

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

1 GENERAL INFORMATION

IRICO Group Electronics Company Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) manufactures, distributes and sells colour picture tubes (“CPTs”) and CPT-related components and materials. The Company was incorporated in the People’s Republic of China (the “PRC”) on 10th September 2004 as a joint stock company with limited liability under the PRC laws. The Company’s shares were listed in The Stock Exchange of Hong Kong Limited on 20th December 2004.

This condensed consolidated interim financial information is presented in thousands of units of Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 26th August 2006.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information for the six months ended 30th June 2006 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the Appendix 16 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousand of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December 2005 except that the Group adopted all of the following new standards, amendments to standards and interpretations which are effective for accounting period commencing on 1st January 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 (Amendment)	Amendment "Financial Guarantee Contracts"
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) - Int 4	Determining Whether an Arrangement Contains a Lease
HK(IFRIC) - 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

The adoption of the above new standards, amendments to standards and interpretation did not have material financial impact to the results of the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the period and have not been early adopted:

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKFRS 29
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives

The adoption of above new standards, amendments to standards and interpretation issued but not yet effective is not expected to result in substantial changes to the Group's accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

3 CAPITAL EXPENDITURE

	Property, plant and equipment	Leasehold land and land use rights	Intangible assets - licenses for technical knowledge
Six months ended			
30th June 2005			
Net book amount as at			
1st January 2005	3,416,191	39,495	67,074
Additions	198,462	—	1,399
Disposals	(2,323)	—	—
Depreciation and amortisation	<u>(161,712)</u>	<u>(451)</u>	<u>(28,404)</u>
Net book amount as at			
30th June 2005	<u><u>3,450,618</u></u>	<u><u>39,044</u></u>	<u><u>40,069</u></u>
Six months ended			
30th June 2006			
Net book amount as at			
1st January 2006	2,921,436	37,911	13,990
Additions	64,433	—	407
Transfer to inventories	(17,653)	—	—
Disposals	(1,943)	—	—
Depreciation and amortisation	<u>(163,262)</u>	<u>(440)</u>	<u>(3,039)</u>
Net book amount as at			
30th June 2006	<u><u>2,803,011</u></u>	<u><u>37,471</u></u>	<u><u>11,358</u></u>

As at 30th June 2006, short-term bank borrowings of the Group amounting to RMB190,000 (31st December 2005: RMB280,000) are secured on the Group's buildings and machineries at the carrying amount of RMB266,023 (31st December 2005: RMB284,673) (Note 7).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousand of RMB unless otherwise stated)

4 TRADE RECEIVABLES

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. The ageing analyses of trade receivables at the respective balance sheet dates are as follows:

	30th June 2006	As at 31st December 2005
0 – 90 days	809,928	553,982
91 – 180 days	179,590	62,812
181 – 365 days	24,093	3,493
Over 365 days	9,537	6,881
	1,023,148	627,168
Impairment provision	(13,321)	(13,229)
	1,009,827	613,939
Trade bills receivable	521,101	860,498
	<u>1,530,928</u>	<u>1,474,437</u>

As at 30th June 2006 and 31st December 2005, the ageing of trade bills receivable are all within 180 days.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousand of RMB unless otherwise stated)

5 SHARE CAPITAL

	30th June 2006		As at 31st December 2005	
	Number of shares	Amount	Number of shares	Amount
Issued and fully paid				
Domestic shares of RMB1 Yuan each	1,455,880,000	1,455,880	1,455,880,000	1,455,880
H shares of RMB1 Yuan each	485,294,000	485,294	485,294,000	485,294
	<u>1,941,174,000</u>	<u>1,941,174</u>	<u>1,941,174,000</u>	<u>1,941,174</u>

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousand of RMB unless otherwise stated)

6 TRADE PAYABLES

As at 30th June 2006 and 31st December 2005, the ageing analyses of trade payables are as follows:

	30th June 2006	As at 31st December 2005
0 – 90 days	536,117	545,847
91 – 180 days	77,870	126,233
181 – 365 days	50,392	7,671
Over 365 days	4,074	4,396
	<hr/> 668,453	<hr/> 684,147
Trade bills payable	38,591	10,000
	<hr/> 707,044 <hr/>	<hr/> 694,147 <hr/>

As at 30th June 2006 and 31st December 2005, the ageing of trade bills payable are all within 180 days.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousand of RMB unless otherwise stated)

7 SHORT-TERM BANK BORROWINGS

	30th June 2006	As at 31st December 2005
Secured	190,000	280,000
Unsecured	879,294	980,117
	<u>1,069,294</u>	<u>1,260,177</u>
	Six months ended 30th June 2006	2005
Movements in borrowings is analysed as follows:		
Balances as at 1st January	1,260,177	1,420,000
Additions	340,000	357,765
Repayments	(530,883)	(470,000)
Balances as at 30th June	<u>1,069,294</u>	<u>1,307,765</u>

As at 30th June 2006, short-term bank borrowings of RMB190,000 (31st December 2005: RMB280,000) are secured by certain property, plant and equipment of the Group (Note 3).

As at 30th June 2006, short-term unsecured bank borrowings of approximately RMB490,000 (31st December 2005: RMB440,000) are guaranteed by the IRICO Group Corporation, the ultimate holding company and RMB30,000 (31st December 2005: nil) by IRICO Display General Factory, a related party, respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

7 SHORT-TERM BANK BORROWINGS (Continued)

As at 30th June 2006, short-term unsecured bank borrowings included an amount of approximately RMB103,347 (31st December 2005: RMB203,335) which were received for discounting with banks the equivalent amount of the trade bills receivables with recourse.

The effective interest rate on short term bank borrowings for the six months ended 30th June 2006 ranges from 3.78% to 5.94% per annum (year ended 31st December 2005: 3.51% to 5.94%).

8 TURNOVER

The turnover of the Group comprise of the sales of CPTs and CPT components.

9 OPERATING PROFIT

The following items have been (credited) / charged to the operating profit during the period:

	Six months ended 30th June	
	2006	2005
Cost of inventories sold	1,633,472	1,472,891
Depreciation charge (Note 3)	163,262	161,712
Amortisation of leasehold land and land use rights (Note 3)	440	451
Amortisation of intangible assets (Note 3)	3,039	28,404
Employee benefit expenses	232,004	259,557
Loss on disposal of property, plant and equipment	1,286	—
Transportation	52,263	35,881
Research and development expenses	13,757	20,347
Provision for impairment of receivables	269	26,287
(Reversal) / write-down of inventories to net realisable value	(865)	20,643
Operating lease expenses	6,419	18,737
Provision for warranty	5,036	3,671
	<u>5,036</u>	<u>3,671</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

10 FINANCE COSTS

	Six months ended 30th June	
	2006	2005
Interest expense on short-term bank borrowings	28,914	32,905
Interest expense to ultimate holding company (Note 14)	787	—
Finance charge on discounted trade bills to banks	532	1,954
	<u>30,233</u>	<u>34,859</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

11 INCOME TAX EXPENSES

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2005: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2006 except for the Company and certain subsidiaries described below. The estimated average annual tax rate used for 2006 is 15% (the estimated tax rate for the first half of 2005 was 15%). All corresponding EIT relating to the taxable profit during the six months ended have been recognised in the condensed consolidated interim income statement.

	Six months ended 30th June	
	2006	2005
Current income tax	12,795	12,896
Deferred income tax	(2,666)	(4,212)
	<u>10,129</u>	<u>8,684</u>

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 ("IRICO Display") have met the requirements under the OUWC Policy for the six months ended 30 June 2006 and 2005, 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 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

11 INCOME TAX EXPENSES (Continued)

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 2006 and 2005.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a economic technological development zone and is required to pay EIT at a rate of 15% in 2006 and 2005.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is in the relief period, at a rate of 12%. 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.

12 EARNINGS / (LOSS) PER SHARE

The calculation of basic earnings per share for the six months ended 30th June 2006 is based on the Group's profit attributable to equity holders of RMB34,738 (30th June 2005: loss of RMB30,840) and based on the weighted average of 1,941,174,000 (30th June 2005: 1,941,174,000) shares in issue.

There were no dilutive potential shares during the six months ended 30th June 2006 and 2005 and accordingly no diluted earnings / (loss) per share is presented.

13 DIVIDEND

	Six months ended 30th June	
	2006	2005
Special dividend of RMB0.03 Yuan per share for 2005 period	<u>—</u>	<u>58,261</u>

No interim dividend distribution has been proposed by the Company's directors for the 2006 period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 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 listed and publicly held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entities (hereinafter collectively referred 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.

PRC government is the ultimate controlling party of the IRICO Group Corporation. 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 parties 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 privatisation 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

The following transactions were carried out with related parties:

a) Sales of goods and provision of services

	Six months ended 30th June	
	2006	2005
Sales of goods (Note (i)):		
The IRICO Group		
— Shaanxi IRICO General Service Corporation	8,014	7,925
— The utilities plant of the ultimate holding company	6,186	10,889
— Shenzhen Hongyang Industry & Trade Company	5,766	20,663
— Rui Bo Electronics (HK) Limited	3,019	547
— Caihong Labour Services Company	153	527
	<u>23,138</u>	<u>40,551</u>
Other state controlled enterprises	<u>1,005,317</u>	<u>483,309</u>

Notes:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

b) Purchases of goods and provision of services

	Six months ended 30th June	
	2006	2005
Purchases of goods (Note (i)):		
The IRICO Group		
— Caihong Labour Services Company	44,086	39,269
— Shaanxi IRICO General Service Corporation	24,728	20,877
— Xianyang Cailian Packaging Materials Co., Ltd.	14,983	18,966
— Xian Caihong Plastic Co., Ltd.	2,401	5,125
— Xianyang Caihong Adhesive Belt Co., Ltd.	1,679	751
— Shenzhen IRICO Electronics Co., Ltd.	—	2,281
— Shenzhen Hongyang Industry & Trade Company	—	505
— Sakurai Denshikogyo Co., Ltd	—	1,805
	<u>87,877</u>	<u>89,579</u>
Other state controlled enterprises	<u>221,997</u>	<u>582,862</u>
Purchases of property, plant and equipment:		
Other state controlled enterprises	<u>10,466</u>	<u>11,703</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

b) Purchases of goods and provision of services (Continued)

	Six months ended 30th June 2006	2005
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company (Note (ii))	221,599	229,562
— Rental expense to the ultimate holding company (Note (iii))	17,435	17,522
— Social and ancillary service expense to the ultimate holding company (Note (iv))	4,737	12,270
— Trademark license fee to the ultimate holding company (Note (v))	1,945	1,633
— Rental expense to Xian Guangxin Electronics Co., Ltd. (Note (vi))	—	750
	<u>245,716</u>	<u>261,737</u>

Notes:

- (i) Purchases of goods and provision of services from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.*
- (ii) Various kinetic energy charges were paid/payable by the companies of the Group to the utilities plant of the ultimate holding company based on the agreed rates for the six months ended 30th June 2006 and 2005 respectively.*
- (iii) From 1st January 2004, the Group is required to pay RMB11 per thousand square metres per annum for the use of land use rights and RMB9 and RMB30 per thousand square metres per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the six months ended 30th June 2006 amounted to RMB17,435 (2005: RMB17,522).*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

b) Purchases of goods and provision of services (Continued)

- (iv) *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.*
- (v) *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, 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 and valid through the year ending 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.*
- (vi) *Rental expense of machineries and equipments at RMB125 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 buy these machineries and equipments. Thus the original lease agreement has ceased and no rental expense incurred for the six months ended 30th June 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

c) Loans from and amounts due to the ultimate holding company

	Six months ended 30th June	
	2006	2005
Opening carrying amount	30,048	79,000
Interest expense (Note 10)	787	—
Closing carrying amount	<u>30,835</u>	<u>79,000</u>

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 are unsecured, due within one year and with interest rate 5.58% (31st December 2005: 5.58%) per annum.

d) Key management compensation

	Six months ended 30th June	
	2006	2005
Salaries and other short-term employee benefits	1,387	1,611
Retirement benefit contributions	48	23
	<u>1,435</u>	<u>1,634</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

e) Balances arising from sales / purchases of goods / provision of services

	30th June 2006	As at 31st December 2005
Trade receivables from related parties (Note):		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	906	4,206
— The utilities plant of the ultimate holding company	124	49
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	—	3,421
	<u>1,030</u>	<u>7,676</u>
Other state controlled enterprises	<u>565,193</u>	<u>872,282</u>
	<u>566,223</u>	<u>879,958</u>
Representing:		
Trade receivables	306,865	243,694
Trade bills receivable	259,358	636,264
	<u>566,223</u>	<u>879,958</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

e) Balances arising from sales / purchases of goods / provision of services (Continued)

	30th June 2006	As at 31st December 2005
Trade payables to related parties (Note):		
The IRICO Group		
— The ultimate holding company	44,384	29,981
— Caihong Labour Service Company	16,474	10,108
— The utilities plant of the ultimate holding company	11,188	103,992
— Shaanxi IRICO General Service Corporation Co., Ltd.	7,389	6,048
— Shenzhen IRICO Electronics Co., Ltd.	1,687	—
— Xianyang Cailian Package Material Company	1,424	5,141
— Xi'an IRICO Plastic Industry Co., Ltd.	986	—
— Shenzhen Hongyang Industry & Trade Co., Ltd.	353	640
— Sakurai Denshikogyo Co., Ltd.	—	336
— Xianyang Caihong Electronic Materials Co.	—	98
	<u>83,885</u>	<u>156,344</u>
Other state controlled enterprises	92,972	250,709
	<u>176,857</u>	<u>407,053</u>
Representing:		
Trade payables	159,284	397,053
Trade bills payable	17,573	10,000
	<u>176,857</u>	<u>407,053</u>

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

14 RELATED-PARTY TRANSACTIONS (Continued)

e) Balances arising from sales / purchases of goods / provision of services (Continued)

	30th June 2006	As at 31st December 2005
Other payables and accruals		
The ultimate holding company	<u>344,407</u>	<u>339,591</u>

As at 30th June 2006, except for an amount of RMB29,000 (31st December 2005: RMB29,000) of the Group due to the ultimate holding company which are repayable on 15th December 2006, the non-trade balances are unsecured, interest free and have no fixed repayment terms.

f) Bank balances in and loan from state controlled banks

	30th June 2006	As at 31st December 2005
Bank balance in state controlled banks	<u>545,519</u>	<u>534,177</u>
Short-term borrowings from state controlled banks	<u>1,069,294</u>	<u>1,260,177</u>
	Six months ended 30th June 2006	2005
Interest income from state controlled banks	<u>3,091</u>	<u>2,648</u>
Interest and finance costs to state controlled banks	<u>29,446</u>	<u>34,859</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

15 COMMITMENTS

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

	30th June 2006	As at 31st December 2005
Authorised but not contracted for	189,215	214,775
Contracted but not provided for	23,837	20,035
	<u>213,052</u>	<u>234,810</u>

On 26th August 2006, the Company's directors approved a resolution in relation to the increase of the Group's investment in Xian IRICO Plastics Industry Company Limited (its shareholding will increase from 30% to 100%). The estimated capital injection will be RMB7,000.

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

	30th June 2006	As at 31st December 2005
Not later than 1 year	<u>27,124</u>	<u>35,334</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

16 MATERIAL LITIGATIONS

a) BayStar 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") In or about 11th February 2005, BayStar Capital Management, LLC and BayStar Capital 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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

16 MATERIAL LITIGATIONS (Continued)**a) BayStar Litigation (Continued)**

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.

On 15th May 2006, the Company filed a motion for summary judgment seeking dismissal of the Third-Party Complaint. On 9th August, 2006, the Court denied the Company's motion. Discovery is ongoing and further motion practice is anticipated. On the schedule presently set by the Court, fact discovery is to be concluded by 1st December 2006 and a jury trial of all claims in the litigation is set to commence on 1st May 2007.

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 interim financial statements of the Group for the six month ended 30th June 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

16 MATERIAL LITIGATIONS *(Continued)*

b) Xianyang Xingyun Mechanical Company Limited ("Xingyun") Litigation

On or about 19th June 2006, Xingyun brought a litigation against the Company to the People's Higher Court of Shaanxi Province.

On 28th July 2003, five Confirmation Agreements on Parts and Materials ("Confirmation Agreements") were entered into between Xingyun and the IRICO Colour Picture Tube Plant No.1 CPT plant ("No. 1 CPT Plant"), a branch originally held by IRICO Group Corporation and then injected into the Company according to the Restructuring Agreement between IRICO Group Corporation and the Company in September 2004. According to the five Confirmation Agreements, Xingyun shall provide No. 1 CPT Plant with samples of parts and materials for mass pre-sale quality confirmation. In around February 2005, No. 1 CPT Plant requested Xingyun to suspend the provisions of parts agreed in the Confirmation Agreements. Xingyun believed that the request of No. 1 CPT Plant has caused a total loss of RMB30,300 incurred from the investments in the construction of facilities and the purchase of materials.

Investigation and evidence collection are underway. In the opinion of the directors of the Company, the five Confirmation Agreements were basically completed, but formal supply contracts were not yet entered, so the Company was not responsible for the loss claimed by Xingyun. The outcome of the above litigation will not give rise to any significant impact on the interim financial statements of the Group for the six months ended 30th June 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in thousands of RMB unless otherwise stated)

17 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As at 30th June 2006, the Company held 236,440,000 of unlisted domestic shares of IRICO Display, a subsidiary of the Group. On 22nd May 2006, the Company announced an initial share reform plan for the conversion of all the unlisted Shares of IRICO Display into listed shares ("A Shares"). The existing A Shares of IRICO Display are listed on The Shanghai Stock Exchange. The initial plan was subsequently amended and approved by the shareholders of IRICO Display on 18th July 2006. Pursuant to the amended share reform plan, unlisted shareholders including the Company offered 4.2 unlisted Shares of IRICO Display to each shareholder holding every 10 A Shares of IRICO Display as a consideration for the agreement to the conversion of all unlisted Shares into A Shares of IRICO Display. The amended share reform plan was completed on 27th July 2006, Company's interests in IRICO Display reduced from 56.14% to 42.60% resulting in a reduction of the Company's share of net assets of IRICO Display of approximately RMB186 million.

18 COMPARATIVES

Certain comparative amounts in the condensed consolidated interim financial information have been reclassified to conform to the current period's presentation.