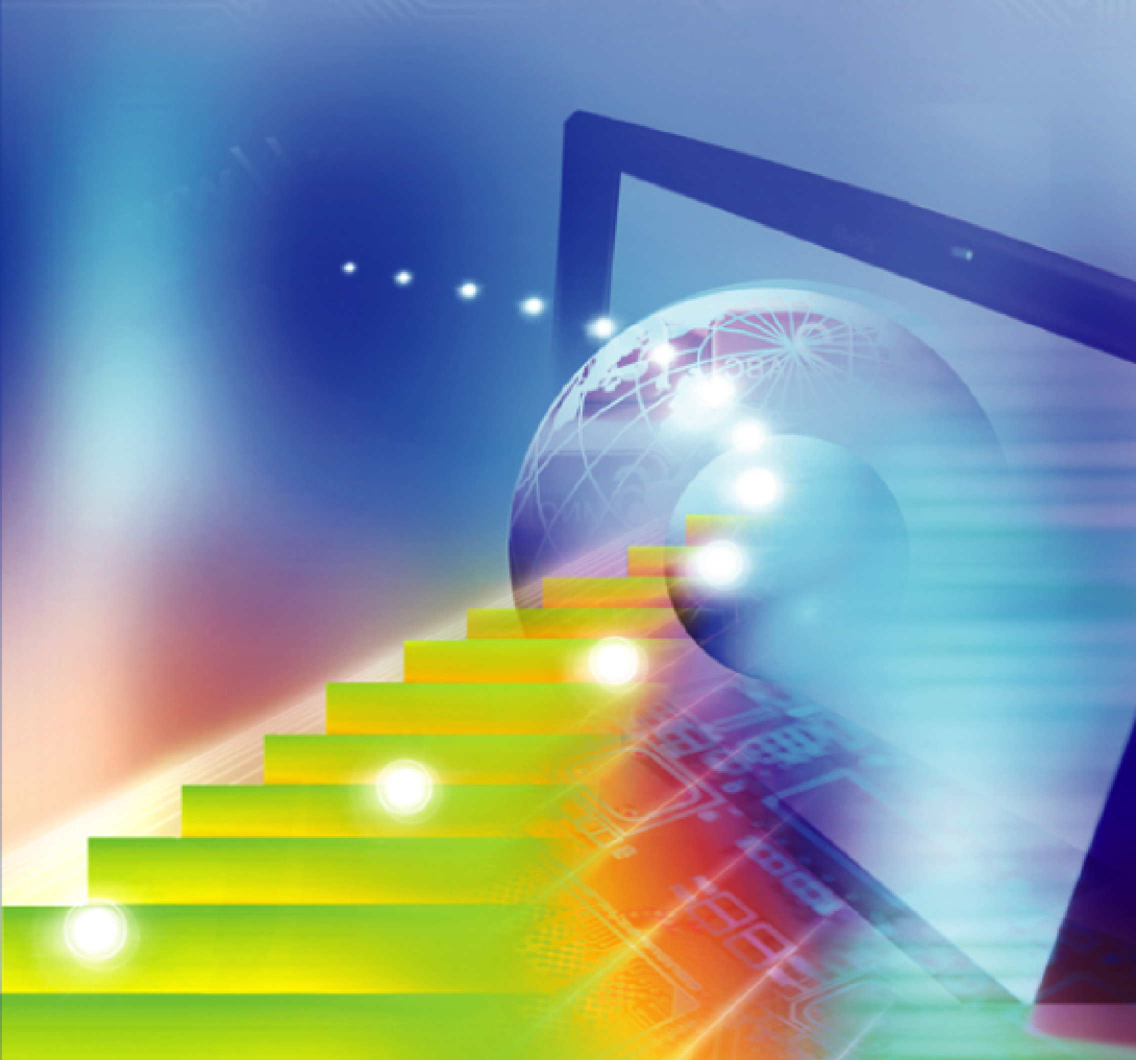
彩虹集團電子股份有限公司

IRICO GROUP ELECTRONICS COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code : 0438)



* *For identification only*

Interim Report 2007

CONTENTS

1. CORPORATE STRATEGY AND BUSINESS PROSPECT

IRICO Group Electronics Company Limited ("IRICO" or the "Company") and its subsidiaries (the "Group") position itself primarily in the field of electronic display devices and relevant components ("Components"). As one of the most common and essential hardware devices in the information society, electronic display devices, which are widely varied in types and purposes, have become one of the key products in modern electronic information manufacturing industry along with IC (Integrated circuit). According to the forecast of a US company called Displaysearch, the global electronic display device market will exceed the USD100 billion mark in 2008. It will also boost the growth in the upstream and downstream industry simultaneously. This gives IRICO much room for its future business expansion.

Currently, traditional colour-picture tubes ("CPTs") remains a core business in IRICO's display device business. Data shows that in the next 3 to 5 years, CRT (i.e. cathode ray tube; with CPT being an example) television will still account for a considerable market share globally. By 2010, CRT television will still account for one-third of the global TV set sales volume, but due to the ever-improving performance and ever-dwindling cost of Flat Panel Display (FPD), such as TFT-LCD (Thin Film Transistor- Liquid Crystal Display) and PDP (Plasma Display Panel), a downturn trend has taken shape in the CPT industry. Therefore, enterprises which specialized only in CPTs will be more susceptible to systematic risk. Nevertheless, the management of the Company also believes that with the increasing marginalisation of CPTs, large-scale enterprises with strong management capabilities in their manufacturing chain and with lower labour cost in their place of establishment will enjoy a greater market share and hence get a steady cash flow and CPTs business returns.

While the Company will further enhance its competitiveness in the CPTs industry, it will gradually shift its strategic focus to the development of new display devices and components. Hence, IRICO will implement strategic development in 3 areas, namely, electronic glass, luminous material and metallic component processing.

Electronic glass has a unique position in all types of electronic display device industry chains. According to the relevant forecast made by Displaysearch in the second quarter of 2007, global output of glass substrate for TFT-LCD, a mainstream technology in the FPD manufacturing industry, has exceeded the 100-million-square-metres mark. In the next four years, this market will still maintain an average annual growth rate of 22.1%, among which the substrate of high-end panels of generation 5 and above are expected to grow at an annual growth rate of 27.3%. However, since glass substrate calls for very high workmanship, no domestic manufacturer in China has yet been able to supply it. Despite this, with the gradual construction and operation of several production lines of high-end TFT-LCD panel in the PRC, the mainland's demand for LCD glass substrate amounted to 5.37 million square metres in 2006. Domestic glass substrate market in China is expected to grow at an annual growth rate of 24.3% in the coming years and is expected to have a greater potential for development. LCD Glass substrate and CRT glass bulbs both fall under the field of electronic glass technology. Currently, all the international LCD glass substrate factories have been evolved from glass bulb factories. IRICO has accumulated years of production experience and talents in electronic glass such as CPT glass bulbs. Its key technology in electronic glass in such areas as computer emnulation and imitation of glass material (recipe), defect-free (low-defect) melting work, furnace maintenance and furnace age prolongment and multi-dimension electronic optic design can well be used in glass substrate projects. The glass substrate project of IRICO Group Corporatin has now been incepted. After the incubation and construction periods, the project will become an important driver for the growth of the company through share transfer. It is envisaged that in mid-2008, a 5th generation glass substrate production line, having an annual production capacity of 750,000 square metres and is believed to be the first glass substrate production line with independent intellectual property rights in the country, will come into being. Thereafter, the Company will gradually start off its phase 2 LCD glass substrate project and PDP glass substrate project, so as to widen the scope of its business and to boost the competitiveness of the Company in the field of electronic glass.

Luminous materials require a high level of technology and have a wide scope of applications. Apart from continuing to improve its phosphor powder business for CPTs in this sector, the Company is pro-actively tapping on potential markets, such as trichromatic fluorescent powder for energy-saving light and CCFL phosphor powder for LCD backlight by capitalising on the branding, talents, technology and resources in its industrial chains which it has built up in the luminous material industry over the years. Currently, mainland China is the global largest manufacturing base for energy-saving light. With the rapid growth in the domestic and international green lightening market, it is envisaged that the market of trichromatic fluorescent powder for energy-saving light in mainland China will experience an average annual growth rate of about 20% in the coming years. In 2006, the Company's energy-saving light powder has secured a 17% domestic market share, a pioneer in the country. In the face of surging demand in the market, the Company has commenced an expansion project to increase its production capacity in this respect to 200 tonnes, with a view to further expand the production capacity and market share of energy-saving light powder for better commercial returns. Another key field of the Company's light emitting material business is CCFL phosphor for LCD backlight. CCFL currently enjoys over 90% market share of the backlight for large and medium-sized LCD display devices of more than 10 inches around the world. According to Displaysearch's forecast in "Quarterly TFT-LCD Supply/Demand Report (07Q2), the global sales volume per unit of CCFC backlight for large and medium-sized LCD display device is expected to grow at an average rate of 15% to 20% per year in the next two or three years, thus offering business opportunities for the CCFL phosphor market. Technologically, CCFL phosphor calls for a higher workmanship than other light emitting luminous materials. Thus, although the mainland China has become one of the most important bases of CCFL backlight module assembly in the world, currently most of the CCFL phosphor needed in the mainland China still basically relies on import. As such, the Company is proactively developing CCFL phosphor with significant progress achieved, and is expected to commence industrialization shortly. Apart from that, the Company will selectively and conditionally set foot in the field of alternative special light emitting materials, such as PDP fluorescent powder and LED fluorescent powder, to enable the Company to transform into a dominant research and development as well as production base in the field of luminous materials in China.

In respect of the processing of metal components, the Company has abundant experience, facilities and resources in producing CPT metal parts. Product ranges from detailed micro-processing to large-scaled components, covering the common processing techniques of pressing, moulding, engraving (embossing), and welding. The rapid development in the fields of heavy vehicles, limousines, aircrafts, home appliances in Shaanxi, where the Company is located, offers the Company with business opportunities in metal-part processing. For this end, the Company consolidated the relevant resources in the subsidiaries, and set up a metal part department. Metal part department focuses on small-to-medium products, metal standard products, and specialized products, and adopts an operation strategy of from near to far, and from part to whole, with some success. The department will continue to uphold the principles of division of labour, specialization, delivering personalized services to draw in more external customers.

The Company believes that the next few years will be a key period for IRICO Electronics to undergo its strategic business transition. In the face of opportunities and challenges in the market, IRICO Electronics will proactively contribute capital to foster its strategical transition from CPTs to the field of new display devices and components, with the help of the solid foundation and support of the parent company, IRICO Group. It will also leverage the technology, management, brand and resources, via active asset reorganization, business renovation, technological advancement, capital management, so as to aspire to become one of the evolving leaders in the field of electronic display devices and components in China.

2. FINANCIAL RESULTS AND BUSINESS SUMMARY

(i) Financial Results

(RMB'000)	**First half of 2007**	First half of 2006	Increase/ (decrease)	Rate of changes
Turnover	**1,412,346**	1,887,894	(475,548)	(25.19%)
(Gross loss) / Gross profit	**127,192**	254,422	(127,230)	(50.01%)
Operating profit	**51,277**	84,446	(33,169)	(39.28%)
Profit / (loss) before income tax	**24,211**	54,408	(30,197)	(55.50%)
Profit / (loss) for the period	**16,966**	44,279	(27,313)	(61.68%)
Attributable to:				
Shareholders of the Company	**17,686**	34,738	(17,052)	(49.09%)
Minority interests	**(720)**	9,541	(10,261)	(107.55%)
Gearing ratio	**41%**	45%	(4%)	(8.89%)

(ii) Business Summary

Colour-picture tube ("CPT") and its components remained the core businesses of the Group in the first half of 2007. Meanwhile, the Company made further progress in its new businesses such as flat panel displays (FPD) as well as luminous materials.

With the implementation of "sales driven strategy", "total cost-based strategies", and "strategies supported by new technologies", the Company was capable of maintaining a relatively stable operation in its CPT business in the face of difficult external environment. This further boosted the Company's CPT market share and strengthened its competitiveness in the CPT market. In the first half of 2007, our share of the total output volume of CPT manufacturers in the PRC reached a new height of 28%, representing an increase of 3 percentage points over the same period last year.

While the Company will further enhance its competitiveness in the CPT industry, it will proactively shift its strategic focus to the development of new display devices and components. Some progress has since been made in this respect. The construction of the first production line of glass substrate for the fifth generation TFT-LCD featured with its own intellectual property rights ("IPR") in China, and which were incubated and constructed by IRICO Group, had commenced during the early reporting period. The project has been conducted smoothly as scheduled. On 17 August 2007, the Company and IRICO Group entered into an acquisition agreement. In the field of luminous materials, sales volume of trichromatic phosphors for tricolor fluorescent lamps increased by 72%, as compared with that of the corresponding period last year. CCFL phosphorous had also been introduced and sold in the market. The Group established a metallic components department in the reporting period, which had integrated relevant resources and initiated its expansion in external market. The Group is now seeking market development potentials in metal component sectors such as vehicles, aircrafts and home appliances. In this regard, sales have been recorded for some metallic punching processing business. The Group and Sichuan Changhong Electrical Group Co., Ltd. have jointly invested in a PDP project. Construction work of the PDP project has been commenced during the reporting period.

3. MANAGEMENT DISCUSSION & ANALYSIS

(i) Industry profile

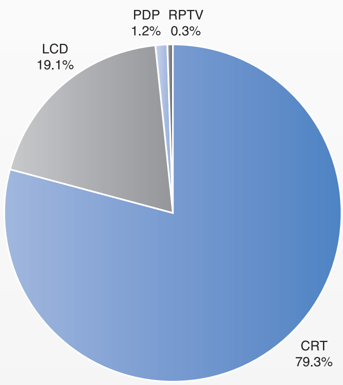
In the first half of 2007, electronic displays industry in which the Group operated still experienced a diversified business structure. Accordingly, the Group adopted a moderately diversified strategy focusing on electronic display devices and related components, such as CRT, LCD, PDP, electronic glass, and luminous materials, to realise sustainable development and prudent operation.

1. CRT Industry

During the reporting period, the global CRTs television industry continues to show a declining trend. According to a research report on global television market issued by Displaysearch in the second quarter of 2007, global sales volume of CRT television in the first half of 2007 dropped by 18.5% as compared with the corresponding period last year. The pace of downturn in CRT television market in the PRC alone is obviously slower than that of the global market but the sales volume still decreased by 7.6% to 14,530,000 sets during the reporting period. However, the sales of super-slim CRT television during the reporting period achieved a continued growth. In the PRC, its sales volume reached 2,380,000 sets during the reporting period, representing a year-on-year rise of over 100%.

As China is the largest manufacturing base and export base of CPTs and the whole devices in the world, the dwindling global demand for CRT television led to a recession in the CRT industry in the PRC. According to statistics from China Commodity Marketplace, output of CRTs enterprises in the PRC recorded a drop of 23.8% to 22,880,000 sets in the first half of 2007, as compared with the corresponding period last year. As the price of CRTs continues to stay low, which results in an overall fall in the operating results of CRTs enterprises in the PRC in the first half of 2007, some enterprise had no alternatives but to leave the industry.

Technological composition of the PRC television sets market in 1st half of 2007



Sources: Displaysearch, Report on the global television sets market (2007Q2)

2. FPD Industry

Demand for FPD high-end products continued to maintain an upward momentum during the reporting period. According to the 2nd quarter Report by Displaysearch, global output of LCD and PDP television in the first half of 2007 were 29,128,000 sets and 4,872,000 sets respectively, representing an increase of 73% and 34% respectively as compared with the corresponding period last year, while the combined total output of LCD and PDP televisions accounted for 39% of total output of television sets. Output of PDP and LCD televisions in the PRC was 3,730,000 sets, representing a year-on-year increase of 108%.

Strong sales of high-end products triggered the growth of the whole FDP industry. Output of large LCD panels of over 10 inches, as the mainstream technology in the FPD industry, increased by 39% in the first half of 2007. Due to robust demand, the prices of different types of LCD panel of important specification rose at varying degree, For instance, the price of a 17" LCD panel increased by 9% at the end of the reporting period, when compared with the start of the period, boosting the momentum of LCD and related industry.

3. Electronic glass industry

Adjustment in electronic glass industry for display devices is still underway during the reporting period. On one hand, dwindling demand for CPTs put further pressure on the operation of traditional CPTs glass bulb enterprises. Some manufacturers were forced to cease production or withdraw from the industry. On the other hand, all kinds of electronic glass for FPDs has continued to experience a rapid growth. Global production of glass-based panel project for TFT-LCD in the first half of 2007 amounted to 78,000,000 square meters, representing a year-on-year increase of 44.5%. In the PRC, the demand for the fifth generation glass-based panel in the first half of 2007 was 3,470,000 square meters, representing a year-on-year increase of 80.7%. This clearly shows that LCD panel industry in the PRC and the related glass substrate industry is still in rapid expansion.

4. Luminous materials industry

Luminous materials industry demonstrated a strong momentum for development during the reporting period. As benefited from the strong growth in export and domestic consumption of energy-saving lamps, the output of energy saving lamps phosphors in the PRC increased by 28.6%. On phosphor powder for LCD backlight business, as China is a rising manufacturing base of LCD backlight in the world, output of CCFL phosphor powder for LCD backlight in the first half of 2007 exceeded the 100 tonnes mark for the first time, representing a year-on-year rise of 37.5%. It shows that the rapid rise of greenlight technology and LCD display technology will create potential business opportunities for phosphor manufacturers.

5. Prospect in the second half of 2007

The display devices industry is envisaged to experience adjustment in the second half of 2007. On the one hand, the CPT industry will continue to dwindle. However, since the latter half of the year is the traditional sales peak season and that many manufacturers have ceased production or even withdrawn from the industry, the operating pressure in the CPT industry would be relieved. On the other hand, flat panel display devices such as LCD and related upstream and downstream industry will gain a growth momentum. The Company estimated that output area of LCD glass substrate in the PRC would achieve an increase of 24% over that of the first half of 2007, and a considerable shortage of supply will persist in the PRC. For luminous materials business, it is estimated that the demand for phosphors for energy saving lamps will exceed 3,200 tonnes in China in the year 2007, representing a year-on-year increase of 19%. For CCFL phosphor for LCD backlight, the rapid growth in the first half of 2007 is expected to continue and even accelerate.

Generally speaking, as an emerging manufacturing base of FPD, the PRC offers business opportunities and a bright prospect in the field of flat panel displays and component materials such as electric glass and luminous materials.

(ii) Business Review

1. Operation highlights

Colour-picture tube ("CPT") and its components remained to be the core businesses of the Group in the first half of 2007. Meanwhile, the Company made further progress in new businesses such as flat panel displays (FPD) as well as luminous materials. Adversely affected by a depression in the CPT industry, the turnover of the Group in the first half was RMB1,412,346,000, representing a decrease of 25.19% as compared with that of the corresponding period last year. Although the operating results of the Group in the first half of the year were less impressive than that of the corresponding period last year, it has made a considerable amount of profit which helps bring a stable supply of cash flow for the Company's continuous operation.

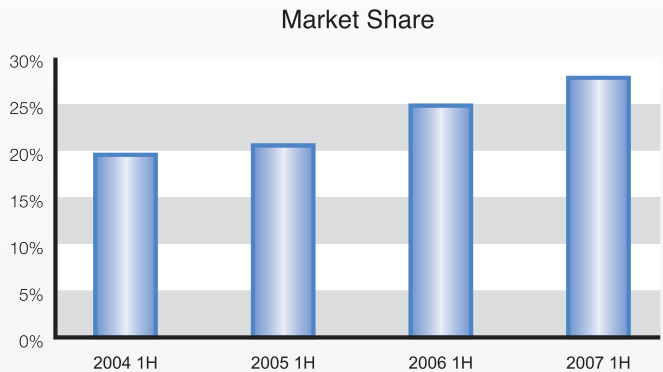
2. Research and Development

During the reporting period, the Group had actively fostered the upgrading of CPT products, out of which the bulk production of 74 cm PF AK CPT had already commenced. Design of the second generation ultra slim 54cmPF CPT, which was much slimmer, had been completed. The unprecedented design of ultra slim widescreen 16:9 61cmPF CPT in China had also been completed. These developments, is set to further enhance the quality of the Company's CPT products. In the areas of luminous materials, the quality of tri-color fluorescent lamps phosphors had also been further enhanced. In addition, CCFL backlight phosphors had been introduced in the market. This is coupled with a successful trial development in the ingredient of PDP Slurry in the reporting period.

3. Business of CPT and its components

During the reporting period, the Group recorded a sales volume of 6,410,000 CPT, representing a decrease of 14.86%, as compared with that of the corresponding period last year. Sales revenue of CPT amounted to RMB1,191,274,000, representing a decrease of approximately 29.07% as compared with that of the corresponding period last year. During the reporting period, the sales of CPT of the Group accounted for 28% of the total output of domestic CPT manufacturers, which was a record high at such a stage and represented a growth of 3 percentage points as compared with that of the corresponding period last year.

Trend of change of IRICO's share in the total output volume of CPT industry in the PRC



Source : China Business Web

During the reporting period, the sales revenue of CPT components was RMB221,072,000, representing an increase of RMB12,760,000 or approximately 6.13%, as compared with that of the corresponding period last year.

During the reporting period, the Group continues to initiate technological innovation and optimize product structure, maintain its effort in cost reduction, enhance its market competitiveness, reinforce its marketing and sales, and expand its market share. As for the CPT components, the Group will proactively seek development in related industries.

4. FPD business

At the end of 2006, the Group established a joint venture with Sichuan Changhong Electrical Group Co., Ltd. to invest in the construction of PDP project. In April this year, construction work of the PDP project has been commenced with the completion of major parts of the plant, and commencement of the manufacturing of ancillary facilities.

During the reporting period, Xiamen Ocular LCD Co., Ltd. (廈門高卓立液晶公司), a subsidiary of IRICO Group which specializes in STN-LCD business, recorded a good operating performance.

5. Electronic glass business

In the field of electronic glass, the construction of the first production line of glass substrate for the fifth generation TFT-LCD featured with its own intellectual property rights ("IPR") in China, and which were incubated and constructed by IRICO Group, had commenced during the early reporting period. Currently, the development of glass substrate with IPR had been accomplished and application for patents had been filed. The design of the parameters of overflow bricks (溢流磚) and computer simulation of key craftsmanship had been completed, the tender and procurement of main equipments had basically been completed and product authentication and exchanges on technological specifications among downstream panel manufacturers ran smoothly. Overall speaking, the project has been conducted as scheduled.

On 17 August 2007, the Company and IRICO Group entered into an acquisition agreement, pursuant to which the Company purchased the 69.53% equity interests held by IRICO Group in Shaanxi IRICO Electronics Glass Company Limited. It is expected to help transform the Company into a dominant player in the industry of new flat panel displays capable of catering for the trend of industrial development upon acquisition. It is also envisaged to bring about a positive impact on product upgrading and the Company's future development. In addition, it will enhance the Company's position in the industrial chain of flat panel display, which has been highly recognised and supported by the relevant governmental authorities in the PRC.

6. Business of luminous materials

During the reporting period, Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor"), a subsidiary of the Group, sold 956.49 tonnes of luminous materials, recording a sales revenue of RMB148,959,000 and a profit of RMB23,658,000. Of which, trichromatic phosphors for tri-color fluorescent lamps recorded an aggregate sales volume of 306 tonnes, representing an increase of 72% as compared with that of the corresponding period last year. CCFL phosphorous had also been introduced and sold in the market. Development of other new products is still underway.

7. Business of processed metallic components

As the Group possessed billions of equipment resources for metallic stamping and processing, and is backed by technology and human resources in this aspect, the Group established a metallic components department in the reporting period, which had integrated relevant resources and initiated its expansion in external market. The Group is now seeking market development potentials in metal component sectors such as vehicles, aircrafts and home appliances. Of which, certain business of metallic punching had recorded sales.

8. Business integration and assets reorganization

With a view to better formulate the direction of the business development of the Group, to realize effective operations and management, enhance profitability and sustainability in development, the Group reorganizes its assets and entered into several agreements on 27 July 2007, mainly including a transfer of assets for manufacturing of CPTs to IRICO Display Devices Co., Ltd., a subsidiary of the Company and a company listed in Shanghai, the PRC (hereafter referred to the "A Share Company"), under which the A Share Company will transfer the assets for manufacturing colour picture tube glass and deflection yokes to the Company. This is coupled with the asset integration of IRICO Display Technology Co. Ltd., a subsidiary of the Company located in the export and processing zone of Xian Caihui Display Technology Co., a subsidiary of the A Share Company the transfer by A Share Company of its 41.67% equity interest in Xian New Century International Club Co., Ltd to IRICO Group, the transfer of 51% and 49% equity interest in Xianyang IRICO Digital Display Co., Ltd (K Line) by the Company and the A Share Company to IRICO Group respectively. The details are set out in the announcement of the Company dated 1 August 2007.

(iii) Financial Review

1. Overall performance

The profit margin of the Group decreased from 13.48% for the first half of 2006 to 9.01% for the first half of 2007, mainly attributable to a reduction in the sales volume and the price of key products of the Company in the first half of 2007 under the influence of industrial factors.

2. Operating Results

1) Unaudited profit and loss *(RMB'000)*

(RMB'000)	For the six months ended 30 June **2007**	2006	Increase / (decrease)	Change (%)
Turnover	**1,412,346**	1,887,894	(475,548)	(25.19%)
Sales of CPTs	**1,191,274**	1,679,582	(488,308)	(29.07%)
Sales of components	**221,072**	208,312	12,760	6.13%
Cost of sales	**(1,285,154)**	(1,633,472)	348,318	(21.32%)
Gross profit	**127,192**	254,422	(127,230)	(50.01%)
Operating expenses	**(85,780)**	(110,057)	24,277	(22.06%)
Administrative expenses				
a) General administrative expenses	**(74,358)**	(96,300)	21,942	(22.79%)
b) Research and development expenses	**(11,422)**	(13,757)	2,335	(16.97%)
Distribution expenses	**(66,139)**	(71,318)	5,179	(7.26%)
Other operating expenses	**(5,771)**	(15,315)	9,544	(62.32%)
Operating profit	**51,277**	84,446	(33,169)	(39.28%)
Finance costs	**(31,070)**	(30,233)	(837)	2.77%
Profit/(loss) in the period	**16,966**	44,279	(27,313)	(61.68%)
Attributable to:				
Equity holders of the Company	**17,686**	34,738	(17,052)	(49.09%)
Minority shareholders	**(720)**	9,541	(10,261)	(107.55%)

2) Turnover

Turnover by product *(RMB'000)*

Name		2007	2006	Increase/ (decrease)	Change (%)
CPTs		**1,191,274**	1,679,582	(488,309)	(29.07%)
Including:	Small-sized CPTs	**231,115**	308,779	(77,664)	(25.15%)
	Medium-sized CPTs	**933,457**	1,367,659	(434,202)	(31.75%)
	Large-sized CPTs	**26,702**	3,144	23,558	749.33%
	Components	**221,072**	208,312	12,760	6.13%
Total		**1,412,346**	1,887,894	(475,548)	(25.19%)

Sales volume by product

Name		2007	2006	Increase/ (decrease)	Change (%)
Including:	Small-sized CPTs	**1,924,316**	2,219,114	(294,798)	(13.28%)
	Medium-sized CPTs	**4,418,942**	5,301,679	(882,737)	(16.65%)
	Large-sized CPTs	**65,076**	5,921	59,155	999.07%
Total		**6,408,334**	7,526,714	(1,118,380)	(14.86%)

Average selling price by product *(RMB/Unit)*

Name		2007	2006	Increase/ (decrease)	Change (%)
Including:	Small-sized CPTs	**120**	139	(19)	(13.69%)
	Medium-sized CPTs	**211**	258	(47)	(18.11%)
	Large-sized CPTs	**410**	531	(121)	(22.72%)

3. Changes as compared with the corresponding period last year and analysis of the reasons behind them

1) Turnover and Profit margin

In the first half of 2007, the turnover of the Group decreased by RMB475,548,000 or 25.19% to RMB1,412,346,000, as compared with the corresponding period in 2006. Of which, turnover from CPT decreased by RMB488,309,000 or 29.07% to RMB1,191,274,000 when compared with that of the corresponding period in 2006. Turnover from component increased by RMB12,760,000 or 6.13% to RMB221,072,000 for the corresponding period in 2006. The overall profit margin of the Group decreased from 13.48% in the first half of 2006 to 9.01% in the first half of 2007, mainly due to dwindling sales of CPT and falling price per unit of CPT, which reduces the profit margin.

2) Administrative Expenses

The Group's administrative expenses in first half of 2007 decreased by RMB24,277,000, or approximately 22.06%, to RMB85,780,000 from RMB110,057,000 for the same-period in 2006. The main reason behind the decrease in administrative expenses was that no staff welfare benefit was allocated this year in accordance with the new accounting standards.

3) Finance costs

The Group's finance costs in the first half of 2007 was RMB31,070,000, representing an increase of RMB837,000, or approximately 2.77%, from RMB30,233,000 for the same-period in 2006, which was mainly attributable to an increase in the interest rate of bank loans in the year.

4. Current assets and financial resources

As at 30 June 2007, the Group's cash and bank balances aggregated to RMB651,503,000, representing an increase of RMB172,000,000 or 35.87%, from RMB479,503,000 as at 31 December 2006. The Group expended RMB33,880,000 for capital expenditure during the half year ended 30 June 2007. Net cash inflow from operating activities was RMB431,233,000, and net cash outflow from financing activities and investing activities were RMB117,317,000 and RMB141,916,000 respectively.

As at 30 June 2007, the Group's borrowings totalled RMB860,386,000 as compared with RMB932,676,000 as at 31 December 2006. The borrowings would all be due within one year. As at 30 June 2007, the Group's short-term bank loans amounting to approximately RMB200,000,000 (as at 31 December 2006: RMB140,000,000) were secured by its properties, plants and equipment.

For the half year ended 30 June 2007, the turnover period for accounts receivable of the Group was 157 days, representing an increase of 14 days from 143 days for the half year ended 30 June 2006 which was mainly attributable to the increase of CPT sales in June. For the half year ended 30 June 2007, the inventory turnover days of the Group increased by 35 days from 69 days for the half year ended 30 June 2006 to 104 days, mainly attributable to stiff competition in the market of colour picture tubes.

5. Capital Structure

On 30 June 2007, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 30 June 2007, its liabilities including bank loans aggregated to RMB2,281,890,000 with cash and bank balances totalling RMB651,503,000 and a gearing ratio (defined as: total liabilities/total assets) of 41%.

6. Interim Dividend

As there was no accumulated surplus in the first half of 2007, the Board resolved not to distribute any interim dividends. The resolution of increasing share capitals by transferring capital reserves on basis of one additional share for every ten shares had been passed at the 12th meeting of the first board of the Company on 25 July 2007, which will be exercised subject to the review and approval at the general meeting as soon as possible.

7. Foreign Exchange Risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the six months ended 30 June 2007, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.

8. Undertakings

As at 30 June 2007, capital commitments of the Group amounted to RMB11,817,000 (31 December 2006: RMB153,810,000).

9. Contingent Liabilities

Nil.

10. Pledge of Assets

As at 30 June 2007, the Group had bank loans of RMB200,000,000, which was secured by its certain properties, plants and equipment.

4. OTHER INFORMATION

(i) Share Appreciation Rights Plan

Pursuant to the Share Appreciation Rights Plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), up to 30 June 2007, the following Directors, Supervisor and senior management members were granted share appreciation rights by the Company as follows :

Name	Number of Share Appreciation Rights *(Shares)*	Note
Xing Daoqin	2,200,000	Director
Tao Kui	1,860,000	Director
Guo Mengquan	1,660,000	Director
Zhang Shaowen	1,400,000	Director
Niu Xinan	800,000	Director
Yun Dah Jiunn	600,000	Director
Zhang Weichuan	520,000	Supervisor
Zhang Chunning	970,000	Senior Management
Wang Ximin	970,000	Senior Management
Zhang Junhua	890,000	Senior Management
Li Miao	890,000	Senior Management
Li Shikun	300,000	Senior Management

Notes:

On 12 March 2007, the Company granted further share appreciation rights to the following Directors, Supervisors and senior management, namely, Directors: Xing Daoqin for 700,000 shares, Tao Kui for 530,000 shares, Guo Mengquan for 530,000 shares, Zhang Shaowen for 400,000 shares, Niu Xinan for 400,000 shares; Supervisor: Zhang Weichuan for 200,000 shares; and senior management: Zhang Chunning for 300,000 shares, Wang Ximin for 300,000 shares, Li Miao for 300,000 shares, Zhang Junhua for 300,000 shares and Li Shikun for 300,000 shares. Yun Dah Jiunn will resign as director of the Company on 8 September 2007 but will still own the 600,000 share appreciation rights. Li Shikun will change from the senior management to Director of the Company on 9 September 2007.

(ii) Interests and short positions of Directors, Supervisors and Senior Management

Save as to the interests mentioned in the section headed "Share Appreciation Rights Plan" above, as at 30 June 2007, none of the Directors, Supervisors, Chief Executive or senior management members of the Company or their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and / or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interest and short positions which any such Directors, Supervisors, Chief Executive or senior management member was taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which was otherwise required to be entered in the register of interests to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(iii) Interests and short positions of substantial shareholders and other persons

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, Chief Executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 30 June 2007 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC (Nominees) Limited had interests in 484,229,990 H Shares of the Company (representing 99.78% of the H Share capital).

Notes :

As at 30 June 2007, based on the information available to Directors and so far as the Directors are aware, HKSCC (Nominees) Limited held 484,229,990 H Shares, among which :

Derby Steven P., Glodfarb Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

J.P. Morgan Fleming Asset Management (Asia) Inc., as a wholly-owned subsidiary of J.P. Morgan Fleming Asset Management Holdings Inc, through its controlled corporations held interests in 33,742,000 H shares in the Company (representing approximately 6.95% of the share capital of H shares), in which JF Asset Management Limited, a company controlled by J.P. Morgan Fleming Asset Management (Asia) Inc. by 99.99% directly held interests in 33,198,000 H shares (representing approximately 6.84% of the share capital of H shares) in the Company.

Montpelier Asset Management, as an investment manager, held interests in 30,294,000 H shares(representing approximately 6.24% of the share capital of H shares) in the Company.

Pictet Asset Management held direct interests in 27,488,000 H shares (representing approximately 5.66% of the share capital of H shares) in the Company on behalf of Pictet Funds Asian Equities.

Atlantis Investment Management, as the investment manager, held interests in 24,500,000 H shares (representing approximately 5.05% of the share capital of H shares) in the Company.

(iv) Audit Committee

In compliance with the provisions set out in the Code on Corporate Governance Practices (hereafter as the "Code") in Appendix 14 to the Listing Rules, the Company has established the Audit Committee. As at 30 June 2007, the Audit Committee comprised four independent non-executive directors: Zha Jianqiu, Feng Fei, Feng Bing and Xu Xinzhong, and a non-executive director, Zhang Xingxi. The Board agreed to adopt all contents set out in the Code C3.3 as its main obligations for the Audit Committee. The Audit Committee has considered and reviewed the accounting standards and methods adopted by the Company and other matters relating to the auditing, internal control and financial reporting, which include the unaudited interim financial statements for the six months ended 30 June 2007.

The condensed consolidated interim financial information in this interim report has been reviewed by SHINEWING (HK) CPA Limited, the Company's auditor, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong institute of Certified Public Accountants.

(v) Independent Non-executive Directors

The Group has complied with the requirement concerning the appointment of sufficient independent Non-executive Directors and that at least one of them possesses appropriate professional qualification or accounting or relevant financial expertise set out in Rule 3.10(1) and 3.10(2) of the Listing Rules. The Company has appointed 5 independent non-executive Directors, one of whom possesses financial management expertise.

(vi) Code on Corporate Governance Practices

The Board has reviewed the documents regarding the Company's adoption of relevant corporate governance, and is of the opinion that they have met the principles and code provisions set out in the Code of the Listing Rules of Securities on the Main Board of Stock Exchange of Hong Kong Limited.

The Directors are not aware of any information that would reasonably reflect the non-compliance of the Company or any of the Directors with the code during the period ended 30 June 2007. The Board considers that the Company has fully complied with the principles and code provisions set out in the code in the Reporting Period.

(vii) Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code")

For the six months period ended 30 June 2007, the Company has adopted a mode code for securities transactions by Directors and Supervisors of the Company which is no less favorable than the standard stipulated by the Listing Rules. Having made specific enquiry in the Reporting Period, the Company has confirmed that all Directors and Supervisors have complied with the requirements set out in the Model Code.

(viii) Purchase, Sale and Repurchase of Shares

During the reporting period, neither had the Company nor its subsidiaries purchased, sold or repurchased any of its shares in issue.

(ix) Employees

The Group has a total of 11,157 employees. Of which, approximately 4.9% are management and administrative staff, 6.5% are technicians, 0.8% are financial and auditing staff, 0.7% are sales and marketing staff and 83.6% are production workers. The Company's employment and remuneration policies remain unchanged from those described in the prospectus of the Company dated 8th December 2004. The Company's employees are enthusiastic about their work and are committed to the provision of high quality products and reliable services.

(x) Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the Company had at all times during the reporting period maintained the relevant applicable minimum percentage of listed securities.

(xi) Significant Investments

For the six months ended 30 June 2007, the Company had not made any significant investment.

(xii) Material Acquisition and Disposal

For the six months ended 30 June 2007, the Company had not made any material acquisition or disposal of subsidiaries and associated companies.

(xiii) Directors, Supervisors and Senior Management

Pursuant to Article 98 and Article 120 of the Articles of Association of the Company, all directors and supervisors were appointed for a three-year term. Upon expiry of the term of office, the term is renewable upon reelection. The term of the first Board of Directors and Supervisory Committee will expire on 8 September 2007. At the EGM convened on 20 August 2007, the second Board of Directors and Supervisory Committee have been elected to replace the first Board of Directors and Supervisory Committee with effect from 9 September 2007. Except for Li Shikun, Lv Hua and Zhong Pengrong, who are new directors, the other 9 members appointed to the second Board of Directors are renewed directors. Yun Dah Jiunn, Zha Jianqiu and Feng Fei, all being members of the first Board of Directors, will resign from the position on 8 September 2007.The supervisors of the second supervisory committee are all renewed supervisors.

With effect from 9 September 2007, the members of the second Board of Directors and Supervisory Committee are as follows:

Executive Directors:	Xing Daoqin, Tao Kui, Guo Mengquan, Zhang Shaowen, Niu Xinan and Li Shikun
Non-executive Directors:	Zhang Xingxi
Independent non-executive Directors:	Xu Xinzhong, Feng Bing, Wang Jialu, Lv Hua and Zhong Pengrong
Supervisors:	Fu Jiuquan, Zhang Weichuan, Zhang Zhankui, Sun Haiying, Wu Xiaoguang

Except those as set out in this report, there was no change in the shareholding held by directors, supervisors and senior management of the Company during the reporting period.

(xiv) Material Litigations

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

On or about 19 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 20 June 2006 requesting the Company to respond to the action and produce evidence in relation thereto.

On 28 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 27 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 14 January 2007, and Xingyun has not filed an appeal to the People's Supreme Court of the PRC within such stipulated period.

On 11 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. The Company denied all of its liabilities in its written statement of defence in the litigation against Xingyun. As the Company believes that Xingyun's malicious repeated litigations breach the legal principle of "ne bis in sadem" (legal procedure shall not be launched again after a binding judgment has been delivered), its claim should be dismissed. The case is still in trial.

2. 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 United States. 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 securities laws, California securities laws and the common law. Baystar has not commenced any action against the Company.

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 liabilities.

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. The discovery procedure has now ended.

Following the close of discovery procedure, CPYI and Baystar moved for summary judgment. The Court granted CPYI's motion and dismissed the underlying case in all its litigations. Shortly thereafter, CPYI approached the Company and offered to dismiss the case against the Company with prejudice and without any payment or compensation from the Company. The Company is evaluating that offer. Based on legal advice, the Company anticipates that it will accept the offer, thus ending this litigation.

5. CORPORATE INFORMATION

Executive Directors**

Xing Daoqin	Chairman
Tao Kui	Vice Chairman
Guo Mengquan	President
Zhang Shaowen	
Niu Xinan	

Non-executive Directors**

Zhang Xingxi
Yun Dah Jiunn

Independent Non-executive Directors**

Feng Fei
Xu Xinzhong
Feng Bing
Wang Jialu
Zha Jianqiu

Audit Committee

Zha Jianqiu
Feng Bing
Feng Fei
Xu Xinzhong
Zhang Xingxi

Joint Company Secretary

Zhang Chunning
Lam Chun Lung

Qualified Accountant

Lam Chun Lung

Authorized representative

Yun Dah Jiunn
Zhang Chunning

Chief Financial Officer

Li Shikun

Legal address in the PRC
No. 1 Caihong Road
Xianyang, Shaanxi Province
The People's Republic of China
Postal code : 712021

Place of business in Hong Kong
Unit 3103, 31st Floor
Office Tower, Convention Plaza, 1 Harbour Road
Hong Kong

Company website
www.irico.com.cn

Legal adviser
Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Hong Kong

Auditor
SHINEWING (HK) CPA Limited
16/F, United Centre,
95 Queensway, Hong Kong

Registrar of H Shares
Computershare Hong Kong Investor Services Limited
Room 1712 - 1716, 17th Floor, Hopewell Center
183 Queen's Road East
Hong Kong

Investor and media relations
Wonderful Sky Public Relations and Financial Consultant Company Limited
Unit 3103, 31st Floor, Office Tower
Convention Plaza,1 Harbour Road
Hong Kong

* *The Chinese version of the interim financial report is for reference only. Should there be any inconsistency between the Chinese translation and the English text, the English version shall prevail.*

** *The Second Board of Directors has been elected with effect from 9 September 2007. Please see Section 4 (xiii) above for details.*

REVIEW REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

To the board of directors of
IRICO Group Electronics Company Limited
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 68 which comprises the condensed consolidated balance sheet of IRICO Group Electronics Company Limited as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flows statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Financial Reporting Standards.

SHINEWING (HK) CPA LIMITED
Certified Public Accountants
Ip Yu Chak
Practicing certificate number: P04798

Hong Kong
29 August 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Six months ended 30 June 2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Turnover	4	**1,412,346**	1,887,894
Cost of sales		**(1,285,154)**	(1,633,472)
Gross profit		**127,192**	254,422
Other operating income		**81,775**	26,714
Selling and distribution expenses		**(66,139)**	(71,318)
Administrative expenses		**(85,780)**	(110,057)
Other operating expenses		**(5,771)**	(15,315)
Finance costs	5	**(31,070)**	(30,233)
Share of results of associates		**4,004**	195
Profit before taxation	6	**24,211**	54,408
Taxation	7	**(7,245)**	(10,129)
Profit for the period		**16,966**	44,279
Attributable to :			
Equity holders of the Company		**17,686**	34,738
Minority interests		**(720)**	9,541
		16,966	44,279
Earnings per share - Basic	9	**RMB0.91cents**	RMB1.79cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Notes	**30 June 2007 RMB'000 (Unaudited)**	31 December 2006 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**2,385,464**	2,497,428
Prepaid lease payments	10	**33,821**	34,861
Intangible assets	10	**9,352**	11,615
Interests in associates		**345,865**	232,220
Available-for-sale financial assets		**24,060**	24,060
		2,798,562	2,800,184
Current assets			
Prepaid lease payments		**2,080**	2,080
Inventories		**745,456**	631,915
Trade and bills receivables	11	**1,228,392**	1,512,292
Other receivables, deposits and prepayments		**75,517**	65,083
Bank balances and cash		**651,503**	479,503
		2,702,948	2,690,873

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Current liabilities			
Trade and bills payables	12	**889,539**	575,718
Other payables and accruals		**490,896**	726,511
Tax payable		**9,967**	6,701
Current portion of long-term payables		**2,347**	2,347
Bank borrowings - due within one year	13	**860,386**	932,676
		2,253,135	2,243,953
Net current assets		**449,813**	446,920
Total assets less current liabilities		**3,248,375**	3,247,104

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Representing:			
Share capital	14	**1,941,174**	1,941,174
Reserves		**257,410**	239,724
Equity attributable to equity holders of the Company		**2,198,584**	2,180,898
Minority interests		**1,021,036**	1,035,713
		3,219,620	3,216,611
Non-current liabilities			
Deferred income		**2,606**	4,344
Deferred taxation		**15,577**	15,577
Long-term payables		**10,572**	10,572
		28,755	30,493
		3,248,375	3,247,104

The interim financial report on pages 36 to 68 were approved and authorised for issue by the Board of Directors on 29 August 2007 and are signed on its behalf by:

Director *Director*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company					
	Share capital	Other reserves	(Accumulated losses)/ Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006 (Audited)	1,941,174	944,402	(655,934)	2,229,642	830,984	3,060,626
Profit for the period	—	—	34,738	34,738	9,541	44,279
Dividends paid to minority shareholders of certain subsidiaries	—	—	—	—	(17,916)	(17,916)
Acquisition of additional interests in a subsidiary	—	—	—	—	(4,726)	(4,726)
At 30 June 2006 (Unaudited)	1,941,174	944,402	(621,196)	2,264,380	817,883	3,082,263
Profit for the period	—	—	94,774	94,774	28,662	123,436
Negative reserve arising from share reform	—	(176,083)	—	(176,083)	191,022	14,939
Dividend paid to minority shareholders of certain subsidiaries	—	—	—	—	(1,854)	(1,854)
Acquisition of additional interest in a subsidiary	—	(2,173)	—	(2,173)	—	(2,173)
At 31 December 2006 (Audited)	1,941,174	766,146	(526,422)	2,180,898	1,035,713	3,216,611
Profit for the period	—	—	17,686	17,686	(720)	16,966
Dividend paid to minority shareholders of certain subsidiaries	—	—	—	—	(13,957)	(13,957)
At 30 June 2007 (Unaudited)	1,941,174	766,146	(508,736)	2,198,584	1,021,036	3,219,620

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Net cash from operating activities	**431,233**	261,763
Net cash used in investing activities	**(141,916)**	(70,634)
Net cash used in financing activities	**(117,317)**	(197,615)
Net increase (decrease) in cash and cash equivalents	**172,000**	(6,486)
Cash and cash equivalents at 1 January	**479,503**	587,838
Cash and cash equivalents at 30 June	**651,503**	581,352

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. GENERAL INFORMATION

IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") are principally engaged in the manufacture, distribution and sales of colour picture tubes ("CPTs") and CPT-related components and materials. The Company was incorporated in the People's Republic of China (the "PRC") on 10 September 2004 as a joint stock company with limited liability under the PRC laws. The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 20 December 2004.

The Group's ultimate holding company is IRICO Group Corporation ("IRICO Group"), a company established in the PRC.

The comparative condensed consolidated income statement for the six-month period ended 30 June 2006 and the comparative condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period ended 30 June 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") No.34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statement has been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group had applied for the first time, certain new standard, amendment and interpretations (hereinafter collectively referred to as "new HKFRS") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods as prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial positions of the Group:

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Interpretation ("Int") 11	HKFRS 2 - Group and Treasury Shares Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

4. BUSINESS AND SEGMENT INFORMATION

Turnover represents amount received and receivable from sales of CPTs and CPT-related components less returns and discounts during the period.

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

5. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Interest expense on short-term bank borrowings	**30,143**	28,914
Interest expense to ultimate holding company	**897**	787
Finance charge on discounted bills receivable	**30**	532
	31,070	30,233

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Amortisation of intangible assets	**2,263**	3,039
Amortisation of prepaid lease payments	**1,040**	440
Depreciation of property, plant and equipment	**142,364**	163,262
Cost of inventories recognised as an expense	**1,285,154**	1,633,472
Employee benefit expenses	**171,805**	232,004
Loss on disposal of property, plant and equipment	**496**	1,286
Research and development costs	**11,422**	13,757
Provision for warranty	**6,724**	5,036
Allowance for bad and doubtful debts	**3,312**	269
Impairment loss recognised in respect of property, plant and equipment	**2,630**	—
Operating lease expenses	**18,177**	6,419
Allowance for / (reversal of allowance for) inventories	**6,167**	(865)
Bank interest income	**(3,279)**	(3,470)

7. TAXATION

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Current PRC income tax	**7,245**	12,795
Deferred tax	**—**	(2,666)
	7,245	10,129

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2006: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2007 except for the Company and certain subsidiaries described below. The estimated average annual tax rate used for 2007 is 15% (the tax rate for the first half of 2006 is 15%). All corresponding EIT relating to the taxable profit during the six months ended have been recognised in the condensed consolidated interim income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

7. TAXATION *(Continued)*

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%. The operations of the Company and certain of its subsidiaries have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15%.

Certain of the Company's subsidiaries are registered in a special economic zone or an economic and technological development zone and are entitled to pay EIT at 15% in the period.

Certain subsidiaries of the Company 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.

8. DIVIDEND

The directors do not recommend the payment of any interim dividend for the period ended 30 June 2007 (Period ended 30 June 2006: Nil).

9. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the Group's profit attributable to equity holders of the Company of approximately RMB17,686,000 (Period ended 30 June 2006: RMB34,738,000) and the weighted average number of approximately 1,941,174,000 (Period ended 30 June 2006: 1,941,174,000) ordinary shares in issue during the period.

There were no dilutive potential shares outstanding during the six months ended 30 June 2007 and 2006 and accordingly no diluted earnings per share is presented.

10. CAPITAL EXPENDITURE

During the period ended 30 June 2007, the Group spent approximately RMB33,880,000 (Period ended 30 June 2006: RMB64,433,000) on additions for property, plant and equipments. There are no additions noted for prepaid lease payments and intangible assets during the period (Period ended 30 June 2006: addition of RMB407,000 on intangible assets).

As at 30 June 2007, short-term bank borrowings of the Group amounting to RMB200,000,000 (31 December 2006: RMB140,000,000) are secured on the Group's buildings and machineries at the carrying amount of RMB199,319,000 (31 December 2006: RMB205,027,000) and on the Group's prepaid lease payments of RMB20,699,000 (31 December 2006: RMB21,012,000) and bank balances of nil (31 December 2006: RMB30,009,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

11. TRADE AND BILLS RECEIVABLES

The Group offers credit terms to its customers ranging from cash on delivering to 90 days. The following is an aged analysis of trade receivables (net of allowance for bad and doubtful debts of approximately RMB14,778,000 (31 December 2006: RMB11,466,000)) at the balance sheet date:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
0 - 90 days	**641,444**	602,268
91 - 180 days	**146,149**	57,774
181 - 365 days	**61,673**	7,580
Over 365 days	**7,438**	900
	856,704	668,522
Bills receivable	**371,688**	843,770
	1,228,392	1,512,292

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

12. TRADE AND BILLS PAYABLES

At the balance sheet date, the ageing analysis of trade payables was as follows:

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
0 - 90 days	**646,922**	497,373
91 - 180 days	**20,626**	12,237
181 - 365 days	**114,444**	17,145
Over 365 days	**21,540**	21,176
	803,532	547,931
Bills payable	**86,007**	27,787
	889,539	575,718

13. SHORT-TERM BANK BORROWINGS

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Secured	**200,000**	140,000
Unsecured	**660,386**	792,676
	860,386	932,676

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

13. SHORT-TERM BANK BORROWINGS *(Continued)*

During the period, the Group obtained new bank loans amounting to RMB300,000,000. The bank borrowings carry interests ranging from 5.1% to 6.57% per annum. The loans raised during the period were used to finance the operations of the Groups.

As at 30 June 2007, short-term bank borrowings of RMB200,000,000 (31 December 2006: RMB140,000,000) are secured by prepaid lease payments, buildings and machineries of the Group, and short-term bank borrowings of approximately RMB490,000,000 (31 December 2006: RMB640,000,000) are guaranteed by the Company's ultimate holding company.

14. SHARE CAPITAL

	Number of shares	Amount
		RMB'000
Issued and fully paid:		
Domestic shares of RMB1 each	1,455,880,000	1,455,880
H shares of RMB1 each	485,294,000	485,294
At 1 January 2007 and 30th June 2007	1,941,174,000	1,941,174

15. RELATED PARTY TRANSACTIONS

The Group is controlled by IRICO Group Corporation, a company established in the PRC, which owns 75% of the Company's shares. The remaining 25% of the shares are listed and publicly held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entities (hereinafter collectively referred to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influences, 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.

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under IRICO Group Corporation which is controlled by the PRC governments. The Group had conducted business with IRICO Group Corporation and its fellow subsidiaries, as well as other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In the opinion of the directors, the majority of the Group's transactions with other state-controlled enterprises have been conducted in the ordinary course of the Group's business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

The following transactions were carried out with related parties:

(a) Sales of goods and provision of services

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Sales of goods *(note i)*		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	**9,065**	5,766
— The utilities plant of the ultimate holding company	**2,034**	6,186
— Caihong Labour Services Company	**1,253**	153
— Shaanxi IRICO General Service Corporation Co., Ltd.	**186**	8,014
— Shaanxi IRICO Construction Engineering Co. Ltd.	**4**	—
— IRICO Colour Picture Tube Plant	**3**	—
— Xian IRICO Electrics Co. Ltd.	**1**	—
— Rui Bo Electronics (HK) Limited	**—**	3,019
	12,546	23,138
Other state-controlled entities	**887,906**	1,005,317

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Purchases of goods and provision of services

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Purchases of goods *(note i)*		
The IRICO Group		
— Caihong Labour Services Company	**37,706**	44,086
— Shaanxi IRICO General Service Corporation Co., Ltd.	**30,942**	24,728
— Xianyang Cailian Packaging Materials Co., Ltd.	**18,200**	14,983
— Xianyang Caihong Adhesive Belt Co., Ltd.	**1,727**	1,679
— Shenzhen Hongyang Industry & Trade Company	**1,174**	—
— Shenzhen IRICO Electronics Co. Ltd.	**3**	—
— Xian Caihong Plastic Co., Ltd.	**—**	2,401
	89,752	87,877
Other state-controlled entities	**285,024**	221,997
Purchases of property, plant and equipment:		
Other state-controlled entities	**—**	10,466

Note:

(i) *Purchases of goods and provision of services from related parties were conducted at prices not less than cost and with terms mutually agreed by both contractual parties.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company *(note i)*	**188,419**	221,599
— Rental expense to the ultimate holding company *(note ii)*	**17,360**	17,435
— Manufacturing expense to Caihong Labour Services Company	**1,755**	—
— Trademark license fee to the ultimate holding company *(note iv)*	**868**	1,945
— Social and ancillary service expense to the ultimate holding company *(note iii)*	**—**	4,737
	208,402	245,716

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

Notes:

(i) *Various kinetic energy charges were paid / payable by the companies of the Group to the utilities plant of the ultimate holding company based on the agreed rates for the six months ended 30 June 2007 and 2006.*

(ii) *From 1 January 2007, the Group is required to pay RMB11 per thousand square metres per annum for the use of land use rights and RMB9 and RMB30 per square metres per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the six months ended 30 June 2007 amounted to RMB 17,360,000 (2006: RMB17, 435,000).*

(iii) *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.*

(iv) *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 Device Co. Ltd. ("IRICO Display"), the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice. In accordance with the agreement signed by the Company and its Group, the license fee is to be paid from 1 January 2004 and the agreement is for a term of 3 years up to 31 December 2006 unless terminated by either party with a three-month prior notice, and it was renewed for a term of 3 years up to 31 December 2009.*

(v) *For the period from 1 April 2007 to 30 June 2007, the Group had received the right from the IRICO Group for the use of land use right at nil consideration.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2007 *RMB'000* *(Unaudited)*	31 December 2006 *RMB'000* *(Audited)*
Carrying amount *(note 15e)*	**29,000**	29,000

Pursuant to an agreement entered into on 16 December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19 December 2004 and offset its amount due to the ultimate holding company. This balance is recorded in short-term borrowings.

Loan from the ultimate holding company is unsecured, repayable on 12 December 2007 and carried interests at 6.12% (31 December 2006: 6.12%) per annum. The interest expense paid to the ultimate holding company during the period amounted to RMB897,000 (30 June 2006: RMB787,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Salaries and other short-term employee benefits	**472**	1,387
Retirement benefit contributions	**48**	48
	520	1,435

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Trade receivables from related parties *(note)*:		
The IRICO Group		
— Caihong Labour Service Company	—	5,332
— Shaanxi IRICO General Service Corporation Co., Ltd.	3	—
— Shenzhen Hongyang Industry & Trade Company	5,168	2,984
	5,171	8,316
Other state-controlled entities	655,017	950,397
	660,188	958,713
Representing:		
Trade receivables	407,017	335,923
Bills receivable	253,171	622,790
	660,188	958,713

Note:

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

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Trade payables to related parties (note):		
The IRICO Group		
— The ultimate holding company	**9,528**	8,387
— Caihong Labour Service Company	**9,063**	3,702
— The utilities plant of the ultimate holding company	**121,953**	104,965
— Shaanxi IRICO General Service Corporation Co., Ltd.	**12,780**	5,079
— Xianyang Caihong Adehesive Belt Co., Ltd.	**981**	724
— Xianyang Cailian Package Material Co. Ltd.	**5,394**	3,581
— Xian Caihong Plastic Co., Ltd.	**—**	2,100
— Xianyang Caihong Electronic Materials Co.	**277**	147
— Shenzhen Caihong Electronics Co. Ltd.	**3,947**	—
— Shenzhen Hongyang Industry & Trade Company	**875**	744
	164,798	129,429
Other state-controlled entities	**165,294**	108,449
	330,092	237,878

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Representing:		
Trade payables	**287,934**	212,241
Trade bills payable	**42,158**	25,637
	330,092	237,878
Other payables and accruals *(note ii)*:		
The ultimate holding company	**143,639**	340,095
Other state-controlled entities	**30**	—
	143,669	340,095
Short-term borrowings:		
The ultimate holding company *(note 15c)*	**29,000**	29,000

Notes:

(i) The trade balance in respect of sales and purchases are under the Group's normal trading terms.

(ii) The non-trade balance to the ultimate holding company is unsecured, interest free and repayable on demand.

15. RELATED PARTY TRANSACTIONS *(Continued)*

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

Bank balances in and loans from state-controlled banks

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Bank balances in state-controlled banks	**610,203**	479,400
Short-term borrowings from state-controlled banks	**781,386**	932,676

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	Unaudited	*Unaudited*
Interest income from state-controlled banks	**1,754**	3,091
Interest and finance costs to state-controlled banks	**25,246**	29,446

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

16. COMMITMENTS

At the balance sheet date, the Group had committed future capital expenditures in respect of property, plant and equipment (31 December 2006: property, plant and equipment and interest in an associate) as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Property, plant and equipment:		
Authorised but not contracted for	**—**	24,081
Contracted for but not provided	**11,817**	19,729
	11,817	43,810
Interest in an associate:		
Contracted for but not provided	**—**	110,000

16. COMMITMENTS *(Continued)*

The future aggregate minimum lease payments under non-cancelable operating leases in respect of plants, office premises and warehouses and prepaid lease payments are as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Within one year	**43,226**	37,271
In the second to fifth years inclusive	**62,134**	74,542
	105,360	111,813

17. PLEDGE OF ASSETS

At 30 June 2007, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
Property, plant and equipment	**199,319**	205,027
Prepaid lease payments	**20,699**	21,012
Bank balances and cash	**—**	30,009
	220,018	256,048

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

18. MATERIAL LITIGATION

- **The dispute between Xianyang Xingyun Mechanical Co. Ltd. ("Xingyun") and the Company**

  Details of case is set out in the Company's 2006 annual report under note 32(a) to the consolidated financial statements and according thereto, the period allowed for the appeal was expired and both parties did not filed any appeal to the People's Supreme Court of PRC on 14 January 2007. On 14 February 2007, the Company fulfilled its obligations, which was ruled by the People's High Court of Shaanxi, by paying approximately RMB2,920,000 (as agreed by both parties and after deducting court fee) to Xingyun for buying relevant finished goods, semi-finished goods and raw materials.

  However, on 11 April 2007, Xingyun brought an action on different ground against the Company on the same matters and circumstances. The Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10) from the People's High Court of Shaanxi.

  Up to the date of this report, the litigation is still in proceeding and in the opinion of the directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the Interim Financial Report of the Group for the period ended 30 June 2007.

18. MATERIAL LITIGATION *(Continued)*

- **Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. Et al. ("CPYI"), Case No 05 1091 ABC (CWx) (Filed in the United States District Court for the Central District of California)**

  Details of case are set out in the Company's 2006 annual report under note 32(b) to the consolidated financial statements. On 16 April 2007, the court's order granted Core Pacific's motion for summary judgment. However, Core Pacific suggested that the Court had mistakenly dismissed the entire case as Core Pacific did not contend that their indemnity claims for liability survived the Court's 16 April Order and judgment. Therefore, on 30 April 2007, CPYI filed a Motion for Correction of Judgment pursuant to Federal Rule of Civil Procedure 60(a), set for hearing on 4 June 2007. The Company filed an opposition to CPYI's motion and a separate notice of an alternative cross-motion under Rule 12(c) for judgment on the pleadings. However, its motion has been denied by the court on 20 June 2007 for judgment on the pleadings, but the parties were invited to submit motions for summary judgment.

  The Company has been contacted by CPYI's solicitor about the settlement proposal.

  As at the date of this report, the settlement proposal is still in negotiation between the parties and in the opinion of the directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the Interim Financial Report of the Group for the period ended 30 June 2007.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2007

19. POST BALANCE SHEET EVENT

On 27 July 2007, IRICO Display Technology Co., Ltd. ("IDT"), a subsidiary of the Company owned as to 75% directly by the Company, entered into an agreement with Xian Caihui Display Technology Co., Ltd. ("Caihui"), a subsidiary of the Company owned as to 45.47% effectively by the Company, to transfer all the assets owned by IDT in relation to processing and production facilities of picture tubes with a net carrying value of approximately RMB11,000,000 at 30 June 2007 to Caihui at a consideration of approximately RMB9,500,000. The transaction shall be completed upon the payment of consideration.

On 27 July 2007, the Group entered into several agreements with IRICO Group, the controlling shareholder of the Company, whereby the Group disposed of its 41.67% equity interest in Xian New Century International Club Co., Ltd. ("New Century"), which has a carrying value of approximately RMB15,000,000 at 30 June 2007 in the Group's consolidated balance sheet, at a consideration of approximately RMB31,000,000 and to dispose of its 100% holding of the equity interest in Xianyang IRICO Digital Display Co., Ltd. ("IRICO Digital"), a subsidiary of the Company owned as to 51% by the Company and the remaining 49% by IRICO Display, with carrying value of approximately RMB180,600,000 at 30 June 2007, at a consideration of approximately RMB182,500,000 in aggregate. The completion of these transactions is subject to the approval of the independent shareholders' of the Company.

19. POST BALANCE SHEET EVENT *(Continued)*

On 29 July 2007, the Company entered into several agreements with IRICO Display, a subsidiary of the Company listed on the Shanghai Stock Exchange owned as to 42.9% by the Company and the remaining 57.1% by general public, to exchange certain production and operating assets with carrying amount of approximately RMB140,158,000 and RMB348,246,000 held by IRICO Display and the Company respectively, at a net consideration of approximately RMB221,000,000 payable to the Company by IRICO Display and to transfer the 55% equity interest in Xian IRICO Zixun Co. Ltd. ("IRICO Zixun") held by IRICO Display to the Company at a consideration of approximately RMB95,000,000. The transactions shall be completed upon the payment of consideration or the registration of the transfer of relevant equity interest with relevant government authority, where applicable.

Details of the above transactions are set out in the Company's announcement dated 1 August 2007.