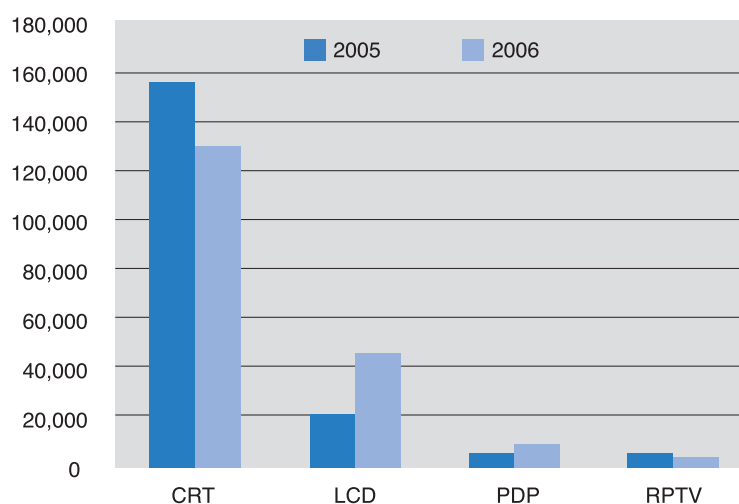


1 Analysis on the industry

In 2006, given the price of FPD television set such as LCD/PDP continued to fall significantly, the pace of FPD television sets in replacement of the CRT television sets accelerated across the globe. In major developed countries, sales of FPD television sets have outpaced that of CRT television sets. According to a research report on global television market issued by Displaysearch in the first quarter of 2007, the average selling price ("ASP") of LCD and PDP television sets across the world in the fourth quarter of 2006 dropped by 21% and 29% respectively when compared with the fourth quarter of 2005. Among them, the price of some large-sized television sets even dropped by over 30%, which pushed the market share of FPD television sets to over 30% in term of sales volume. The sales volume, market share and value of global CRT television sets market also slide down. In 2006, CRT television set industry recorded sales volume of 130 million sets, representing a fall of 16% over the same period of 2005 year, among which, large-sized CRT television sets were worst hit. As indicated by data from Displaysearch, global sales volume of over 30" CRT television sets fell by 30% over the same period last year, being the biggest fall in all sizes of CRT television sets. In term of value, the market share of CRT television set in 2006 fell to a record low of 26.5%, representing a fall of 12 percentage points over the same period last year.

Technological composition of the global television sets market in 2005-2006 ('000 sets)



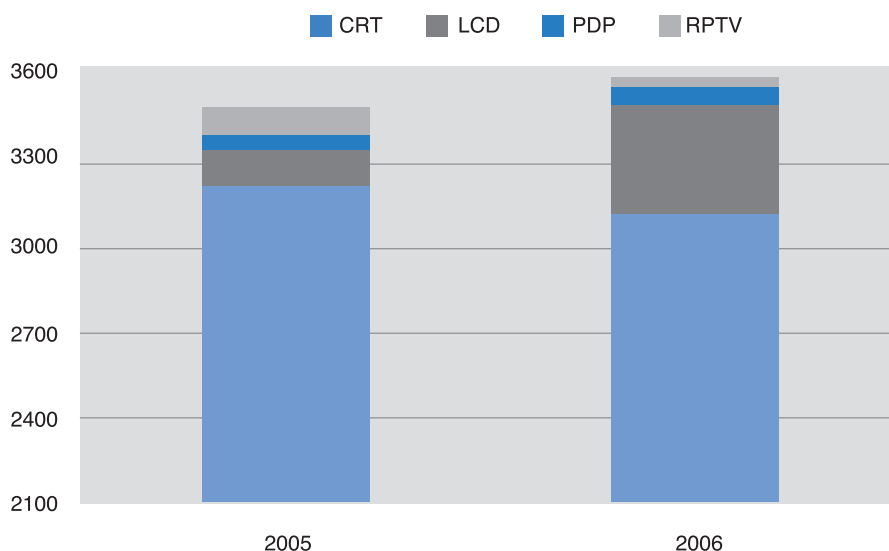
Source: Displaysearch, Report on the global television sets market (2007Q1)

Management Discussion and Analysis (Continued)

1 Analysis on the industry (continued)

In the PRC, although the popularity and penetration of FPD television sets are slower than the average level of the world, the pressure of FPD television sets the replacement of replace CRT television sets is ever increasing. As shown by the latest statistics of Sino Market Research Ltd. ("Sino-MR") in the PRC, in 2006, the sales volume of CRT television sets in the PRC was 31.02 million sets, a decrease of 3% compared with that of the previous year, which was the first instance of decrease in the domestic CRT television sets market in the recent decades. Meanwhile, with the continuous decrease in prices of LCD television sets, the sales volume in 2006 increased by 200% to 3.8 million sets when compared with the previous year. Market share also exceeded 10% for the first time.

Technological composition of the television sets market in the PRC in 2005-2006 (0'000 sets)

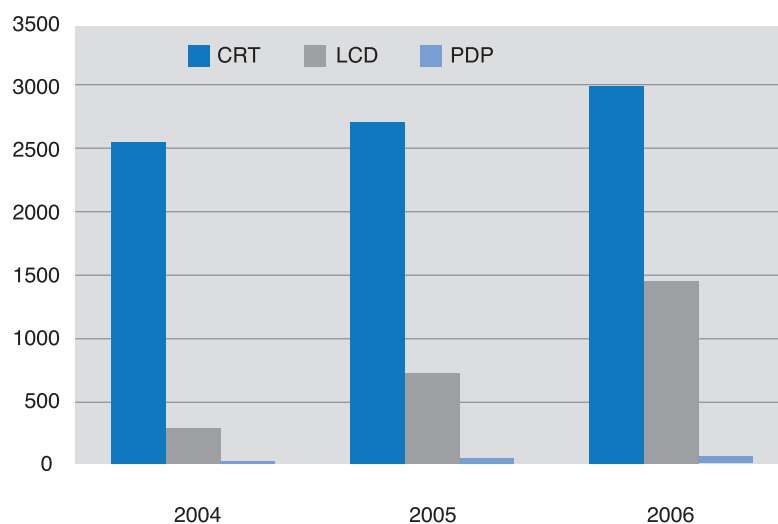


Source: Sino-MR, Blue paper on colour television sets research in the PRC, 06Q4

As one of the largest production bases and the most important consumer market in the world of colour television sets and CPTs, the impact of exports are becoming more significant to the colour television sets and CPTs industries in the PRC. In 2006, the proportion of colour television set in exports exceeded 50% for the first time, in which CRT television sets remain the mainstream despite the slow down of the growth rate of CRT television sets.

1 Analysis on the industry (continued)

Export tendency of various types of colour television sets in 2004-2006 (0'000 sets)



Source: ChinaCCM.com

Faced with the pressure from the ever expanding FPD television set market, the global CPT industry is under adjustment on ongoing basis. In 2006, six overseas CPT companies closed their over 20 production lines in Europe, North America and East Asia, with the reduction of a production capacity of about 30 million pieces.

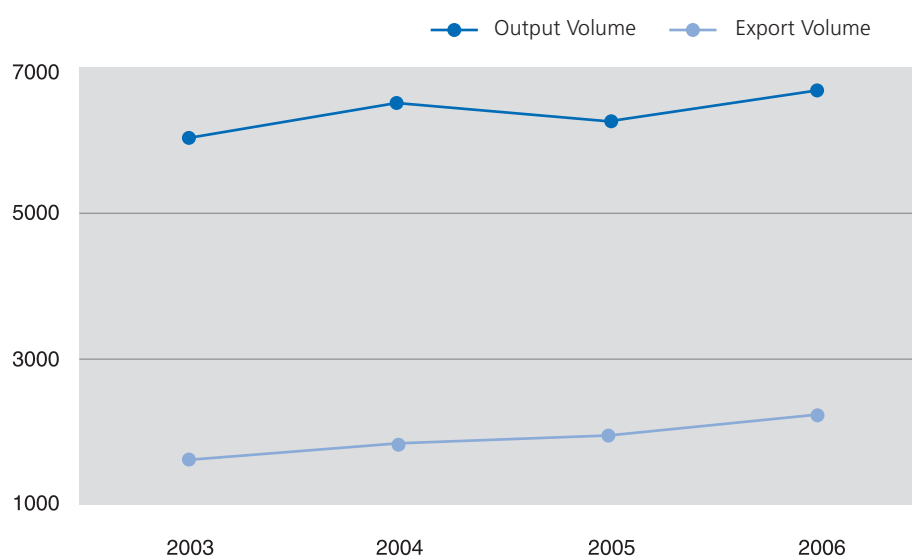
With the competitive advantages of the industry resulting from production chains and labour supply, CPT companies in the PRC on the one hand continuously reduced the cost of existing products to improve the cost-performance ratio, and on the other hand, sought relative advantage through effective adjustment in product mix, such as the increase in the production of super slim CRT. With the more thinner second generation super slim CRT television sets put on the market at the end of 2006, it is expected that the life of the CPT technology will be further extended. Besides super slim CPT, all-flat CRT television sets of certain dimensions and 100HZ tubes that satisfy the SDTV requirement also showed certain market potentials.

Management Discussion and Analysis (Continued)

1 Analysis on the industry (continued)

In 2006, the CPT market in the PRC improved as demonstrated by the increased output, alleviated imbalance between demand and supply and decreased inventory. During 2006, the export of CPT maintained a moderate increase, which considerably released the pressure of the decrease in demand in the domestic CRT television set market. The total output of CPT manufacturers in the PRC hit record high of 67.35 million sets in 2006 and recorded an annual growth of 7.3%.

Operation of the CRT industry in the PRC in 2003-2006 (0'000 sets)



Source: ChinaCCM.com

With regard to the future CPTs market, since the declining of global CRT television set market already exists and the pressure from FPD television sets to replace CRT ones is ever increasing, the competition in the global CPT industry will be further intensified. However, market opportunities will still exist in the future CPT industry, because on the one hand, CPT still has certain development potential in some market segments such as super slim CPTs and all-flat CPTs, and some CPT manufacturers will be forced out of the market due to the intensifying competition, and on the other hand, the vast CRT television set market and the uneven economic level of different regions and classes worldwide make CRT television sets continued to be an important integral part of the global television set market in a relatively long period. According to the latest estimates of Displaysearch, the absolute volume of CRT television sets in the world will be approximately 70 million with a relative proportion of over 30% by 2010. Therefore, some established, competitive and innovative companies will survive and have opportunities for development, especially for the CPT industry in China which accounts for two-thirds of the share in the world, amid the increasingly stringent operating condition of the global CRT industry in the coming few years and the tight and changing external circumstances in which the PRC CPT industry operates.

Management Discussion and Analysis (Continued)

2. Business review

(1) Operation highlights

In 2006, the Group successfully turned loss into profit, with a substantial increase in the results performance over 2005 by adoption of a series of active and effective operational tactics and the incessant effort of the staff. On the one hand, the production and sales volume of CPTs attained record high. On the other hand, there was major breakthrough in new business exploration and the strategic transformation.

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.

(2) Sales of CPTs

During 2006, the Group sold 15,022,000 CPTs in total, representing an increase of 671,000 units or approximately 4.7%, as compared with 2005. The Group's output volume of CPTs attained record high in 2006 accounted for up to 22.3% of the total output volume of CPT manufacturers in the PRC, securing a leading position in the industry.

In 2006, pursuant to the strategic ideology of "strengthening CPTs and exploring new businesses", the Group adopted a series of cost-leading, marketing-driven and new technology supporting operational strategies to further sharpen its core competitiveness. As a result, the operation of the CPT business of the Group achieved a relatively large growth in 2006 amid the decline in the global CPT business environment.

On the front of cost-leading strategy, the Group undertook various in-depth cost-efficient measures through management and technological innovations, to actively enhance its product popularity, cost efficiency and quality, and also to improve internet procurement and staff positioning in order to further reduce cost.

Management Discussion and Analysis (Continued)



2. Business review (*continued*)

(2) Sales of CPTs (*continued*)

With regard to marketing-driven strategy, the Group further improved its market operation to achieve better sales and production cycle. The Group strengthened its market projection, customers positioning and effective decision making, and its control over the sales process by focusing on the control of orders, refund and the introduction of new products. The Group also modified the mechanism relating to assessment and incentives of salesperson to enhance the quality of its sales team, boosting the sales and speed up cash inflow, and implemented risk management.

With regard to new technology supporting, the Group mainly focused on the research and development of new tubes, new materials and new processes, such as research and development of the 8 types of CPTs, including 15" AK CPTs, 21" AK CPTs, 21" super slim CPTs and 25" AK CPTs, and production of the relevant components. Among these, the three projects of 15" PFAK CPTs, 21" PF super slim CPTs and 25" PFAK CPTs have commenced mass production and launched to the market, which improved the product mix and sharpen competitiveness of the Company.

(3) Sales of CPT Components

In 2006, various components businesses of the Group adjusted their operating strategies to actively explore overseas market to increase revenue, while ensuring internal supply. The sales volume of the components businesses of the Group in 2006 (including part of resources-related new businesses) amounted to RMB518,822,000, representing an increase of 6.7%, as compared with 2005.

Management Discussion and Analysis (Continued)

2. Business review (*continued*)

(4) Exploring new businesses

While strengthening its CPT business, the Group also made more effort in further exploring new business in 2006, expecting to realize strategic transformation and sustainable development. The Group's focus was on three areas in which the Group is in an advantages position in terms of internal and external resources, namely the modern display devices, component materials and the newly emerging optoelectronic businesses.

- PDP projects

In 2006, the Group established a joint venture with Sichuan Changhong to invest in the PDP project (reference is made to the announcement and circular to the shareholders of the Group published on 11 October 2006 and 6 December 2006 respectively), with the main products of 42" XGA and 50" HD XGA level PDP modules and 60" FHD PDP modules. The development of PDP has been listed in the development plan under "Eleventh Five-year Plan" of the Ministry of Information Industry of PRC. The Group succeeded in developing 42" VGA, 42" XGA, 50" XGA, 60" XGA PDP modules and possessed an excellent reserve of technology and talents. The PRC is actively creating a favourable environment for the development of production projects for PDP display panels and has introduced relevant complementary production facilities for the formation of a industry chain. The local government will also provide active support in finance, complementary facilities, land planning, tax concession and the introduction of talents.



Management Discussion and Analysis (Continued)

2. Business review (*continued*)

(4) Exploring new businesses (*continued*)

- Phosphor materials

Shaanxi IRICO Phosphor Material Co., Ltd. (“IRICO Phosphor”), a subsidiary of the Group, is a specialised manufacturer of phosphor materials. In addition to strengthening its phosphor business for CPTs, IRICO Phosphor started the business of phosphor materials such as trichromatic phosphors for energy saving lamps. In 2006, the Group sold energy saving lamps phosphors of 410 tonnes in total. The market share of the Group in the PRC of the total sales of phosphors increased from 11.5% in 2005 to approximately 17% in 2006, which was leading in the PRC. In 2007, the Group will undertake expansion and renovation of the production capacity of trichromatic phosphors used for energy saving lamps to further enhance its production capacity and market share. In addition, the Group is also active in the phosphor business of new back light phosphors and PDP phosphors.

In the meantime, 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. Other new projects such as FPD-related businesses were also effectively under progress.

In the meantime, other new projects such as FPD-related businesses were also effectively under progress.

Management Discussion and Analysis (Continued)

3. Future Prospects

The Group will focus on “strengthening its CPT business and exploring new businesses” in its future development.

The global CPT industry showed a downward trend under the adverse impact of new display devices industry. However, we believe market opportunities still exist in the global CPT industry in coming years because, on the one hand, CPTs still have its development potential in segmented markets such as super slim CPTs and all-flat CPTs, and on the other hand, given the large user base of CRT television market and the imbalanced income gap among different countries and social classes , CRT televisions will be a core integral part of the global television set market in the long run. Those established, competitive and innovative manufacturers will still be able to survive the competition and grasp the development opportunities, particularly in the CPT market in the PRC which accounts for two-thirds of global market share. The Company believes more of these opportunities will be available.

As the largest CPT manufacturer in China and a major CPT manufacturer in the world, the Group will continue to consolidate its existing CPT business and increase the competitiveness of its CPT business by implementing new technology support, marketing-based and cost-leading strategies. The objective is to secure stable income and cash flow, laying a solid foundation for the Group’s next strategic transformation.

On the other hand, it is an unarguable fact that new display devices are replacing traditional CPT. The future tasks of the Group will be centered on new production and exploring new businesses for new profit growth and the smooth implementation of strategic transformation.

In respect of new business exploration, the Company, by capitalizing the respective enterprises’ advantages of specialized production of components, will actively make efforts on research and development of new products, such as strengthening development of phosphor materials ,glass products and metal processing and introduction of resources-related products, in pursuit of diversified development and stable improvement of its operation.

In the meantime, by leveraging its advantages on internal and external resources, the Group is actively developing new display devices and optoelectronics businesses. The Group kept a close eye on the progress of the project of glass based plate for LCD invested by its parent company and the development of modern display such as FED, entered into new businesses relating to LCD and its components , whole devices and LED etc at an appropriate time. All these enabled IRICO to become a leading force in promoting the development of flat panel display devices industry in the PRC.

We believe, with our dedication, the Group will become an enterprise with growth potential in display devices market in the information technology industry in the PRC and the world.

Management Discussion and Analysis (Continued)

4. Financial review

(1) Results performance

Profit and loss data for 2002 - 2006 (RMB'000)

	2002	2003	2004	2005	2006
Turnover	3,999,378	4,269,781	4,949,683	3,927,500	3,861,710
Sales of CPTs	3,723,889	3,888,156	4,466,767	3,441,096	3,342,888
Sales of CPT components	275,489	381,625	482,916	486,404	518,822
Cost of sales	(3,079,581)	(3,256,959)	(3,896,956)	(4,357,371)	(3,356,160)
Gross profit/(loss)	919,797	1,012,822	1,052,727	(429,871)	505,550
Operating expenses					
Administrative expenses	(219,788)	(227,275)	(219,008)	(278,875)	(241,113)
a) General administrative expenses	(165,942)	(195,665)	(172,028)	(241,935)	(215,196)
b) Research and development expenses	(53,846)	(31,610)	(46,980)	(36,940)	(25,917)
Selling and marketing costs	(102,130)	(103,405)	(113,323)	(152,565)	(150,343)
Other operating expenses	(69,524)	(73,604)	(79,275)	(36,968)	(38,381)
Operating profit/(loss)	591,787	679,766	713,020	(839,381)	250,337
Finance costs	(78,853)	(56,588)	(62,966)	(70,096)	(61,849)
Profit/(loss) attributable to the equity holders of the Company	277,103	315,825	385,327	(754,547)	129,512

Management Discussion and Analysis (Continued)

4. Financial review (continued)

(1) Results performance (continued)

Turnover by product and gross profit margin (RMB'000)

Name	2005	2006	Increase/ (decrease)	Percentage of change
CPTs	3,441,096	3,342,888	(98,208)	(2.85%)
Including: Small-sized CPTs	852,268	660,975	(191,293)	(22.45%)
Medium-sized CPTs	2,570,102	2,673,543	103,441	4.02%
Large-sized CPTs	18,726	8,370	(10,356)	(55.30%)
CPT components	486,404	518,822	32,418	6.66%
Total	3,927,500	3,861,710	(65,790)	(1.68%)

Sales volume by product (Unit)

Name	2005	2006	Increase/ (decrease)	Percentage of change
Including: Small-sized CPTs	5,342,504	4,727,121	(615,383)	(11.52%)
Medium-sized CPTs	8,980,939	10,279,499	1,298,560	14.46%
Large-sized CPTs	28,102	15,996	(12,106)	(43.08%)
Total	14,351,545	15,022,616	671,071	4.68%

Management Discussion and Analysis (Continued)

4. Financial review (continued)

(1) Results performance (continued)

ASP by product (RMB/Unit)

Name	2005	2006	Increase/ (decrease)	Percentage of change
Including: Small-sized CPTs	160	140	(20)	(12.50%)
Medium-sized CPTs	286	260	(26)	(9.09%)
Large-sized CPTs	666	523	(143)	(21.47%)

(2) Change over last year and reasons

- Turnover and gross profit margin

In 2006, the Group recorded a turnover of RMB3,861,710,000, representing a decrease of RMB65,790,000, or 1.68% from the same-period in 2005. Turnover of the CPT business amounted to RMB3,342,888,000, representing a year-on-year decrease of RMB98,208,000, or 2.85% from the same-period in 2005. Turnover of the component business increased by RMB32,418,000, or 6.66% to RMB518,822,000. The overall gross profit margin of the Group decreased from -10.95% of 2005 to 13.09% of 2006. This was mainly due to: 1) provision for diminution in value of certain productive assets in 2005 amounting to approximately RMB567,659,000 and provision for diminution in value of certain productive assets in the year amounting to approximately RMB67,205,000; 2) the enhancement of product mix and the reduction in costs as a result of the strengthening of various measures by the Company.

- Administrative expenses

The Group's administrative expenses in 2006 decreased by RMB37,762,000, or 13.54%, to RMB241,113,000 from RMB278,875,000 in the same-period of 2005. The decrease in administrative expenses was mainly due to: 1) the provision of staff compensation in the previous year; 2) the completion of part of the amortization of intangible assets in the year.

- Finance costs

The Group's finance costs for 2006 recorded RMB61,849,000, representing a decrease of RMB8,247,000, or 11.77%, from RMB70,096,000 in the same-period of 2005, which was mainly attributable to the decrease in bank loans in the year.

Management Discussion and Analysis (Continued)

4. Financial review (continued)

(3) Net current assets and financial resources

As at 31 December 2006, the Group's cash and bank balances aggregated to RMB479,503,000, representing a decrease of 18.43% from RMB587,838,000 as at 31 December 2005. The Group expended RMB105,741,000 for capital expenditure for property plant and equipment during the year ended 31 December 2006. Net cash inflow from operating activities was RMB363,290,000, and net cash outflow from financing activities and investing activities were RMB380,099,000 and RMB121,535,000 respectively. As at 31 December 2006, the Group's borrowings totalled RMB932,676,000 as compared to RMB1,260,177,000 as at 31 December 2005. The borrowings would all be due within one year.

As at 31 December 2006, the Group's short-term bank loans amounting to approximately RMB140,000,000 (as at 31 December 2005: RMB280,000,000) were secured by its land use right properties, plants and equipment with a net book value of RMB226,039,000 (as at 31 December 2005: RMB284,673,000). As at 31 December 2006, the short-term bank loans guaranteed by the Company's ultimate holding company, IRICO Group Cororation, amounted to RMB640,000,000 (as at 31 December 2005: 440,000,000). For the year ended 31 December 2006, the turnover period for accounts receivable of the Group was 141 days, representing a increase of 6 days from 135 days for the year ended 31 December 2005, which was mainly attributable to the intensified competition in the CPT market and changes in payment terms and logistic flow. For the year ended 31 December 2006, the inventory turnover period for the Group was 69 days, representing a increase of 5 days from 64 days for the year ended 31 December 2005, which was mainly attributable to the intensified competition in the CPT market.

(4) Capital Structure

As at 31 December 2006, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 31 December 2006, its liabilities including bank loans aggregated to RMB 2,274,446,000 with cash and bank balances totalling RMB479,503,000 and a gearing ratio (defined as: total liabilities/total assets) of 41%.

(5) Dividend

The Company's original dividend policy will remain unchanged. In Light of the absence of accumulated surplus in 2006, the Board resolved not to distribute any final dividend.

Management Discussion and Analysis (Continued)

4. Financial review (*continued*)

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the 12 months ended 31 December 2006, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.

(7) Commitments

As at 31 December 2006, capital commitments of the Group amounted to RMB153,810,000 (31 December 2005: RMB234,810,000), which were mainly financed by the Group's working capital.

(8) Contingent liability

As at 31 December 2006, apart from the material litigations stated below, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2006, the Group had bank loans of RMB140,000,000, secured by its land use rights, properties, plants and equipment with a net book value of approximately RMB226,039,000.