

*Chairman*  
**Xing Daoqin**

Dear Shareholders,

Year 2006 was a critical year to the operation and development of the Group. In 2006, we focused on and strived to deal with the impact brought by flat panel display ("FPD") to the traditional CPT business and explored new businesses of profit growth, so as to successfully realize the strategic transformation of the Company, and to reward shareholders with better operation and development.

In 2006, pursuant to the strategic ideology of "Strengthening CPTs and exploring new businesses", the management of the Group strived for corporate development and the staff is dedicated to their work. We are delighted that we can finally reward the shareholders with better results.

In 2006, the Group turned loss into profit and the results are substantially better than those of the previous year. On the one hand, the quantities of output and sales attained new historical records, securing the leading position in the industry, on the other hand, great advancement was achieved in industry innovation and transformation of strategy.

The sales of the Group in 2006 was RMB3,861,710,000, which was almost the same level of 2005. Operating profit increased by RMB1,089,718,000 to RMB250,337,000. Gross profit margin increased from -11% in 2005 to 13% in 2006. The Company turned loss to profit with its profit attributable to equity holders amounted to RMB129,512,000.



## Chairman's Statement (Continued)

### Initial achievement of “Strengthening CPTs”

In 2006, driven by the impact of FDP, the global CPT industry continued to suffer a fast downturn. However, we believe that market opportunities exist in the global cathod ray tube (“CRT”; CPT is a type of CRT) industry in the coming few years, because, on the one hand, CPTs still have their development potential in segmented market such as super slim CPTs and all-flat CPTs, and on the other hand, given the large user base of CRT television market and imbalanced income gap among different countries and social classes, CRT will be a core integral part of the global television set market in the long run. In view of the strong demand of the tiered consumption structure resulting from such imbalance purchasing power, we consider that those established, competitive and innovative CRT manufacturers will survive the competition and grasp the development opportunities, particularly in the CRT market in China which accounts for two-thirds of global market share where the Company believes more opportunities will be available, though the operating condition of the global industry will be increasingly stringent in the coming few years.

Based on the above analysis, we consider “strengthening CPTs” as an important strategy. We believe that, by our efforts, the Group's market share still has room for enhancement, despite the declining of total volume of CPTs in the world. The Group is capable and determined to enhance and improve the business operation of CPT. In 2006, the Group adopted a series of positive and effective operational strategies which are cost-leading, marketing-driven and new technology supporting to further enhance the competitiveness of the Group in the CPT industry. We further reduced costs by relying on the measures such as innovation in technology and management, use of new raw materials, restructuring of work flows, online procurement, decreased inventory, streamlining of personnel and enhancing of efficiency. Also, we further improved and strengthened the sales and marketing by improved market forecasts, identification of customers, fast decision-making, incentives to the sales team and control over the sales process, and actively sought to expand the international market. As we increase our research and development in new technologies, three projects of 40cmPFAK, 54cmPF super slim and 64cmPFAK CPTs have realized scale production and launched onto the market, which improved the product mix and enhance the competitiveness of the Company. In the global circumstances where shrink of CPT industry is seen, the Group sold 15.02 million CPTs during the year, which grew by 4.7% over 2005 and attained a historical record. The domestic market share reached 22.3%, securing the leading position in the industry. Profit growth, in particular, is secured as, through our effort, the decline of cost exceed that of the product price. Hence, the strategy of strengthening CPTs achieved initial success.

### Clear vision of “exploring new businesses”

In addition to “strengthening CPTs”, the idea of “exploring new businesses” was further confirmed in 2006. We believed that only by developing new business of profit growth, the Group can achieve lasting and sustainable development and generate better return to shareholders.

## Chairman's Statement (Continued)

### Clear vision of “exploring new businesses” (continued)

In 2006, the Group's strategy of “exploring new businesses” had solid achievement. The industrialization of PDP began with the establishment of a joint venture with Sichuan Changhong. The development of trichromatic phosphor used in energy saving lamps had progress in 2006, with 410 tonnes sold in 2006. Such scale of production was the largest in the PRC. Further there may be some promising development in the future: A glass based panel project for LCD invested by the controlling shareholder of the Company, IRICO Group Corporation, has initiated. Its construction will end the complete dependence on imported LCD glass based panel. This is essential in improving the FPD industry chain in the PRC and has been highly recognized and supported by the relevant government authorities. The Company will closely monitor such development. Other new projects such as FPD-related businesses were also effectively under progress.

### Confidence in the future

The tasks were difficult in 2006, but we are determined to succeed. Thanks to the decisive and assertive management team, the Group has strong comparative advantages and will adopt a sound operation policy. We are capable to deal with the changes in the CPT industry to achieve higher operating effectiveness. Meanwhile, the transformation of business will be carried out as scheduled.

Looking ahead, our strategies are: 1) to fully understand the nature of the competition facing the CPT business and take initiative to the challenges. We will further cut costs through measures including technological innovation, improvement in internal management and the enhancement in management procedure and workflow efficiency, and to quicken the development of super slim, high definition CPTs to continue to adjust and optimize the product structure of CPTs to capture market opportunities and improve the market share; 2) to fully utilize the internal and external resources of the Company with focus on modern display devices, components materials and optoelectronics-related business for advancing the process of new business. The Group actively participated into development of flat panel display devices industry in the PRC. The Group also kept a close eye on the progress of the project of glass based plate for LCD invested by its parent company, and continued to pay attention to the development of modern display such as FED. All these enabled IRICO to become a leading force in promoting the development of flat panel display devices industry in the PRC. With utilization of the resources advantages of the existing businesses of glass, phosphor materials production and metal processing, we seek to develop new business in related industries. Further, we will seek and speed up the development of the optoelectronic businesses such as LED.

To enhance risk management level we will continue to improve our internal control and internal audit, and be more cautious in our future business operation and capital investment in order to avoid risk, no matter in the CPT business or new business.

We will continue to conduct survey on the industry and on the Company ourselves. We will strive to achieve stable cash flow and profit from our current business transactions and through innovative businesses to obtain new profit growth gradually, so as to succeed in the strategic transformation.

Our vision is to become an important force in optoelectronic and modern display device domestically and globally. We target to reward the shareholders with promising results.

## Chairman's Statement (Continued)

### Acknowledgement

I have pleasure to extend the gratitude on behalf of the board to (the "Board") of the directors (the "Directors") of the Company shareholders, business partners and members of the community for their care and support for the Company, and express my heartfelt gratitude to all management members and employees for their dedicated efforts at work.

**IRICO Group Electronics Co., Ltd.**  
**Xing Daoqin**  
*Chairman*

Xianyang, the PRC  
12 April 2007