1. General information of the Group

IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") manufacture, distribute and sell 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. The address of its registered office is No.1 Caihong Road, Xianyang, Shaanxi Province, PRC.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12th April 2007.

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 revaluation of available-for-sale financial assets at fair value through income statement.

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 Group'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.

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

2.1 Basis of preparation *(continued)*

(a) Amendments to published standards effective in 2006 adopted by the Group and relevant to its operation

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1st January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures, introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1st January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

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

2.1 Basis of preparation *(continued)*

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st January 2007, but it is not expected to have any impact on the Group's financial statements.

(c) Interpretation to existing standards that is not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of IAS/HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

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

2.1 Basis of preparation *(continued)*

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

HKAS 21 Amendment	New 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 Amendment	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 8	Operating Segments
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
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

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. If the Group has less than one half of the voting rights but has de facto control in an entity, such entity is also considered as subsidiary of the Group. 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.

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

2.2 Consolidation *(continued)*

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(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 investment in associates are stated at cost less provision for impairment losses (note 2.7). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

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

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.

2.4 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 RMB, which is the Group'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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

2.5 Property, plant and equipment *(continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs 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.

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) Licences 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 licences 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 of 5 years.

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

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

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation 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.

2.8 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. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. They are subsequently carried at fair value. Changes in fair value are recognised in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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 and other receivables is described in Note 2.10 to the financial statements.

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. Summary of significant accounting policies *(continued)*

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 reorganisation, 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are 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.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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. Summary of significant accounting policies *(continued)*

2.15 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 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.

2.16 Employee benefits

(a) Pension and housing obligations

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.

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.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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

2.16 Employee benefits *(continued)*

(c) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

2.18 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, business tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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) Provision of services

Provision of services is recognised in the accounting period in which the services are rendered.

2.19 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)*

2.20 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.

2.21 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.

2.22 Research and development expenses

Research expense 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.

2.23 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 equipment 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)*

2.24 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, recognised assets and liabilities is expected.

(ii) Price risk

The Group is exposed to commodity price risk. Since 1996, all colour 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 colour television set industry, the selling prices of CPTs also decreased. The Directors believe that the declining trend in the prices of colour television sets has stabilised and any further decline in their prices will have impacts on our profitability.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk

The Group has 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 3.78%–6.22% and are repayable according to the contract terms.

(b) Credit risk

Sales to four (2005: two) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represents 65% (2005: 55%) 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, 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.

3.2 Fair value estimation

The nominal value 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 judgements 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) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(ii) 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.

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

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

(ii) Income taxes *(continued)*

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 differences to the extent it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, based on all available evidence. Because there is no quantification of likelihood provided in HKFRS on the term "probable" it is subject to a varying degree of interpretations. Recognition primarily involves judgement 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 evidence 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.

(iii) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets have suffered any impairment in accordance with accounting policies stated in note 2.7 to the financial statements. The recoverable amounts of non-financial assets have been determined based on value-in-use calculations. These calculations require the use of estimates.

The Group tests annually whether 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.

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

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

(iii) Estimated impairment of non-financial assets *(continued)*

As at 31st December 2006, the Group provided for an impairment loss of RMB67,205,000 (2005: RMB567,659,000)(note 24) 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 an independent professional valuer based on financial budgets approved by senior management of the Group covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated declining rates ranging from 5% per annum to 35% per annum for different cash generating units. The after-tax discount rates applied to cash flow projections range from 12.23% per annum to 12.97% per annum.

If the revised estimated gross margin had been 10% lower than management's estimates at 31st December 2006, the Group would need to further reduce the carrying value of property, plant and equipment by RMB192,000,000.

If the revised estimated after-tax discount rates applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates at 31st December 2006, the Group would need to reduce the carrying value of property, plant and equipment by RMB62,000,000.

If the actual gross margin had been 10% higher or the after-tax discounted rates had been 10% lower than management's estimates at 31st December 2006, the Group would be able to reverse the impairment losses by RMB211,000,000 and RMB67,000,000 that arose on these assets.

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

(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) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss of in its 2006 financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available for sale financial assets to the income statement.

(ii) 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 profit and loss account 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.

(iii) Contingent liabilities in respect of litigations

The Group has been engaged in two litigations (note 32). Contingent liabilities arising from these litigations have been assessed by the Directors with reference to legal advice.

(All amounts in thousands of RMB 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
At 1st January 2005							
Cost	437,333	2,602,240	794,529	723,995	111,689	907,309	5,577,095
Accumulated depreciation and impairment loss	(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
Year ended 31st December 2005							
Opening net book amount	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 *(note 24)*	(20,365)	(160,630)	(92,860)	(60,317)	(12,817)	—	(346,989)
Impairment charge *(note 24)*	—	(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 loss	(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
Year ended 31st December 2006							
Opening net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
Additions	—	30,530	—	28,114	1,960	37,624	98,228
Transfers/reclassification	25,780	223,312	35,874	13,265	2	(298,233)	—
Transfer to inventories	—	—	—	—	—	(17,659)	(17,659)
Transfer to intangible assets	—	—	—	—	—	(27,917)	(27,917)
Disposals *(note 31)*	—	(14,760)	—	(54,794)	(2,440)	—	(71,994)
Depreciation charge *(note 24)*	(16,536)	(156,592)	(97,069)	(56,683)	(10,581)	—	(337,461)
Impairment charge *(note 24)*	—	(56,735)	(8,715)	(1,755)	—	—	(67,205)
Closing net book amount	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428
At 31st December 2006							
Cost	463,398	3,438,324	970,522	794,321	104,697	31,887	5,803,149
Accumulated depreciation and impairment loss	(216,108)	(1,909,878)	(663,350)	(439,600)	(76,785)	—	(3,305,721)
Net book amount	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428

(All amounts in thousands of RMB 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
At 1st January 2005						
Cost	951,834	487,067	423,295	72,736	379,845	2,314,777
Accumulated depreciation and impairment loss	(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
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 loss	(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
Year ended 31st December 2006						
Opening net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Additions	14,855	—	1,348	802	10,418	27,423
Transfers/reclassification	9,473	35,874	(16,508)	—	(28,839)	—
Transfer to inventories	—	—	—	—	(17,659)	(17,659)
Disposals	(14,703)	—	(54,647)	(1,295)	—	(70,645)
Depreciation charge	(74,122)	(36,987)	(21,372)	(6,153)	—	(138,634)
Impairment reversal/(charge)	4,416	(8,715)	—	—	—	(4,299)
Closing net book amount	681,321	283,518	203,922	19,189	35,470	1,223,420
At 31st December 2006						
Cost	1,223,675	663,060	336,881	71,464	35,470	2,330,550
Accumulated depreciation and impairment loss	(542,354)	(379,542)	(132,959)	(52,275)	—	(1,107,130)
Net book amount	681,321	283,518	203,922	19,189	35,470	1,223,420

(All amounts in thousands of RMB unless otherwise stated)

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

The Group's depreciation charge of RMB302,453,000 (2005: RMB317,648,000) has been expensed in cost of sales, RMB731,000 (2005: RMB872,000) in selling and marketing costs and RMB34,277,000 (2005: RMB28,469,000) in administrative expenses.

The Group's impairment charge of RMB67,205,000 (2005: RMB567,659,000) has been included 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)(iii) to the financial statements.

As at 31st December 2006, short-term bank borrowings of the Group amounting to RMB140,000,000 (2005: RMB280,000,000) are secured on the Group's buildings and machineries with the carrying amount of RMB205,027,000 (2005: RMB284,673,000) (note 21).

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 amounts are analysed as follows:

	2006	2005
Opening net book amount	**37,911**	39,496
Amortisation charge *(note 24)*	**(970)**	(1,585)
Closing net book amount	**36,941**	37,911
Outside Hong Kong, held on leases of:		
— between 10 to 50 years	**36,659**	37,590
— less than 10 years	**282**	321
	36,941	37,911

As at 31st December 2006, short-term bank borrowings of the Group amounting to RMB140,000,000 (2005: Nil) are secured on the Group's land use rights with the carrying amount of RMB21,012,000 (2005: Nil) (note 21).

(All amounts in thousands of RMB unless otherwise stated)

7. Intangible assets

Group

	Licences for technical knowledge	Computer Software	Total
At 1st January 2005			
Cost	330,638	—	330,638
Accumulated amortisation	(263,564)	—	(263,564)
Net book amount	67,074	—	67,074
Year ended 31st December 2005			
Opening net book amount	67,074	—	67,074
Additions	1,399	1,543	2,942
Amortisation charge *(note 24)*	(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	(319,207)	(383)	(319,590)
Net book amount	12,830	1,160	13,990
Year ended 31st December 2006			
Opening net book amount	12,830	1,160	13,990
Additions	5,134	1,771	6,905
Transfer in from construction in progress	27,917	—	27,917
Amortisation charge *(note 24)*	(6,423)	(514)	(6,937)
Impairment charge *(note 24)*	(30,260)	—	(30,260)
Closing net book amount	9,198	2,417	11,615
At 31st December 2006			
Cost	365,088	3,314	368,402
Accumulated amortisation and impairment loss	(355,890)	(897)	(356,787)
Net book amount	9,198	2,417	11,615

Amortisation of RMB6,423,000 (2005: RMB55,643,000) has been expensed in cost of sales and RMB514,000 (2005: RMB383,000) in the administrative expenses in the income statement. The impairment charge of RMB30,260,000 for the purchased technical knowledge for manufacturing of super large-sized CPTs is included in cost of sales in the income statement. The Directors consider that the Group will no longer produce the super large-sized CPTs.

(All amounts in thousands of RMB unless otherwise stated)

7. Intangible assets *(continued)*

Company

	Licences for technical knowledge	Computer Software	Total
At 1st January 2005			
Cost	93,178	—	93,178
Accumulated amortisation	(71,644)	—	(71,644)
Net book amount	21,534	—	21,534
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 2006			
Opening net book amount	9,312	1,160	10,472
Additions	—	1,760	1,760
Amortisation charge	(2,324)	(506)	(2,830)
Closing net book amount	6,988	2,414	9,402
At 31st December 2006			
Cost	94,575	3,135	97,710
Accumulated amortisation	(87,587)	(721)	(88,308)
Net book amount	6,988	2,414	9,402

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company

(a) Investments in subsidiaries

	2006	2005
Investments, at cost:		
Shares in a listed company in the PRC	**624,793**	815,815
Unlisted shares	**477,434**	536,501
	1,102,227	1,352,316

As at 31st December 2006, The Group's shares in a listed company in the PRC represent a 42.9% equity interest in IRICO Display Device Co., Ltd. ("IRICO Display"), a company listed on the Shanghai Stock Exchange.

Prior to the share reform which was approved by the shareholders of IRICO Display on 18th July 2006, the Company had a 56.14% equity interest in IRICO Display.

Under the share reform, the Company offered 4.2 unlisted shares in IRICO Display for every 10 listed shares held on 27th July 2006 in consideration for such holders of listed shares to agree that all the IRICO Display's unlisted shares be converted into listed shares.

The Company has transferred a total of 51,403,287 unlisted shares in IRICO Display to listed shareholders, representing approximately 12.21% of the total issue shares of IRICO Display and approximately 21.74% of the Company's unlisted shares in IRICO Display. The Company also transferred a total of 4,361,148 unlisted shares to listed shareholders on behalf of 15 unlisted shareholders who did not pay for their consideration.

In the Group's consolidated financial statement, the above share reform reduced capital reserve attributable to the shareholders of the Company by RMB176,083,000 and increased minority interests by the same amount. In the Company's financial statement, investments in subsidiaries has been decreased by RMB176,083,000 and this reduction has been dealt with in the income statement. The share paid on behalf of the 15 unlisted shareholders of RMB14,939,000 are recorded as amount due from these shareholders and decreased minority interests by RMB14,939,000.

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company *(continued)*

(a) Investments in subsidiaries *(continued)*

As at 31st December 2006, the Company has direct and indirect interests in the following subsidiaries, all of which were established and operate 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	RMB421,148,800	Production and development of the electronic products and raw materials for colour display devices	42.9%	—	42.9%
IRICO Kunshan Industry Co., Ltd	RMB60,000,000	Production of the rubber parts of CPTs	80%	7.5%	87.5%
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB90,000,000	Production of phosphor for various types of CPTs	45%	—	45%
Xian IRICO Zixun Co., Ltd.	RMB130,000,000	Production and sales of the parts and components for display devices and the electronic communication products	45%	23.60%	68.60%
Xianyang Caiqin Electronic Device Co., Ltd.	RMB25,000,000	Production and sales of pin, anode button, multi-form and frit for CPTs	87.16%	—	87.16%
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	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%

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company *(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
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%	21.02%	72.02%
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	Production and sales of frit for CPTs	—	100%	100%
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 6.12% (2005: 5.58%) per annum and repayable on 14th June 2007 (2005: 22nd December 2006).

(All amounts in thousands of RMB unless otherwise stated)

9. Interests in associates

	Group	
	2006	2005
Opening carrying amount	**17,339**	18,218
Additions	**215,826**	1,600
Share of associates' profits less losses	**(945)**	(2,479)
Closing carrying amount	**232,220**	17,339

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

Name	**Country of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Profit / (loss)**
2006					
Sichuan Century Shuanghong Display Devices Co., Ltd.	PRC	209,112	16,466	—	(1,636)
Xian New Century International Club Co., Ltd.	PRC	20,941	7,523	13,604	271
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	PRC	2,967	456	3,526	1,207
Xian IRICO Plastic Industry Co., Ltd.	PRC	2,100	—	2,072	(787)
		235,120	24,445	19,202	(945)
2005					
Xian New Century International Club Co., Ltd.	PRC	22,324	9,176	9,855	(2,008)
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	PRC	2,164	861	129	(297)
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,470	582	3,118	(174)
		27,958	10,619	13,102	(2,479)

(All amounts in thousands of RMB unless otherwise stated)

9. Interests in associates *(continued)*

The particulars of the associates of the Group at 31st December 2006 are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Sichuan Century Shuanghong Display Devices Co., Ltd. (note)	RMB 180,000,000	Production, research and development and sale of plasma display panels ("PDP") and related materials.	20%	—	20%
Xian IRICO Plastic Industry Co., Ltd.	RMB 10,000,000	Production of deflection yoke spacers and balances for colour display devices	—	30%	30%
Xian New Century International Club Co., Ltd.	RMB 48,000,000	Provision of catering services and the operation of amenity centers	—	41.67%	41.67%
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	RMB4,000,000	Production regenerated red, green and blue phosphor materials	—	40%	40%

9. Interests in associates *(continued)*

Note:

On 27th March 2006, the Company and Sichuan Changhong Group Corporation ("Changhong Group"), contributed cash of RMB1,000,000 each to form a company named "Beijing Century Shuanghong Display Devices Co., Ltd." with registered capital of RMB2,000,000. In July 2006, Beijing Century Shuanghong Display Devices Co., Ltd. was renamed as Sichuan Century Shuanghong Display Devices Co., Ltd. ("Sichuan Shuanghong").

On 10th October 2006, the Company and Changhong Group entered into an Increased Contributions Agreement for increasing the registered capital of Sichuan Shuanghong (the "Increased Contribution Agreement"). Pursuant to the Increased Contributions Agreement, the Group agreed to make additional capital contributions of RMB359 million, comprising cash of RMB119 million, tangible assets of RMB98 million and intangible assets of RMB142 million (the "Transaction Price") to Sichuan Shuanghong. The values of the tangible and intangible assets were negotiated and determined between the Company and Changhong Group on an arm's length basis with reference to a valuation report prepared by an independent professional valuer in the PRC.

Immediately following such increase in capital contributions, the registered capital of Sichuan Shuanghong will be increased to RMB1,800 million of which RMB360 million (20%) and RMB1,440 million (80%) are attributable from the Company and Changhong Group respectively. The increased capital is scheduled to be contributed by both parties in accordance to the requirements as stated in the Company Law of the PRC.

Pursuant to the Increased Contributions Agreement, the Company has contributed RMB240 million by way of injection of tangible and intangible assets in November 2006 and cash of RMB9 million. The Group recognised the gain on disposal of these tangible and intangible assets after considering the elimination of the 20% share of Group's unrealised valuation surplus of RMB171 million i.e. RMB34.2 million based on the equity accounting method. Thus the gain on disposal of property, plant and equipments is RMB23 million and the gain on disposal of intangible assets is RMB114 million.

Company

As at 31st December 2006, the investment in Sichuan Shuanghong at the Company's balance sheet was RMB250,000,000 resulted from the recognition of total valuation surplus of RMB171 million.

(All amounts in thousands of RMB unless otherwise stated)

10. Available-for-sale financial assets - Group

	2006	2005
Unlisted investments	**33,500**	33,500
Provision for impairment loss	**(9,440)**	(9,440)
	24,060	24,060

Unlisted investments substantially comprise of the investment in equity interests in Western Trust & Investment Co., Ltd.("WTI"), a state controlled trust enterprise. WTI has a number of investments in unlisted enterprises which have no readily available information concerning their market values. These investments held by WTI are stated at cost in WTI's book. The Directors consider that the underlying values of these investments were not less than their carrying amounts as at 31st December 2006.

11. Inventories

	Group		Company	
	2006	2005	**2006**	2005
Raw materials	**190,775**	208,397	**146,338**	140,026
Work in progress	**170,158**	311,177	**66,213**	168,109
Finished goods	**271,311**	149,863	**105,157**	61,647
Consumables	**20,665**	21,620	**4,926**	5,662
	652,909	691,057	**322,634**	375,444
Write-down to net realisable value	**(20,994)**	(19,274)	**(6,869)**	(3,761)
	631,915	671,783	**315,765**	371,683

As at 31st December 2006, inventories that has been carried at net realisable value amounted to approximately RMB207,755,000 (2005: RMB110,999,000).

(All amounts in thousands of RMB unless otherwise stated)

12. Trade receivables

	Group 2006	Group 2005	Company 2006	Company 2005
Trade receivables				
— third parties	**344,065**	383,474	**92,929**	62,672
— related parties *(note 34)*	**335,923**	243,694	**88,470**	48,798
— subsidiaries of the Company	**—**	—	**286,929**	325,200
	679,988	627,168	**468,328**	436,670
Less: provision for impairment of receivables	**(11,466)**	(13,229)	**(58,900)**	(11,963)
Trade receivables – net	**668,522**	613,939	**409,428**	424,707
Trade bills receivable				
— third parties	**220,980**	224,234	**40,307**	53,948
— related parties *(note 34)*	**622,790**	636,264	**136,137**	180,906
	843,770	860,498	**176,444**	234,854
	1,512,292	1,474,437	**585,872**	659,561

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

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. At 31st December 2006 and 2005, the ageing analyses of trade receivables are as follows:

	Group 2006	Group 2005	Company 2006	Company 2005
0-90 days	**602,268**	553,982	**362,627**	431,112
91-180 days	**57,774**	62,812	**93,961**	1,351
181-365 days	**7,580**	3,493	**7,220**	393
Over 365 days	**12,366**	6,881	**4,520**	3,814
	679,988	627,168	**468,328**	436,670

(All amounts in thousands of RMB unless otherwise stated)

13 Cash and bank balances

	Group		Company	
	2006	2005	**2006**	2005
Pledged balances	**30,009**	—	**30,009**	—
Unpledged balances				
— time deposits	**30,000**	58,500	**—**	—
— other cash and bank balances	**419,494**	529,338	**191,720**	186,555
	479,503	587,838	**221,729**	186,555

All the cash and bank balances are denominated in RMB and deposited with banks in the PRC except for the equivalent amounts of RMB110,763,000 (2005: RMB212,597,000) at 31st December 2006 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 2006, cash and bank balances included deposit of RMB30,009,000 (2005: Nil) which was pledged to secure trade bills payable.

The effective interest rate on time deposits was 2.25% (2005: 2.07% to 2.25%). These deposits have a maturity from 180 days to 365 days (2005: 180 days to 365 days).

14 Share capital

	As at 31st December 2005 and 2006	
	Number of shares	**Amount**
Issued and fully paid		
Domestic shares of RMB1 Yuan each	1,455,880,000	1,455,880
H shares of RMB1 Yuan each	485,294,000	485,294
	1,941,174,000	1,941,174

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.

(All amounts in thousands of RMB unless otherwise stated)

15 Other reserves

Group

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January, 31st December 2005 and 1st January 2006	920,872	15,687	7,843	944,402
Negative reserve arising from share reform (note 8)	(176,083)	—	—	(176,083)
Acquisition of additional interests of a subsidiary from a minority investor	(2,173)	—	—	(2,173)
Transfers	—	7,843	(7,843)	—
At 31st December 2006	742,616	23,530	—	766,146

Company

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January, 31st December 2005 and 1st January 2006	962,623	15,687	7,843	986,153
Transfers	—	7,843	(7,843)	—
At 31st December 2006	962,623	23,530	—	986,153

15 Other reserves *(continued)*

Notes:

(i) Capital reserve

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 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.

(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.

(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.

In accordance with the revised PRC regulations which is effective from 1st January 2006 and a circular issue by the Ministry of Finance ("MOF") (Cai Qi [2006] No.67), the Company is not required to provide for statutory public welfare fund out of appropriation of profit after taxation. The remaining balance as at 1st January 2006 is transferred into statutory surplus reserve.

(All amounts in thousands of RMB unless otherwise stated)

16 Deferred income

Deferred income represents grant 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.

17 Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% (2005: 33%) except for certain subsidiaries mentioned in note 27 to the financial statements which are subject to tax concession to pay income tax at 15% (2005: 15%).

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

	Group		Company	
	2006	2005	**2006**	2005
Opening carrying amount	**15,698**	(9,947)	**3,614**	2,307
(Credited)/debited to the income statement	**(121)**	25,645	**2,503**	1,307
Closing carrying amount	**15,577**	15,698	**6,117**	3,614

(All amounts in thousands of RMB unless otherwise stated)

17 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 liabilities:

	Group Accelerated tax depreciation	Company Accelerated tax depreciation
At 1st January 2005	18,094	2,537
(Credited)/debited to the income statement	(2,396)	1,077
At 31st December 2005 and 1st January 2006	15,698	3,614
(Credited)/debited to the income statement	(121)	2,503
At 31st December 2006	15,577	6,117

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

Deferred income tax assets are recognised for tax loss carry-forwards 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 RMB34,388,000 (2005: RMB355,277,000) 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:

	2006	2005
Arising from tax losses	**3,287**	193,926
Arising from impairment	**29,712**	143,366
Arising from provision of assets	**1,251**	7,483
Arising from accrual of staff costs	**—**	3,938
Arising from elimination of unrealised profits	**138**	6,564
	34,388	355,277

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

(All amounts in thousands of RMB unless otherwise stated)

18 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	
	2006	2005	**2006**	2005
Opening carrying amount	**18,505**	—	**13,355**	—
Utilised during year	**(1,629)**	—	**(651)**	—
(Credited)/debited to income statement *(note 25)*	**(3,957)**	18,505	**(2,677)**	13,355
Closing carrying amount	**12,919**	18,505	**10,027**	13,355
Less: current portion included in current liabilities	**(2,347)**	(4,626)	**(962)**	(3,339)
Non-current portion	**10,572**	13,879	**9,065**	10,016

The provision mainly represented early retirement allowance payable to the employees of the Group. 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.

The fair values of payables equal their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on five-year bank borrowings rate of 6.12% (2005: 6.12%).

(All amounts in thousands of RMB unless otherwise stated)

19 Trade payables

	Group		Company	
	2006	2005	**2006**	2005
Trade payables				
— third parties	**335,690**	287,094	**185,446**	98,626
— related parties (note 34)	**212,241**	397,053	**138,685**	328,313
— subsidiaries of the Company	**—**	—	**25,340**	44,331
	547,931	684,147	**349,471**	471,270
Trade bills payable				
— third parties	**2,150**	—	**2,150**	—
— related parties *(note 34)*	**25,637**	10,000	**25,637**	10,000
	27,787	10,000	**27,787**	10,000
	575,718	694,147	**377,258**	481,270

At 31st December 2006 and 2005, the ageing analyses of trade payables are as follows:

	Group		Company	
	2006	2005	**2006**	2005
0 - 90 days	**497,373**	545,847	**343,452**	442,269
91 - 180 days	**12,237**	126,233	**3,812**	23,644
181 - 365 days	**17,145**	7,671	**606**	1,487
Over 365 days	**21,176**	4,396	**1,601**	3,870
	547,931	684,147	**349,471**	471,270

(All amounts in thousands of RMB unless otherwise stated)

20 Other payables and accruals

	Group		Company	
	2006	2005	**2006**	2005
Amount due to ultimate holding company *(note 34)*	**340,095**	339,591	**310,659**	319,946
Provisions of warranty *(note)*	**5,537**	3,939	**3,514**	3,939
Others	**380,879**	383,229	**281,757**	271,353
	726,511	726,759	**595,930**	595,238

Note:

Movements of the provisions of warranty are as follows:

	Group		Company	
	2006	2005	**2006**	2005
Opening carrying amount	**3,939**	4,818	**3,939**	4,818
Charged in the income statement *(note 24)*	**11,844**	12,520	**4,094**	12,520
Utilised during year	**(10,246)**	(13,399)	**(4,519)**	(13,399)
Closing carrying amount	**5,537**	3,939	**3,514**	3,939

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within three years 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 thousands of RMB unless otherwise stated)

21 Short-term bank borrowings

	Group		Company	
	2006	2005	**2006**	2005
Secured	**140,000**	280,000	**—**	—
Unsecured				
Guaranteed by the ultimate holding company	**640,000**	440,000	**470,000**	380,000
Advanced from banks on discounted trade receivables	**58,972**	203,335	**—**	98,763
Unguaranteed	**93,704**	336,842	**93,704**	256,842
	932,676	1,260,177	**563,704**	735,605

The fair values of these current borrowings equal their carryings amounts as the impact of discounting is not significant.

As at 31st December 2006, short-term bank borrowing of approximately RMB140,000,000 (2005: RMB280,000,000) are secured by certain land use rights (note 6), buildings and machineries of the Group (note 5).

As at 31st December 2006, the carrying amount of a borrowing amounted to RMB93,704,000 (2005: RMB96,842,000) is denominated by USD dollars. The remainings are denominated in Renminbi.

As at 31st December 2006 and 2005, all short-term bank borrowings are based on fixed interest rate. The effective interest rates as at balance sheet date were as follows:

	2006	2005
Short-term bank borrowings per annum	**3.78% - 6.22%**	3.51% - 5.94%

As at 31st December 2006, the unutilised banking facilities of the Group amounted to approximately RMB187,025,000 (2005: RMB203,158,000).

(All amounts in thousands of RMB unless otherwise stated)

22 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.

	2006	2005
Sales of CPTs and CPT components	**3,861,710**	3,927,500

The Group's revenues, expenses,assets, liabilities and capital expenditures are primarily attributable to the production and sales of CPT. The Directors consider that there is only one business segment for the Group.

The Group's principal market is Mainland China. The direct exports sales made by the Group contributed to less than 10 percent of the total revenues and results of the Group. Accordingly, no geographical segment is presented.

23 Other revenue and other net income

	2006	2005
Other revenue:		
Sales of raw materials, scraps and packaging materials	**19,498**	37,603
Other net income:		
Net gains on disposal of property, plant and equipments	**21,748**	4,687
Gains on disposal of intangible assets *(note 9)*	**113,573**	—
Gains on disposal of trading securities	**—**	1,422
Interest income	**6,521**	5,986
Amortisation of deferred income on grant received	**3,475**	3,475
Proceeds from collection of written off trade receivables	**700**	1,450
Rental income	**1,317**	1,179
Reversal of provision of doubtful debts	**1,763**	—
Others	**6,029**	3,096
	155,126	21,295

(All amounts in thousands of RMB unless otherwise stated)

24 Operating profit/(loss)

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

	2006	2005
Cost of inventories sold	**2,549,941**	2,988,327
Depreciation charge *(note 5)*	**337,461**	346,989
Amoritisation of leasehold land and land use rights *(note 6)*	**970**	1,585
Amortisation of intangible assets *(note 7)*	**6,937**	56,026
Employee benefit expense *(note 25)*	**473,910**	529,102
Impairment loss of property, plant and equipment	**67,205**	567,659
Impairment loss of intangible assets *(note 7)*	**30,260**	—
Transportation	**103,499**	105,081
Advertising costs	**124**	1,037
Research and development expenses	**25,917**	36,940
Provision for doubtful debts	**—**	10,583
Write-down of inventories to net realisable value	**1,720**	1,596
Operating lease rentals in respect of land use rights	**4,094**	4,218
Operating lease rentals in respect of property, plant and equipment	**37,336**	30,956
Net exchange losses	**12,216**	7,007
Provision for warranty *(note 20)*	**11,844**	12,520
Auditors' remuneration	**5,442**	5,639
Other expenses	**78,740**	83,546
Total cost of sales, distribution costs and administrative expenses	**3,747,616**	4,788,811

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense

	2006	2005
Wages and salaries	**332,880**	355,240
Retirement benefit contributions		
- pension obligations *(note)*	**45,942**	55,166
- one-off termination benefits	**20,598**	—
- early retirement benefits *(note 18)*	**(3,957)**	18,505
Welfare and social security costs	**78,447**	100,191
	473,910	529,102

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 has no further pension obligation beyond the above contributions.

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2006 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Xing Daoqing	—	227	9	236
Mr. Tao Kui	—	239	9	248
Mr. Guo Mengquan	—	211	9	220
Mr. Zhang Shaowen	—	207	9	216
Mr. Niu Xinan (note (i))	—	203	9	212
Non-executive Directors				
Mr. Zhang Xingxi	—	320	17	337
Mr. Yun Dah Jiunn (note (ii))	—	810	—	810
Mr. Feng Fei	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bin	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Mr. Zha Jianqiu	100	—	—	100
	500	2,217	62	2,779

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

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

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 Daoqing	—	224	9	233
Mr. Ma Jinquan *(note (iii))*	—	170	6	176
Mr. Tao Kui	—	239	9	248
Mr. Guo Mengquan	—	213	9	222
Mr. Zhang Shaowen	—	210	9	219
Mr. Yun Dah Jiunn	—	1,554	—	1,554
Non-executive Directors				
Mr. Zhang Xingxi	—	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

Notes:

(i) Appointed on 29th June 2006.

(ii) Mr. Yun Dah Jiunn has been re-designated as a non-executive Director with effect from 27th December 2006. Mr. Yun Dah Jiunn has also resigned from his office as chief financial controller of the Company;

(iii) Resigned on 5th August 2005.

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

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

Except for Mr. Zhang Xingxi's and Mr. Niu Xinan's emoluments which are afforded by the Group's ultimate holding company, IRICO Group Corporation, other directors of the Company received no emolument from the parent company. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's parent company.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2005: one) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2005: four) during the year are as follows:

	2006	2005
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**555**	1,620
Retirement benefit contributions	**9**	26
	564	1,646

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Emolument band		
Nil to RMB1,000,000	**5**	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 (2005: Nil).

(All amounts in thousands of RMB unless otherwise stated)

26 Finance costs

	2006	2005
Interest expense on short-term bank borrowings	**56,512**	65,997
Interest expense to ultimate holding company *(note 34)*	**1,648**	1,048
Finance charge on discounted trade bills to banks	**3,689**	3,051
	61,849	70,096

27 Income tax expense

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 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.

	2006	2005
Current income tax	**19,949**	22,732
Deferred income tax (note 17)	**(121)**	25,645
	19,828	48,377

(All amounts in thousands of RMB unless otherwise stated)

27 Income tax expense *(continued)*

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 profit/(loss) of the consolidated companies as follows:

	2006	2005
Profit/(loss) before income tax	**187,543**	(911,956)
Tax calculated at statutory rate of 33%	**61,889**	(300,945)
Income under tax exemption and reduction (note)	**(49,307)**	(10,476)
Expenses not deductible for tax purposes	**1,136**	4,521
Utilisation of previously unrecognised tax losses	**(28,278)**	—
Unrecognised deferred tax assets	**34,388**	355,277
Total income tax expense	**19,828**	48,377

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 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 2005. The operations of Xian IRICO Zixun Co., Ltd. have also met the requirements under the OUWC Policy for the year ended 31st December 2006 and accordingly, EIT has also been provided at 15%.

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.

(All amounts in thousands of RMB unless otherwise stated)

27 Income tax expense *(continued)*

Note: (continued)

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 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 entitled to pay EIT at 12% from 2006. Xianyang IRICO Electronics Shadow Mask Co., Ltd., which was established in 2003, has sufficient current year profit to set off against previous years' accumulated loss and thus has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

28 Loss attributable to shareholders of the Company

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB9,956,000 (2005: RMB582,985,000).

29 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to shareholders of RMB129,512,000 (2005: loss of RMB754,547,000) and based on the weighted average of 1,941,174,000 (2005: 1,941,174,000) shares in issue.

There were no dilutive potential shares during the years ended 31st December 2006 and 2005 and accordingly no diluted earnings per share is presented.

30 Dividend

	2006	2005
Special dividend	—	58,261

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 shareholders before 30th June 2005.

(All amounts in thousands of RMB unless otherwise stated)

31 Notes to consolidated cash flow statement

(a) Cash generated from operations

	2006	2005
Profit/(loss) for the year	**167,715**	(960,333)
Adjustments for:		
— Income tax expense	**19,828**	48,377
— (Decrease)/increase in provision of doubtful debts	**(1,580)**	10,583
— Write down of inventories to net realisable value	**1,720**	1,596
— Depreciation *(note 5)*	**337,461**	346,989
— Amortisation	**7,907**	57,611
— Impairment loss on property, plant and equipment *(note 5)*	**67,205**	567,659
— Impairment loss on intangible assets *(note 7)*	**30,260**	—
— Net gains on disposal of property, plant and equipment	**(21,748)**	(4,687)
— Gains on disposal of intangible assets	**(113,573)**	—
— Profit on disposal of trading securities	**—**	(1,422)
— Interest income	**(6,521)**	(5,986)
— Finance costs	**61,849**	70,096
— Share of profit less losses of associates	**945**	2,479
— Amortisation of deferred income on grants received	**(3,475)**	(3,475)
Changes in working capital:		
— Decrease in inventories	**55,807**	257,177
— Increase in trade and other receivables	**(42,467)**	(65,214)
— Decrease in trade and other payables	**(111,251)**	(16,097)
Cash generated from operations	**450,082**	305,353

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

	2006	2005
Net book amount *(note 5)*	**71,994**	12,897
Net gains on disposal of property, plant and equipment	**21,748**	4,687
Contribution as investment in an associate	**(92,253)**	—
Proceeds from disposal of property, plant and equipment	**1,489**	17,584

(All amounts in thousands of RMB unless otherwise stated)

31 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 2005	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 investors' share of loss	—	—	(205,786)	—	—	—
Dividend payable to minority investors	—	—	(7,689)	—	—	—
Cash (outflow)/inflow from financing	—	(54,311)	(84,407)	(159,823)	(14,585)	21,000
At 31st December 2005 and 1st January 2006	2,862,046	339,591	830,984	1,260,177	—	—
Negative reserve arising from share reform proposal	(176,083)	—	191,022	—	—	—
Minority investors' share of profit	—	—	38,203	—	—	—
Acquisition of additional interests of a subsidiary from a minority investor	(2,173)	—	(4,726)	—	—	—
Dividend payable to minority investors	—	—	3,323	—	—	—
Cash inflow/(outflow) from financing	—	504	(23,093)	(327,501)	—	(30,009)
At 31st December 2006	2,683,790	340,095	1,035,713	932,676	—	(30,009)

(c) Significant non-cash transaction

The principal non-cash transaction is the contribution of property, plant and equipments and intangible assets as investment in an associate as detailed in note 9.

32 Material litigations

a) The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company

On or about 19th June 2006, Xingyun brought an action against the Company in the People's High Court of Shaanxi. The Company received a notice ((2006) Shaan Min Chu Zi No. 16) from the court on 20th June 2006 requesting the Company to respond to the action and produce evidence in relation thereto.

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 (彩虹彩色顯像管總廠彩管一廠) ("No. 1 CPT Plant"). According to the five Confirmation Agreements, Xingyun shall provide No. 1 CPT Plant with 5 types of parts samples including 37cm CPT model L shadow mask frame and anti-implosion band for mass pre-sale quality confirmation. In around February 2005, since the parties failed to agree on the price of bulk provision of goods upon the completion of the Confirmation Agreements, No. 1 CPT Plant notified Xingyun to suspend the provisions of parts as agreed in the Confirmation Agreements. Xingyun believes that this caused a total loss of RMB30,300,000 which was incurred from the investments in the construction of facilities and the purchase of materials.

The hearing of the case has ended. On 27th December 2006, the Company received a civil verdict ((2006) Shaan Min Er Chu Zi No. 16) from the People's High Court of Shaanxi. The court ruled that the claim by Xingyun against the Company to bear its investment loss of RMB26,340,000 and its claim against the Company to bear its production loss of RMB3,960,000 were not justified and were dismissed. The court also ruled that, according to the principle of fairness, the Company should acquire finished products, semi-finished products and raw materials held by Xingyun in the value of RMB3,880,000 according to the quantities, types and prices determined by both parties. Those finished products, semi- finished products and raw materials can still be utilized in the process of production by the Company, and therefore no loss would be incurred.

The period allowed for appeal stipulated in the civil verdict ((2006) Shaan Min Er Chu Zi No. 16) expired on 14th January 2007, and Xingyun has not filed an appeal to the People's Supreme Court of the PRC within such stipulated period.

32 Material litigations *(continued)*

a) The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company *(continued)*

On 11th April 2007, the Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10)) from the People's High Court of Shaanxi, and was informed that Xingyun brought an action for a second time against the Company in respect of the same matter.

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 Report of the Group for the year ended 31st December 2006.

b) 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 11 February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), holders 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 not commenced any action against the Company.

32 Material litigations *(continued)*

b) 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"). *(continued)*

On or about 20 May 2005, CPYI commenced a third-party action 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 by Law Debenture Society on the Company on or about 11 June 2005. The Company has retained a law firm to represent the Company in the litigation. On 18 August 2005, such law firm filed a motion to dismiss the third-party complaint in its entirety. On 13 October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7 November 2005, the Company filed an answer to CPYI's claims, denying all liability.

Because no party has identified a single material misrepresentation or omission made by the Company in the offering circular, the Company filed a motion for summary judgement on 15 May 2006. On 9 August 2006 the Court partly dismissed the motion, and the discovery procedure and the expected litigation procedure continued to proceed. Pursuant to the schedule approved by the Court, the closing date of the discovery procedure was postponed to 1 December 2006. The trial by jury will start on 1 May 2007. The discovery procedure has now ended.

As there is no significant facts or evidence unfavourable to the Company, according to legal advice, the Company will file a motion for summary judgment again in the near future, expecting the litigation to end as soon as possible.

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 consolidated financial statements of the Group for the year ended 31st December 2006.

(All amounts in thousands of RMB unless otherwise stated)

33 Commitments - Group

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

	2006	2005
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	**19,694**	49,711
— Construction and renovation of production lines for CPT components	**4,387**	165,064
	24,081	214,775
Contracted but not provided for		
— Investment in an associate	**110,000**	—
— Construction and renovation of production lines for CPTs	**18,797**	12,289
— Construction and renovation of production lines for CPT components	**932**	7,746
	129,729	20,035
	153,810	234,810

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

	Land use rights		**Property, plant and equipment**	
	2006	2005	**2006**	2005
Not later than 1 year	**4,603**	289	**32,668**	35,045
Later than 1 year and not later than 5 years	**9,205**	—	**65,337**	—
	13,808	289	**98,005**	35,045

(All amounts in thousands of RMB unless otherwise stated)

34 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 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.

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 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.

The following transactions were carried out with related parties:

(a) Sales of goods and provision of services

	2006	2005
Sales of goods (note (i)):		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	**9,612**	29,022
— Rui Bo Electronics (HK) Limited	**5,044**	9,050
— The utilities plant of the ultimate holding company	**4,810**	14,791
— Shaanxi IRICO General Service Corporation	**346**	429
— Caihong Labour Services Company	**340**	1,283
— Shaanxi IRICO Construction Engineering Co., Ltd.	**4**	11
— Xian IRICO Electric Co., Ltd.	**—**	3
	20,156	54,589
Other state controlled enterprises	**2,258,081**	1,882,563

(All amounts in thousands of RMB unless otherwise stated)

34 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 contracting parties.

(b) Purchases of goods and provision of services

	2006	2005
Purchases of goods *(note (i))*:		
The IRICO Group		
— Caihong Labour Services Company	**74,387**	81,862
— Shaanxi IRICO General Service Corporation	**49,866**	47,341
— Xianyang Cailian Packaging Materials Co., Ltd.	**32,613**	37,311
— Xian Caihong Plastic Co., Ltd.	**10,513**	12,159
— Xianyang Caihong Adhesive Belt Co., Ltd.	**5,539**	4,530
— Shenzhen Hongyang Industry & Trade Company	**1,086**	2,407
— Shenzhen IRICO Electronics Co., Ltd.	—	4,958
	174,004	190,568
Other state controlled enterprises	**609,045**	923,179
Purchases of property, plant and equipments:		
The IRICO Group		
— Xian Caihong Plastic Co., Ltd.	**3,408**	—
— Shenzhen Hongyang Industry & Trade Company	**1,059**	—
— Xian Guangxin Electronics Co., Ltd.	**—**	639
	4,467	639
Other state controlled enterprises	**12,765**	68,816

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

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

	2006	2005
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company *(note (ii))*	**454,899**	444,582
— Rental expense to the ultimate holding company *(note (iii))*	**39,883**	34,424
— School expense to IRICO School *(note (iv))*	**6,066**	9,278
— Trademark license fee to the ultimate holding company *(note (v))*	**3,828**	3,902
— Social and ancillary service charges from the ultimate holding company (note (vi))	**3,316**	3,986
— Shaanxi IRICO Engineering Audit Company	**260**	882
— Shaanxi IRICO Construction Engineering Co., Ltd.	**—**	1,216
— Accommodation fee to Shaanxi IRICO General Service Corporation	**—**	986
	508,252	499,256
Other state controlled enterprises	**—**	124

Notes:

(i) Purchases 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 years ended 31st December 2006 and 2005 respectively.

(iii) 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 2006 amounted to RMB39,883,000 (2005: RMB34,424,000).

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

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

Notes: (continued)

(iv) At 3rd November 2006, IRICO School has been transferred to the local government of Xianyang. Accordingly, the school expense to IRICO School is ceased from that date.

(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 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.

(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.

(c) Compensation

In 2006, Caihong Labour Services Company provided certain materials to the Group for trial production on new products. Due to the quality issue of those materials, Caihong Labour Service Company paid compensation of RMB10,007,000 in accordance with related contracts.

(d) Loans from the ultimate holding company - Group

	2006	2005
Opening carrying amount	**30,048**	79,000
Loans borrowed	**29,000**	29,000
Repayment	**(31,696)**	(79,000)
Interest expense *(note 26)*	**1,648**	1,048
Closing carrying amount	**29,000**	30,048

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.

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(d) Loans from the ultimate holding company - Group *(continued)*

Loans from the ultimate holding company are unsecured, due within one year and with interest rate 6.12% (2005: 5.58%) per annum. The interest expense to the ultimate holding company is RMB1,648,000 (2005: RMB1,048,000).

(e) Amount due to the ultimate holding company

	Group		Company	
	2006	2005	**2006**	2005
Other payables and accruals				
The ultimate holding company	**340,095**	339,591	**310,659**	319,946

As at 31st December 2006, except for amount of RMB29,000,000 (2005: RMB29,000,000) of the Group due to the ultimate holding company which carries interest at 6.12% (2005: 5.58%) per annum and are repayable on 12th December 2007, the non-trade balances are unsecured, interest free and have no fixed repayment terms.

(f) Director's emolument affordeded by the ultimate holding company

An executive director of the Company, Mr Niu Xinan's emolument is afforded by the Group's ultimate holding company, IRICO Group Corporation (note 25).

(g) Key management compensation

	2006	2005
Salaries and other short-term employee benefits	**3,091**	3,666
fees	**500**	337
Retirement benefit contributions	**84**	75
	3,675	4,078

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
Trade receivables from related parties *(note)*:				
The IRICO Group				
— Caihong Labour Service Company	**5,332**	—	**—**	—
— Shenzhen Hongyang Industry & Trade Company	**2,984**	4,206	**—**	—
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**—**	3,421	**—**	3,421
— The Utilities Plant of the ultimate holding Company	**—**	49	**—**	49
	8,316	7,676	**—**	3,470
Other state controlled enterprises	**950,397**	872,282	**224,607**	226,234
	958,713	879,958	**224,607**	229,704
Representing:				
Trade receivables *(note 12)*	**335,923**	243,694	**88,470**	48,798
Trade bills receivables *(note 12)*	**622,790**	636,264	**136,137**	180,906
	958,713	879,958	**224,607**	229,704

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
Trade payables to related parties *(note)*:				
The IRICO Group				
— The utilities plant of the ultimate holding company	**104,965**	103,992	**75,864**	76,994
— The ultimate holding company	**8,387**	29,981	**8,215**	28,954
— Shaanxi IRICO General Service Corporation Co., Ltd.	**5,079**	6,048	**820**	2,930
— Caihong Labour Service Company	**3,702**	10,108	**2,574**	1,321
— Xianyang Cailian Package Material Company	**3,581**	5,141	**1,654**	3,231
— Xianyang Caihong Plastic Co., Ltd.	**2,100**	—	**—**	—
— Shenzhen Hongyang Industry & Trade Co., Ltd.	**744**	640	**291**	640
— Xianyang Caihong Adehesive Belt Co., Ltd.	**724**	—	**392**	—
— Xianyang Caihong Electronic Materials Co.	**147**	98	**—**	—
— Sakuria Denshikogyo Co., Ltd.	**—**	336	**—**	—
	129,429	156,344	**89,810**	114,070
Other state controlled enterprises	**108,449**	250,709	**74,512**	224,243
	237,878	407,053	**164,322**	338,313
Representing:				
Trade payables *(note 19)*	**212,241**	397,053	**138,685**	328,313
Trade bills payables *(note 19)*	**25,637**	10,000	**25,637**	10,000
	237,878	407,053	**164,322**	338,313

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

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

Note:

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

(i) Bank balances in and loans from state controlled banks

	Group		Company	
	2006	2005	**2006**	2005
Bank balances in state controlled banks	**479,400**	534,177	**221,670**	186,399
Short term borrowings from state controlled banks	**932,676**	1,260,177	**563,704**	735,605

	2006	2005
Interest income from state controlled banks	**6,521**	5,986
Interest and finance costs to state controlled banks	**56,512**	65,997

35 Events after the balance sheet date

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1st January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31st December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.

36 Ultimate holding company

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