	—	8,619
Amortisation charge	(54,150)	—	(54,150)
Closing net book amount	67,074	—	67,074
At 31st December 2004			
Cost	330,638	—	330,638
Accumulated amortisation	(263,564)	—	(263,564)
Net book amount	67,074	—	67,074

Amortisation of RMB 55,643,000 (2004: RMB 54,150,000) has been expensed in cost of sales and RMB 383,000 (2004: Nil) in the administrative expenses in the income statement.

(All amounts in RMB thousand unless otherwise stated)

7. Intangible assets *(continued)*

Company

	Licenses for technical knowledge	Computer Software	Total
Year ended 31st December 2005			
Opening net book amount	21,534	—	21,534
Additions	1,397	1,543	2,940
Amortisation charge	(13,619)	(383)	(14,002)
Closing net book amount	9,312	1,160	10,472
At 31st December 2005			
Cost	94,575	1,543	96,118
Accumulated amortisation	(85,263)	(383)	(85,646)
Net book amount	9,312	1,160	10,472
Year ended 31st December 2004			
Opening net book amount upon incorporation	22,412	—	22,412
Additions	2,576	—	2,576
Amortisation charge	(3,454)	—	(3,454)
Closing net book amount	21,534	—	21,534
At 31st December 2004			
Cost	93,178	—	93,178
Accumulated amortisation	(71,644)	—	(71,644)
Net book amount	21,534	—	21,534

(All amounts in RMB thousand unless otherwise stated)

8. Investments in and loans to subsidiaries

(a) Investments in subsidiaries

	Company 2005	2004
Investments, at cost:		
Shares listed in the PRC	**815,815**	1,082,418
Unlisted shares	**536,501**	729,857
	1,352,316	1,812,275

The Group's interests 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.

As at 31st December 2005, the Company has direct and indirect interests in the following subsidiaries, all of which were established in the PRC. The particulars of the subsidiaries are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
IRICO Display Device Co., Ltd.	RMB 421,148,800	Production and development of the electronic products and raw materials for colour display devices	56.14%	—	56.14%
IRICO Kunshan Industry Co., Ltd	RMB 60,000,000	Production of the rubber parts of CPTs	80%	7.5%	87.5%
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB 90,000,000	Production of phosphor for various types of CPTs	45%	—	45%
Xian IRICO Zixun Co., Ltd.	RMB 130,000,000	Production and sales of the parts and components for display devices and the electronic communication products	45%	30.88%	75.88%
Xianyang Caiqin Electronic . Device Co., Ltd	RMB 25,000,000	Production and sales of pin, anode button, multi-form and frit for CPTs	87.16%	—	87.16%

(All amounts in RMB thousand unless otherwise stated)

8. Investments in and loans to subsidiaries *(continued)*

(a) Investments in subsidiaries *(continued)*

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Xianyang IRICO Electronic Parts Co., Ltd.	RMB 55,000,000	Sales of shadow mask, frames and electronic products for CPTs	60%	—	60%
Xianyang IRICO Electronics Shadow Mask Co., Ltd.	US$5,000,000	Development and production of the flat shadow mask and the coordinating products for CPTs	75%	—	75%
Zhuhai Caizhu Industrial Co., Ltd.	RMB50,000,000	Manufacture of electronic devices and components	90%	—	90%
IRICO Display Technology Co., Ltd.	US$2,500,000	Production and sale of CPTs, black and white picture tubes and ancillary electronic components	75%	—	75%
Xianyang IRICO Digital Display Co., Ltd.	RMB650,000,000	Production and sales of CPTs	51%	27.51%	78.51%
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	Production and sales of frit for CPTs	—	75%	75%
Kunshan Caihong Yingguang Electronics Co., Ltd.	US$4,500,000	Production of procession alloy and other products for color and black and white picture tubes	—	60%	60%
Nanjing Reide Phosphor Co., Ltd.	US$443,300	Production and processing of recycled phosphor and related products for various types of CPTs	—	45%	45%
Xian Caihui Display Technology Co., Ltd.	RMB10,000,000	R&D, design, manufacture, sales of CPTs, deflection yoke and related component and part as well as the after sale services for the sold product	—	100%	100%

(b) Loan to a subsidiary

The loan to a subsidiary is unsecured, carries interest at 5.58% (2004: 5.31%) per annum and repayable on 22nd December 2006 (2004: 9th November 2005).

(All amounts in RMB thousand unless otherwise stated)

9. Interest in associates - Group

	2005	2004
Opening carrying amount	**18,218**	18,022
Additions	**1,600**	—
Share of associates' profits less losses		
- (loss) / profit before taxation	**(2,479)**	234
- taxation	**—**	(38)
Closing carrying amount	**17,339**	18,218

The Group's interest in its associates, all of which are unlisted, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit / (loss)	Interest held
2005						
Xian New Century International Club Co., Ltd.	PRC	22,324	9,176	9,855	(2,008)	41.67%
Shenzhen Rui Sheng Phosphor Material Co.,Ltd.	PRC	2,164	861	129	(297)	40%
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,470	582	3,118	(174)	30%
		27,958	10,619	13,102	(2,479)	
2004						
Xian New Century International Club Co., Ltd.	PRC	20,583	5,427	8,872	19	41.67%
Shenzhen Rui Sheng Phosphor Material Co., Ltd.	PRC	—	—	—	—	—
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,699	637	3,500	177	30%
		24,282	6,064	12,372	196	

(All amounts in RMB thousand unless otherwise stated)

9. Interest in associates - Group (*continued*)

The particulars of the associates at 31st December 2005 are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Xian IRICO Plastic Industry Co., Ltd.	10,000,000	Production of deflection yoke spacers and balances for colour display devices	—	30%	30%
Xian New Century International Club Co., Ltd.	48,000,000	Provision of catering services and the operation of amenity centers	—	41.67%	41.67%
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	4,000,000	Production regenerated red, green and blue phosphor materials	—	40%	40%

10. Available-for-sale financial assets/long-term investments - Group

	2005	2004
Unlisted investments, at cost	**33,500**	33,500
Provision for impairment loss	**(9,440)**	(9,440)
	24,060	24,060

Unlisted investments substantially comprise the investment in equity interests in Western Trust & Investment Co., Ltd., a state controlled enterprise. The directors consider that the underlying value of these investments were not less than their carrying values as at 31st December 2005.

Pursuant to the transitional provisions of HKAS 39, the Group has redesignated all of those investments previously classified as long-term investments as at 31st December 2004 as shown above as available-for-sale financial assets with effective from 1st January 2005.

(All amounts in RMB thousand unless otherwise stated)

11. Inventories

	Group		Company	
	2005	2004	**2005**	2004
Raw materials	**208,397**	243,496	**140,026**	158,811
Work in progress	**311,177**	281,152	**168,109**	139,149
Finished goods	**149,863**	415,585	**61,647**	191,816
Consumables	**21,620**	8,001	**5,662**	5,471
	691,057	948,234	**375,444**	495,247
Write-down to net realisable value	**(19,274)**	(17,678)	**(3,761)**	(7,400)
	671,783	930,556	**371,683**	487,847

At 31st December 2005, inventories that has been carried at net realisable value amounted to approximately RMB110,999,000 (2004: RMB120,940,000)

12. Trade receivables

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables				
— third parties	**383,474**	179,242	**62,672**	—
— related parties (Note 35)	**243,694**	489,710	**48,798**	169,408
— subsidiaries of the Company	**—**	—	**325,200**	73,910
	627,168	668,952	**436,670**	243,318
Less: provision for impairment of receivables	**(13,229)**	(3,006)	**(11,963)**	(1,530)
Trade receivables - net	**613,939**	665,946	**424,707**	241,788
Trade bills receivable				
— third parties	**224,234**	167,279	**53,948**	29,593
— related parties (Note 35)	**636,264**	460,736	**180,906**	101,269
	860,498	628,015	**234,854**	130,862
	1,474,437	1,293,961	**659,561**	372,650

At 31st December 2004 and 2005, the ageing of trade bills receivable are all within 180 days.

(All amounts in RMB thousand unless otherwise stated)

12. Trade receivables *(continued)*

The Group offers credit terms to its customers ranging from cash on delivey to 90 days. At 31st December 2005 and 2004, the ageing analyses of trade receivables are as follows:

	Group		Company	
	2005	2004	**2005**	2004
0 - 90 days	**553,982**	617,284	**431,112**	239,233
91 - 180 days	**62,812**	44,403	**1,351**	271
181 - 365 days	**3,493**	4,259	**393**	2,284
Over 365 days	**6,881**	3,006	**3,814**	1,530
	627,168	668,952	**436,670**	243,318

The Group has recognised a loss of RMB10,223,000 (2004: a gain of reversal RMB5,200,000) for the impairment of its trade receivables during the year ended 31st December 2005. The loss has been included in other operating expenses in the income statement.

13. Trading securities - Group

	2005	2004
Funds listed in the PRC	—	2,955
Bonds listed in the PRC	—	1,685
	—	4,640

14. Cash and bank balances

	Group		Company	
	2005	2004	**2005**	2004
Pledged balances	**—**	21,000	**—**	21,000
Unpledged balances				
- time deposit	**58,500**	29,000	**—**	—
- other bank balances	**529,338**	1,067,516	**186,555**	460,465
	587,838	1,117,516	**186,555**	481,465

All the cash and bank balances are denominated in RMB and deposited with banks in the PRC except for the equivalent amounts of RMB212,597,000 (2004: RMB215,149,000) at 31st December 2005 which is denominated in foreign currencies. The conversion of these RMB 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.

The effective interest rate on time deposits was 2.07% to 2.25% (2004: 2.07% to 2.25%), these deposits have a maturity from 180 days to 365 days.

15. Share capital

	Number of domestic shares of RMB 1 each	**Number of H shares of RMB 1 each**	**Total number of shares of RMB 1 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 and 2005	1,455,880	485,294	1,941,174	1,941,174

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 to the financial statements. These domestic shares rank pari passu in all aspects with each other.

(All amounts in RMB thousand unless otherwise stated)

15. Share capital *(continued)*

During the year ended 31st December 2004, 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 per H share in cash for an aggregate consideration of HK$767 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.

16. Other reserves

Group

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January 2004	679,758	—	—	679,758
Premium on issue of shares	299,865	—	—	299,865
Share issuance costs	(63,490)	—	—	(63,490)
Contribution of ultimate holding company	4,739	—	—	4,739
Transfer from retained earnings	—	15,687	7,843	23,530
At 31st December 2004 and 31st December 2005	920,872	15,687	7,843	944,402

(All amounts in RMB thousand unless otherwise stated)

16. Other reserves (*continued)*

Company

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
Upon incorporation	726,248	—	—	726,248
Premium on issue of shares	299,865	—	—	299,865
Share issuance costs	(63,490)	—	—	(63,490)
Transfer from retained earnings	—	15,687	7,843	23,530
At 31st December 2004 and 31st December 2005	962,623	15,687	7,843	986,153

Notes:

(i) Capital reserve

As described in note 1 to the financial statements of the Group for the year ended 31st December 2004 have been prepared as if the Group had been in existence throughout the year 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 15 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.

(ii) 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 accounting principles and financial regulations applicable to PRC enterprises ("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.

(All amounts in RMB thousand unless otherwise stated)

16. Other reserves (*continued*)

Notes: (*continued*)

(iii) 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.

17. Deferred income

Deferred income represents granted received from the United Nations by the Group for its 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 income statement on a straight-line basis over the expected lives of the corresponding assets of 5 years.

18. Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% (2004:33%) except for certain subsidiaries mentioned in Note 28 which are subject to tax concession to pay income tax at 15% (2004:15%).

The gross movement on the deferred income tax account is as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
Opening carrying amount	**(9,947)**	(8,172)	**2,307**	-
Debited/(credited) to the income statement (Note 28)	**25,645**	(1,775)	**1,307**	2,307
Closing carrying amount	**15,698**	(9,947)	**3,614**	2,307

(All amounts in RMB thousand unless otherwise stated)

18. Deferred income tax *(continued)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

Group	Depreciation and amortisation	Provision of assets	Accrual of staff costs	Elimination of unrealised profit from intra-group transactions	Total
At 1st January 2004	(8,116)	(1,966)	(6,575)	(7,072)	(23,729)
(Credited)/debited to the income statement	(2,214)	(1,260)	516	(1,354)	(4,312)
At 31st December 2004	(10,330)	(3,226)	(6,059)	(8,426)	(28,041)
Debited to the income statement	10,330	3,226	6,059	8,426	28,041
At 31st December 2005	-	-	-	-	-

Company	Provision of assets	Accrual of staff costs	Total
Upon incorporation	(1,799)	(1,771)	(3,570)
Debited to the income statement	1,569	1,771	3,340
At 31st December 2004	(230)	-	(230)
Debited to the income statement	230	-	230
At 31st December 2005	-	-	-

(All amounts in RMB thousand unless otherwise stated)

18. Deferred income tax (*continued*)

Deferred tax liabilities:

	Group Accelerated tax depreciation	Company Accelerated tax depreciation
At 1st January 2004 / Upon incorporation of the Company	15,557	2,087
Debited to the income statement	2,537	450
At 31st December 2004	18,094	2,537
(Credited)/debited to the income statement	(2,396)	1,077
At 31st December 2005	15,698	3,614

The deferred tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forward and other deductible temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB355,277,000 (2004: Nil) where, in the opinion of the Directors, it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses and other deductible temporary differences.

The potential deferred tax assets which have not been recognised in the financial statements are as follows:

	2005	2004
Arising from tax losses	**193,926**	-
Arising from impairment	**143,366**	-
Arising from provision of assets	**7,483**	-
Arising from accrual of staff costs	**3,938**	-
Arising from elimination of unrealised profit	**6,564**	-
	355,277	-

The Group's unrecognised deferred tax assets in respect of tax losses will expire in 2010.

(All amounts in RMB thousand unless otherwise stated)

19. Long-term payables

Long-term payables mainly represent early retirement allowance payable to the employees of the Group.

The maturity profile of the long-term payables was as follows:

	Group		Company	
	2005	2004	**2005**	2004
Opening carrying amount	**—**	—	**—**	—
Debited to income statement (Note 26)	**18,505**	—	**13,355**	—
Closing carrying amount	**18,505**	—	**13,355**	—
Less: current portion included in current liabilities	**(4,626)**	—	**(3,339)**	—
Non-current portion	**13,879**	—	**10,016**	—

Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

20. Trade payables

	Group		Company	
	2005	2004 Restated	**2005**	2004 Restated
Trade payables				
— third parties	**287,094**	250,610	**98,626**	91,813
— related parties (Note 35)	**397,053**	338,558	**328,313**	240,392
— subsidiaries	**—**	—	**44,331**	16,369
	684,147	589,168	**471,270**	348,574
Trade bills payable				
— third parties	**—**	509	**—**	—
— related parties (Note 35)	**10,000**	95,662	**10,000**	48,662
	10,000	96,171	**10,000**	48,662
	694,147	685,339	**481,270**	397,236

(All amounts in RMB thousand unless otherwise stated)

20. Trade payables (*continued*)

At 31st December 2005 and 2004, the ageing analysis of trade payables are as follows:

	Group		Company	
	2005	2004	**2005**	2004
0 - 90 days	**545,847**	586,951	**442,269**	348,503
91 - 180 days	**126,233**	1,616	**23,644**	—
181 - 365 days	**7,671**	186	**1,487**	—
Over 365 days	**4,396**	415	**3,870**	71
	684,147	589,168	**471,270**	348,574

21. Other payables and accruals

Included in other payables and accruals are an amount due to the ultimate holding company (Note 35) and provisions for warranty. Movements of the provisions of warranty are as follows:

	Group		Company	
	2005	2004	**2005**	2004
Opening carrying amount / upon incorporation	**4,818**	4,895	**4,818**	4,856
Charged in the income statement (Note 25)	**12,520**	12,973	**12,520**	6,410
Utilised during year	**(13,399)**	(13,050)	**(13,399)**	(6,448)
Closing carrying amount	**3,939**	4,818	**3,939**	4,818

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within one year from the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and the Group only makes provision where a claim is probable.

(All amounts in RMB thousand unless otherwise stated)

22. Short-term bank borrowings

	Group		Company	
	2005	2004	**2005**	2004
Secured	**280,000**	500,000	**—**	200,000
Unsecured	**980,177**	920,000	**735,605**	790,000
	1,260,177	1,420,000	**735,605**	990,000

As at 31st December 2005, short-term bank borrowings of approximately RMB280,000,000 (2004: RMB300,000,000) are secured by certain buildings and machinery of the Group (Note 5).

As at 31st December 2005, short-term bank borrowings of approximately RMB440,000,000 (2004: Nil) are guaranteed by the ultimate holding company.

As at 31st December 2005, short-term bank borrowings include trade bills payable of approximately RMB203,335,000 (2004: Nil) which are discounted to banks with recourse.

As at 31st December 2004, short-term bank borrowings of approximately RMB 200,000,000 were secured by certain amouts of bank deposits and trade bills receivable of the Group.

The effective interest rates as at balance sheet date are as follows:

	2005	2004
Short-term bank borrowings per annum	**3.51% - 5.94%**	3.51% - 5.02%

As at 31st December 2005, the unutilised banking facilities of the Group amounted to approximately RMB203,158,000 (2004: RMB570,000,000).

(All amounts in RMB thousand unless otherwise stated)

23. Turnover

The Group is principally engaged in the manufacturing of CPT for colored 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.

	2005	2004
Sales of CPTs and CPT components	**3,927,500**	4,949,683

24. Other revenue and other net income

	2005	2004 Restated
Other revenue:		
Sales of raw materials, scraps and packaging materials	**37,603**	47,154
Other net income:		
Gains on disposal of the financial assets at fair value through profit or loss	**1,422**	—
Gains on disposal of trading securities	**—**	1,037
Interest income	**5,986**	5,524
Dividend income	**—**	396
Gains on disposal of property, plant and equipments	**4,687**	—
Amortisation of deferred income on grant received	**3,475**	4,688
Proceeds from collection of written off trade receivables	**1,450**	—
Rental income	**1,179**	940
Other service income	**442**	2,472
Reversal of provision of doubtful debts	**—**	5,200
Others	**2,654**	4,488
	21,295	24,745

(All amounts in RMB thousand unless otherwise stated)

25. Operating (loss)/profit

Operating (loss)/profit as stated after charging the following:

	2005	2004
Cost of inventories sold	**2,988,327**	3,822,721
Depreciation charge (note 5)	**346,989**	241,158
Amoritisation of leasehold land and land use rights (note 6)	**1,585**	1,661
Amortisation of intangible assets (note 7)	**56,026**	54,150
Employee benefit expense (note 26)	**529,102**	526,268
Loss on disposal of property, plant and equipment	**—**	7,153
Losses on trading securities	**—**	11,814
Impairment loss of property, plant and equipment	**567,659**	—
Transportation	**105,081**	71,401
Advertising costs	**1,037**	132
Research and development expenses	**36,940**	46,980
Provision for doubtful debts	**10,583**	302
Write-down of inventories to net realisable value	**1,596**	10,278
Operating lease rentals in respect of land use rights	**4,218**	4,218
Operating lease rentals in respect of property, plant and equipment	**30,956**	32,327
Net exchange losses	**7,007**	517
Impairment loss of long-term investments	**—**	5,940
Provision for warranty (note 21)	**12,520**	12,973
Auditors' remuneration	**5,639**	2,083

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense

	2005	2004
Wages and salaries	**355,240**	409,638
Retirement benefit contributions		
— pension obligations (Note)	**55,166**	46,769
— early retirement benefits (Note 19)	**18,505**	—
Welfare and social security costs	**100,191**	69,861
	529,102	526,268

Note:

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employee's basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group had no further pension obligation beyond the above contributions.

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Xing Daoqin	-	224	9	233
Mr. Ma Jinquan (Note (i))	-	170	6	176
Mr. Tao Kui	-	239	9	248
Mr. Guo Mengquan	-	213	9	222
Mr. Zhang Shaowen	-	210	9	219
Mr. Yun Dajun	-	1,554	-	1,554
Non-executive Directors				
Mr. Zhang Xingxi (Note (ii))	-	270	14	284
Mr. Feng Fei	68	-	-	68
Mr. Xu Xinzhong	68	-	-	68
Mr. Feng Bin	67	-	-	67
Mr. Wang Jialu	67	-	-	67
Mr. Zha Jianqiu	67	-	-	67
	337	2,880	56	3,273

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Ma Jinquan (Note (i))	-	304	7	311
Mr. Tao Kui	-	304	7	311
Mr. Xing Daoqin	-	292	6	298
Mr. Guo Mengquan	-	292	6	298
Mr. Zhang Shaowen	-	293	6	299
Mr. Yun Dajun	-	263	-	263
Non-executive Directors				
Mr. Zhang Xingxi (Note (ii))	-	248	6	254
Mr. Feng Fei	32	-	-	32
Mr. Xu Xinzhong	32	-	-	32
Mr. Feng Bin	33	-	-	33
Mr. Wang Jialu	33	-	-	33
Mr. Zha Jianqiu	33	-	-	33
	163	1,996	38	2,197

Notes:

(i) Mr Ma Jinquan retired on 5th August 2005.

(ii) Mr Zhang Xingxi's emolument is afforded by the Group's ultimate holding company IRICO Group Corporation.

No directors of the Group waived or agreed to waive any emolument during the years.

(All amounts in RMB thousand unless otherwise stated)

26. Employee benefit expense *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2004: five) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2004: Nil) during the year are as follows:

	2005	2004
Basic salaries, housing allowances, other allowances and benefits in kind	**1,620**	—
Retirement benefit contributions	**26**	—
	1,646	—

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to RMB1,000,000	**4**	—

During the year, no emolument was 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 (2004: Nil).

27. Finance costs

	2005	2004
Interest expense on short-term bank borrowings	**65,997**	55,360
Interest expense to the ultimate holding company (note 35)	**1,048**	—
Finance charge on discounted trade bills to banks	**3,051**	7,606
	70,096	62,966

(All amounts in RMB thousand unless otherwise stated)

28. Income tax expense

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2004: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated income statement.

	2005	2004
Current income tax	**22,732**	136,243
Deferred income tax (note 18)	**25,645**	(1,775)
	48,377	134,468

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated companies as follows:

	2005	2004
(Loss) / profit before income tax	**(911,956)**	650,250
Tax calculated at statutory rate of 33%	**(300,945)**	214,583
Income under tax exemption and reduction (note)	**(10,476)**	(80,155)
Income not subject to tax	**—**	(2,876)
Expenses not deductible for tax purposes	**4,521**	2,916
Unrecognised deferred tax assets	**355,277**	—
Total income tax expense	**48,377**	134,468

28. Income tax expense (*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, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd. have met the requirements under the OUWC Policy for the year ended 31st December 2005 and 2004, 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% from 2003 to 2005.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay EIT at 15% in 2005 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 2005 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, enjoy 50% relief from the income tax rate. Xianyang IRICO Electronics Shadow Mask Co., Ltd., established in 2003 has not made profit so far and has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

29. (Loss) / profit attributable to equity holders of the Company

The (loss) / profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB582,985,000 (2004: RMB189,916,000).

(All amounts in RMB thousand unless otherwise stated)

30. (Loss) / earnings per share

The calculation of basic (loss) / earnings per share is based on the Group's (loss) / profit attributable to equity holders of RMB754,547,000 (2004: RMB385,327,000) and based on the weighted average of 1,941,174,000 (2004: 1,516,922,000) shares in issue.

There were no dilutive potential shares during the years ended 31st December 2004 and 2005 and accordingly no diluted earnings per share is presented.

31. Dividend / profit distribution

	2005	2004
Special dividend	**58,261**	204,923

At a meeting held on 15th April 2005, the directors announced that, after a review of the Company's operations since the listing of the Company's H shares and as a reward to the support of the Company's shareholders, the directors proposed a special dividend of RMB 0.03 per ordinary share which was approved at the shareholders' meeting held on 20th June 2005. The Company resolved to distribute a special dividend to equity holders before 30th June 2005.

As described in note 1 to the financial statements, 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 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. The dividend/profit distribution was recorded in other payables and accurals at the time of declaration and approval.

(All amounts in RMB thousand unless otherwise stated)

32. Notes to consolidated cash flow statement

(a) Cash generated from operations

	2005	2004
(Loss)/profit for the year	**(960,333)**	515,782
Adjustments for:		
— Income tax expense	**48,377**	134,468
— Increase / (decrease) in provision of doubtful debts	**10,583**	(4,898)
— Write down of inventories to net realizable value	**1,596**	10,278
— Impairment loss on available-for-sale financial assets	**—**	5,940
— Depreciation	**346,989**	241,158
— Impairment loss on property, plant and equipments	**567,659**	—
— Amortisation	**57,611**	55,811
— (Profit)/loss on sale of property, plant and equipment (see below)	**(4,687)**	7,153
— Profit on disposal of trading securities	**(1,422)**	—
— Realised loss on other investment	**—**	10,777
— Interest income	**(5,986)**	(5,524)
— Dividend income	**—**	(396)
— Finance costs	**70,096**	62,966
— Share of profit less losses of associates	**2,479**	(196)
— Amortisation of deferred income on grants received	**(3,475)**	(3,475)
Changes in working capital		
— Decrease / (increase) in inventories	**257,177**	(226,741)
— (Increase) / decrease in trade and other receivables	**(65,214)**	20,171
— Decrease in trade and other payables	**(16,097)**	(8,310)
Cash generated from operations	**305,353**	814,964

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount	**12,897**	18,647
Profit/(loss) on sale of property, plant and equipment	**4,687**	(7,153)
Proceeds from sale of property, plant and equipment	**17,584**	11,494

(All amounts in RMB thousand unless otherwise stated)

32. Notes to consolidated cash flow statement (*continued)*

(b) Analysis of changes in financing during the year

	Share Capital and capital reserves	Other payables- non trade balance due to ultimate holding company	Minority interests	Short term bank borrowings	Other payables - dividend payable	Pledged bank balances
At 1st January 2004	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)
Special dividend declared	—	43,676	—	—	14,585	—
Interest expense payable to ultimate holding company	—	1,048	—	—	—	—
Minority share of loss	—	—	(205,786)	—	—	—
Dividend payable to minority shareholders	—	—	(7,689)	—	—	—
Cash (outflow) / inflow from financing	—	(54,311)	(84,407)	(159,823)	(14,585)	21,000
At 31st December 2005	2,862,046	339,591	830,984	1,260,177	—	—

33. Material litigation

Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation"). On or about 11st February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), a holder of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has alleged no claims against the Company.

On or about 20th May 2005, CPYI commenced a third-party lawsuit against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar. A copy of the third-party complaint was served on Law Debenture Society on or about 11th June 2005. The Company has retained Jones Day to represent the Company in the litigation. On 18th August 2005, Jones Day filed a motion to dismiss the third-party complaint in its entirety. On 13th October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7th November 2005, the Company filed an answer to CPYI's claims, denying all liability. Pre-trial discovery has commenced and is currently underway. Under the discovery schedule presently in effect, all discovery is to be completed by 1st June 2006. The final pre-trial motion is scheduled for 16th October 2006 and trial is set for 31st October 2006.

On 21st April 2006, the Company filed a motion for summary judgment, seeking dismissal of the Third-Party Complaint in its entirety, because no party has identified a single material misrepresentation or omission made by the Company in the Offering Circular. The Company anticipates that the motion will be briefed and submitted to the Court on or about 15th May 2006. The Company denies that CPYI's claims have any merit and will defend itself vigorously.

In the opinion of the directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the financial statements of the Group for the year ended 31st December 2005.

(All amounts in RMB thousand unless otherwise stated)

34. Commitments - Group

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	**49,711**	200,308
— Construction and renovation of production lines for CPT components	**165,064**	181,569
	214,775	381,877
Contracted but not provided for		
— Construction and renovation of production lines for CPTs	**12,289**	136,983
— Construction and renovation of production lines for CPT components	**7,746**	161,056
	20,035	298,039
	234,810	679,916

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	Land use rights		**Property, plant and equipment**	
	2005	2004	**2005**	2004
Not later than 1 year	**289**	1,789	**35,045**	35,045
Later than 1 year and not later than 5 years	**—**	895	**—**	35,045
	289	2,684	**35,045**	70,090

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are widely held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entitles (hereinafter collectively refered to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and IRICO Group Corporation and their close family members. IRICO Group Corporation does not produce financial statements available for public use.

IRICO Group Corporation is controlled by PRC government. In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also regarded as related parities of the Group and defined as "Other state controlled enterprise". For purpose of related transaction disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, in the opinions of directors, the majority of the Group's activities have been conducted with other state controlled enterprises in the Group's ordinary course of business. In the meantime, the meaningful information relating to related party transactions has been adequately disclosed.

The following transactions were carried out with related parties:

(a) Sales of goods and provision of services

	2005	2004
Sales of goods (Note (i)):		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	**29,022**	32,920
— the utilities plant of the ultimate holding company	**14,791**	32,248
— Rui Bo Electronics (HK) Limited	**9,050**	—
— Caihong Labour Services Company	**1,283**	154
— Shaanxi IRICO General Service Corporation	**429**	592
— Shaanxi IRICO Construction Engineering Co., Ltd.	**11**	—
— Xian IRICO Electric Co., Ltd.	**3**	109
— China National Electronics Imp. & Exp. Caihong Company (note (ii))	**—**	347,015
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**—**	585
— Shenzhen IRICO Electronics Co. Ltd. (note (iii))	**—**	58
	54,589	413,681
Other state controlled enterprises	**1,882,563**	3,099,464
Provision of services		
— Management fee from the ultimate holding company (Note (iv))	**—**	8,172

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(a) Sales of goods and provision of services *(continued)*

Notes:

(i) Sales to related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Sales to and purchase from China National Electronics Imp. & Exp. Caihong Company were discontinued before the listing of the Company.

(iii) As at 19th May 2005, Shenzhen IRICO Electronics Co. Ltd. reformed to be a private owned company, thus it is not related party of the Group after the reform. There is no remaining balance due to / from this company, and the purchase amount in note b) only represents the first half year of 2005.

(iv) In 2004, the management fee received/receivable from the utilities plant of the ultimate holding company, was levied based on 3% of the sales amount of the utilties plant of the ultimate holding company 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.

(b) Purchases of goods and provision of services

	2005	2004
Purchases of goods (Note (i)):		
The IRICO Group		
— Caihong Labour Services Company	**81,862**	103,447
— Shaanxi IRICO General Service Corporation	**47,341**	50,082
— Xianyang Cailian Packaging Materials Co., Ltd.	**37,311**	26,416
— Xian Caihong Plastic Co., Ltd.	**12,159**	11,731
— Shenzhen IRICO Electronics Co., Ltd.	**4,958**	12,874
— Xianyang Caihong Adhesive Belt Co., Ltd.	**4,530**	5,242
— Shenzhen Hongyang Industry & Trade Company	**2,407**	1,621
— China National Electronics Imp. & Exp. Caihong Company (Note (ii))	**—**	246,526
	190,568	457,939
Other state controlled enterprises	**923,179**	1,532,381
Purchases of property, plant and equipments:		
The IRICO Group		
— Xian Guangxin Electronics Co., Ltd. (Note (iii))	**639**	—
Other state controlled enterprises	**68,816**	491,201

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

	2005	2004
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company (Note (iv))	**444,582**	420,761
— Rental expense to the ultimate holding company (Note (v))	**34,424**	35,045
— School expense to IRICO School	**9,278**	10,106
— Social and ancillary service charges from the ultimate holding company (Note (vi))	**3,986**	3,958
— Trademark licence fee to the ultimate holding company (Note (vii))	**3,902**	4,950
— Shaanxi IRICO Construction Engineering Co., Ltd.	**1,216**	—
— Accommodation fee to Shaanxi IRICO General Service Corporation	**986**	—
— Shaanxi IRICO Engineering Audit Company	**882**	—
— Rental expense to Xian Guangxin Electronics Co., Ltd. (Note (iii))	**750**	1,500
— Shaanxi IRICO Engineering Design Institution	**93**	—
	500,099	476,320
Other state controlled enterprises	**124**	120

Notes:

(i) Purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Sales to and purchase from China National Electronics lmp. & Exp. Caihong Company were discontinued before the listing of the Company.

(iii) Rental expense of machineries and equipments at RMB125,000 per month was determined based on the terms stipulated in a lease agreement entered into between Xian IRICO Zixun Co., Ltd. and Xian Guangxin Electronics Co., Ltd., a fellow subsidiary of the Group. 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.

As at 30th June, 2005, Xian IRICO Zixun Co., Ltd. has entered into a purchase agreement with Xian Guangxin Electronics Co., Ltd. to purchase these machineries and equipments in a total amount of RMB 639,488. Thus the original lease agreement has ceased.

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

(iv) Various kinetic energy charges were paid/payable by the companies of the Group to the utility plant of the ultimate holding company based on the agreed rates for the years ended 31st December 2005 and 2004 respectively.

(v) 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 2005 amounted to RMB34,424,000 (2004: RMB35,045,000).

(vi) 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.

(vii) License 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 license 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.

(c) Loans from and amount due to the ultimate holding company

	2005	2004
Opening carrying amount	**79,000**	—
Loans borrowed	**29,000**	79,000
Loans payment	**(79,000)**	
Interest expense (Note 27)	**1,048**	—
Closing carrying amount	**30,048**	79,000

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. This balance is recorded in the non-trade payables due to the ultimate holding company.

Loans from the ultimate holding company were unsecured, due within one year and with interest rate 5.58%(2004: 5.31%) per annum.

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(c) Loans from and amount due to the ultimate holding company *(continued)*

	Group		Company	
	2005	2004	**2005**	2004
Other payables and accruals				
The ultimate holding company	**339,591**	349,178	**319,946**	263,525

As at 31st December 2005, except for amounts of RMB29,000,000 (2004: RMB79,000,000) of the Group due to the ultimate holding company which carry interest at 5.58% (2004: 5.31%) per annum and are repayable on 15th December 2006, the non-trade balances are unsecured, interest free and have no fixed repayment terms.

(d) Key management compensation

	2005	2004
Salaries and other short-term employee benefits	**3,666**	2,254
Retirement benefit contributions	**75**	45
	3,741	2,299

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(e) Year-end balances arising from sales/purchases of goods/provision of services

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables from related parties (Note):				
The IRICO Group				
— Shenzhen Hongyang Industry & Trade Company	**4,206**	7,949	**—**	—
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**3,421**	3,421	**3,421**	3,421
— The Utilities Plant of the ultimate holding company	**49**	—	**49**	—
— Shenzhen IRICO Electronics Co., Ltd.	**—**	30	**—**	—
	7,676	11,400	**3,470**	3,421
Other state controlled enterprises	**872,282**	939,046	**226,234**	267,256
	879,958	950,446	**229,704**	270,677
Reprensenting:				
Trade receivables (Note 12)	**243,694**	489,710	**48,798**	169,408
Trade bills receivable (Note 12)	**636,264**	460,736	**180,906**	101,269
	879,958	950,446	**229,704**	270,677

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions *(continued)*

(e) Year-end balances arising from sales/purchases of goods/provision of services *(continued)*

	Group		Company	
	2005	2004	**2005**	2004
Trade payables to related parties (Note):				
The IRICO Group				
— The utilities plant of the ultimate holding Company	**103,992**	—	**76,994**	—
— The ultimate holding company	**29,981**	—	**28,954**	—
— Caihong Labour Service Company	**10,108**	10,218	**1,321**	2,214
— Shaanxi IRICO General Service Corporation Co., Ltd.	**6,048**	—	**2,930**	—
— Xianyang Cailian Package Material Company	**5,141**	1,577	**3,231**	—
— Shenzhen Hongyang Industry & Trade Co., Ltd.	**640**	—	**640**	—
— Sakuria Denshikogyo Co., Ltd.	**336**	1,694	**—**	—
— Xianyang Caihong Electronic Materials Co.	**98**	293	**—**	—
— Shenzhen IRICO Electronics Co., Ltd.	**—**	7,126	**—**	2,100
— Xianyang Caihong Adehesive Belt Co., Ltd.	**—**	1,390	**—**	453
— Xi'an IRICO Plastic Industry Co., Ltd.	**—**	827	**—**	—
	156,344	23,125	**114,070**	4,767
Other state controlled enterprises	**250,709**	411,095	**224,243**	284,287
	407,053	434,220	**338,313**	289,054
Reprensenting:				
Trade payables (Note 20)	**397,053**	338,558	**328,313**	240,392
Trade bills payable (Note 20)	**10,000**	95,662	**10,000**	48,662
	407,053	434,220	**338,313**	289,054

Notes:

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

(All amounts in RMB thousand unless otherwise stated)

35. Related-party transactions (*continued*)

(f) Bank balances in and loan from state controlled banks

	Group		Company	
	2005	2004	**2005**	2004
Bank balance in state controlled banks	**534,177**	940,144	**186,399**	420,856
Short-term borrowings from state controlled banks	**1,260,177**	1,420,000	**735,605**	990,000

	Group	
	2005	2004
Interest income from state controlled banks	**65,997**	55,360
Interest and finance costs to state controlled banks	**5,986**	5,524

36. Ultimate holding company

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