



**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 )



Interim Report  
2008

\* For identification purposes only

## CONTENTS

	<i>Page</i>
1. Major Corporate Business and Strategy .....	2
2. Business Summary .....	4
3. Management Discussion and Analysis .....	4
(i) Analysis on the Industry .....	4
(ii) Business Review .....	7
(iii) Financial Review .....	12
4. Other Information .....	19
(i) Share Appreciation Rights Plan .....	19
(ii) Interests and short positions of Directors, Supervisors and Senior Management .....	20
(iii) Interests and short positions of substantial shareholders and other persons .....	20
(iv) Audit Committee .....	22
(v) Independent Non-executive Directors .....	22
(vi) Code on Corporate Governance Practices .....	22
(vii) Model Code for Securities Transactions by the Directors of Listed Issuers .....	23
(viii) Purchase, Sale or Redemption of Shares .....	23
(ix) Employees .....	23
(x) Public Float .....	23
(xi) Significant Investments .....	24
(xii) Material Acquisition and Disposal .....	24
(xiii) Directors, Supervisors and Senior Management .....	25
(xiv) Material Litigations .....	26
5. Corporate Information .....	27
Independent Review Report .....	29
Condensed Consolidated Income Statement .....	31
Condensed Consolidated Balance Sheet .....	32
Condensed Consolidated Statement of Changes in Equity .....	35
Condensed Consolidated Cash Flow Statement .....	36
Notes to the Condensed Consolidated Financial Statements .....	37



## 1. MAJOR CORPORATE BUSINESS AND STRATEGY

IRICO Group Electronics Company Limited (“IRICO” or the “Company”) and its subsidiaries (the “Group”) are among the most competitive enterprises in the field of display devices and photoelectron in the PRC. For years, the Group has dedicated itself to the development and production of various display devices and resource-related products. The Group aims at becoming the fastest-growing enterprise in the display domain and related domains in the PRC as well as in the world.

In line with global technological upgrades and evolution of display devices technology, the Group is shifting its business focus from traditional colour picture tubes (“CPTs”) to the booming flat panel display (“FPD”) devices and its related components. During the reporting period, the Group’s colour picture tube business was steady and new business saw rapid momentum. Strategic transition brought about groundbreaking development. To date, a new business structure of the Group comprising of display devices, electronic glass, luminous materials and metallic parts as major components has been established.

- **The First Domestic TFT-LCD (Thin Film Transistor-Liquid Crystal Display) Glass Substrate Manufacturer**

The production line of glass substrate for Thin Film Transistor-Liquid Crystal Display (“TFT-LCD”) was constructed by the Group in the first half of 2008 while research and experiment on work craft and technology were conducted to pave way for trial production in the second half of the year. This will be the first production line of glass substrate for TFT-LCD across the nation. It is believed that the full operation of the production line and official roll-out of its products would symbolise the groundbreaking development of the strategic transformation of the Group and the Company believes that this would pose a positive and far-reaching impact on the Group’s sustainable development.

- **Global Major Production Base of Luminous Materials**

As a major production base of global luminous materials, the Group's CRT (i.e cathode ray tube, with CPT being as example) phosphor are, in addition to being used internally, sold in bulk to other clients domestically and internationally. Sales in the first half of 2008 jumped by 33% as compared to the corresponding period last year, representing the largest market share of CRT phosphor globally.

The first half of 2008 witnessed further growth in energy saving lamp phosphor business with an increase in sales volume by 46% as compared to the corresponding period last year. Besides, new products researched and developed by the Company including CCFL phosphor (cold cathode fluorescent lamp phosphor) for LCD backlight, PDP (Plasma Display Panel) phosphor (PDP phosphor) and lithium iron phosphate battery powder also achieved smooth progress of industrialization and exhibited bright prospects.

- **Strength in the Global Display Device Domain**

#### **A Leading Enterprise in Domestic CPT industry**

The Group embarked on the first half of 2008 to bring stable profit and cash flow, leveraging on its competitive edges such as the presence of manufacturing stations, economies of scale and strong control over the production chain, further increasing sales volume of CPT and its market share, and providing a strong back-up for realizing the goal of developing new products and strategic transformation.

#### **New Force in FPD**

The Group has collaborated with Sichuan Changhong Electrical Group Co., Ltd. to set foot in the PDP display domain. In addition, the Company is actively mapping out the industrial development of other FPD devices.

## 2. BUSINESS SUMMARY

<i>(RMB'000)</i>	<b>First half of 2008</b>	First half of 2007	Increase/ (decrease)	Percentage of change
Turnover	<b>2,001,730</b>	1,412,346	589,384	41.73%
(Gross loss)/Gross profit	<b>303,683</b>	127,192	176,491	138.76%
Operating (loss)/profit	<b>70,301</b>	51,277	19,024	37.10%
Net profit/(loss) before tax	<b>45,170</b>	24,211	20,959	86.57%
Profit/(loss) for the period	<b>40,779</b>	16,966	23,813	140.36%
Attributable to:				
Equity holders of the Company	<b>39,455</b>	17,686	21,769	123.09%
Minority interests	<b>1,324</b>	(720)	2,044	(283.89%)
Gearing ratio	<b>32%</b>	41%	(9%)	(21.95%)

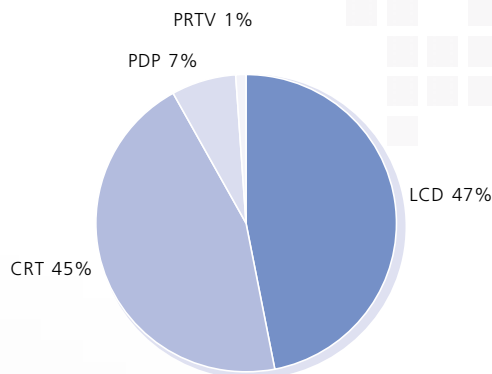
## 3. MANAGEMENT DISCUSSION AND ANALYSIS

### (i) Analysis on the Industry

During the reporting period, the display device industry remained in a diversified business structure.

According to iSuppli's research report on global television market in the second quarter of the year, during the reporting period, the global output volume of CRT television sets amounted to 42,470,000 units, representing a decrease of 23% as compared to the corresponding period last year, but still constituted a significant share of 45%. The global output volume of LCD and PDP television sets amounted to 44,360,000 units and 6,790,000 units respectively, representing a growth of 43% and 45% as compared to the corresponding period last year.

## Breakdown of the global output volume of television sets adopting different technologies in the first half of 2008



Sources: iSuppli, Global TV Track, 08Q2

Domestic colored television market in the first half of 2008 featured three characteristics: an astounding growth in sales of LCD television sets under price wars, the recovery of PDP television market due to the upcoming Olympic Games as well as the relatively stable performance of the market for CRT television sets across the globe despite a shrink in its scale.

Rapid development of FPD devices has undoubtedly pushed forward the development of new businesses of the Group such as the glass substrate business for TFT-LCD and PDP business.

The CPT industry has reaped benefit from the growth of export market and other factors. In the first half of 2008, a total of 24,800,000 CPTs were produced in the CPT industry in the PRC and 24,720,000 CPTs were sold, which posed a growth of 7.8% and 4.2% respectively as compared to the corresponding period last year.



Looking forward to the second half of the year, the Board believes that the CRT industry around the world would still be subject to greater pressure in view of the downsizing of the CRT television market, but challenges and opportunities may coexist in the PRC CRT industry. Major challenges in the CRT industry in the PRC during the second half of the year would be limited growth of exports, cost hikes in raw materials for CRT and so forth. There are, however, favorable factors, for example, "Promotion of Household Appliances towards Rural Areas" could be further promoted in more provinces and rehabilitation after the earthquake. Taking the above factors into account, it is believed that the CRT market would still generally witness equilibrium in the second half of this year.

Regarding its electronic glass business, Chinese Mainland is emerging as a major TAT-LCD industrial base worldwide. As more and more TFT-LCD panel investment or expansion projects are phased in and in the absence of any glass substrate production lines in operation so far in Chinese Mainland, fascinating external opportunities and an optimistic outlook for market expansion are set to arise in the PRC industry of glass substrates.

Luminous materials are another major focus of the Group's current business, especially in the areas of new luminous materials such as energy saving lamp phosphor and CCFL phosphor. In the reporting period, the segment market of these luminous materials exemplified good development prospects. For the markets of energy saving lamps and energy saving lamp phosphor, statistics show that around 90% of energy saving lamps in the world are produced in the PRC - the PRC has been recognized globally as

the largest production base of energy saving lamps. With the exemplification of global shortage in resources, increase in government subsidies, media promotion, social concern, increase in awareness of energy-saving and other factors, the rapid growth of the energy-saving lamp industry is underpinned by sound consuming environment and ample room of market expansion. During the reporting period, the domestic output volume of lamp phosphor exceeded the threshold of 2,000 tonnes. In the CCFL phosphor market, the PRC has become an emerging production base of backlight modules for LCD worldwide. The boom in the TFT-LCD display industry has brought about enormous opportunities to the Group's CCFL phosphor manufacturing business.

## **(ii) Business Review**

### **1. Operation Highlights**

In the first half of 2008, the operation of CPT business of the Group operated stably while the new business developed rapidly and strategic transformation has made groundbreaking progress. To-date, the Group's new business structure with key areas comprising display devices, electronic glass and luminous materials has been established.

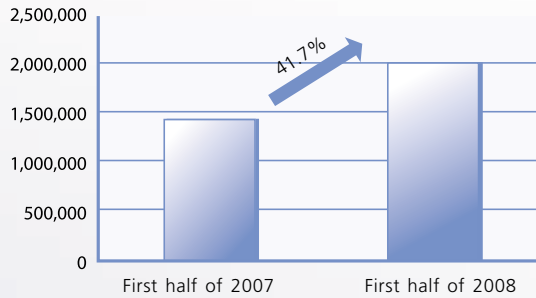
During the reporting period, the turnover and the profit attributable to equity holders of the Group amounted to RMB2,001,730,000 and RMB39,455,000 respectively, representing an increase of 41.7% and 123.1% respectively as compared to the corresponding period last year. There was a growth of results in the business, mainly because of the increase in competitiveness in CPT business, leading to the stable operation of such business. The development of the Group's new business has also made a step forward.





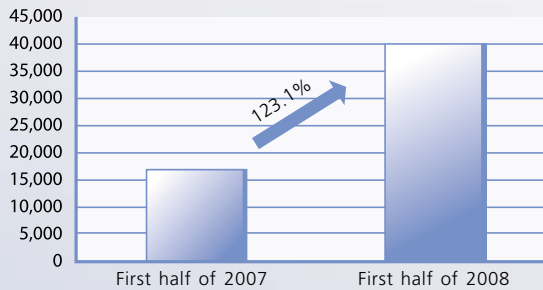
**Total Sales Income of the Group of the first half of 2008 as compared to the first half of 2007**

*Unit: RMB'000*



**Profit attributable to equity holders of the Group in the first half of 2008 as compared to the first half of 2007**

*Unit: RMB'000*



## 2. Business of display device

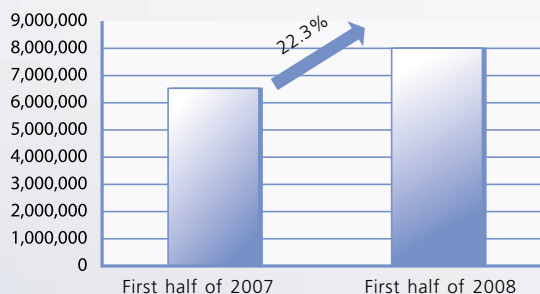
- CPT and its components business

During the reporting period, by adhering to its operating strategy of “reinforcing CPT business and exploring new businesses”, the Group continued to strengthen marketing-driven sales, reduce costs, innovate technology and promote precise management. The CPT business maintained stable operation. As for the CPT components, the Group proactively sought development in related industries.

During the reporting period, the Group recorded a sales volume of 7,840,000 CPTs, representing an increase of 22.3%, as compared to that of the corresponding period last year. Sales revenue of CPT amounted to RMB1,616,386,000, representing an increase of approximately 35.7% as compared to that of the corresponding period last year. During the reporting period, the sales of CPT of the Group accounted for 31.7% of the total output of domestic CPT manufacturers, recording a historical high at such a stage, representing a growth of 3.7 percentage points as compared to that of the corresponding period last year. The Group stably occupied the position of CPTs industry leader in the PRC. Its global market share increased to 17.4%.

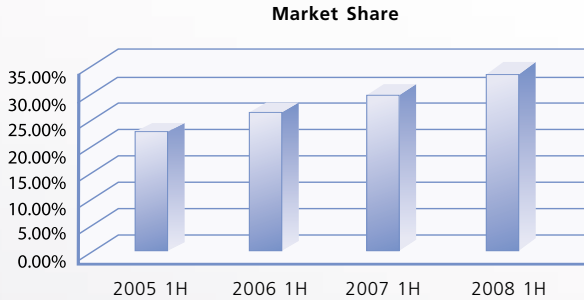
### Sales volume of CPTs of the Group in the first half of 2008 as compared to the first half of 2007

*Unit: piece*





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



*Source: China Business Web*

- FPD business

The plasma display device panel (“PDP”) project jointly promoted by the Group and Sichuan Changhong Electrical Group Co., Ltd. has arrived at the stage of equipment installation to date. Furthermore, the Group is also proactively planning for the development of other FPD devices.

**3. Electronic Glass Substrate Business**

The TFT-LCD glass substrate project commenced construction in January 2007, which involves building a fifth-generation production line of glass substrates with an annual production capacity of 750,000 square meters. The project was initially established and developed by IRICO Group Corporation. During the reporting period, the acquisition by the Company of 69.53% of equity interest in Shaanxi IRICO Electronic Glass Company Limited (“IRICO Glass”) from IRICO Group Corporation has been approved by the State-owned Assets Supervision and Administration Commission of the State Council.

Having completed the construction of TFT-LCD glass substrate production line in the first half of 2008, the Group also carried out research and experiment on work craft and technology. The Group is expecting a trial production in the second half of the year. This will be the first TFT-LCD glass substrate production line in the PRC. It is believed that the full operation of the production line and official roll-out of its products would symbolize the groundbreaking leap of the Group's strategic transformation and the Company believes that this would certainly pose a positive impact on the Group's continuous development and production.

The Group will consider constructing phase II of the project of TFT-LCD glass substrate production line when the production of phase I of the project has become stable. Besides, the Group is proactively planning for the development of other electronic glass businesses.

#### **4. Luminous Materials Business**

Being the key production base of luminous materials in the world, the Group's luminous materials business further leaped forward in the first half of 2008.

In addition to internal use within the Group, CRT color phosphor is sold in bulk to local and overseas customers. The sales volume in the first half of 2008 is 33% higher than that of the corresponding period last year. The market share of color phosphor business ranked a top place in the world.

Leveraging on the capacity expansion and transformation in 2007, sales of trichromatic phosphor utilized in energy saving lamps of the Group during the reporting period recorded an increase of 46% as compared to the reporting period last year. The Group continued to maintain a leading position in the PRC. Besides, sales of CCFL fluorescent phosphor also increased significantly. The business development of new products including PDP fluorescent phosphor and lithium iron phosphate battery powder is progressing smoothly. Thanks to our unremitting efforts in research and development, the quality of luminous material products is further enhanced.

During the reporting period, the Group has successfully entered into the agreement in relation to, among others, the acquisition of additional equity interest of IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor"). Subject to the consideration and approval of such acquisition in the extraordinary general meeting, the profits of IRICO Phosphor will be consolidated into the Group's account in proportion to the increased shareholding in accordance with the relevant provisions in the acquisition agreement.

### **(iii) Financial Review**

#### **1. Overall performance**

The profit margin of the Group increased from 9.01% for the first half of 2007 to 15.17% for the first half of 2008, mainly attributable to the Group's strategies of ongoing sales and marketing initiatives, its industry-leading cost portfolio and the support of new technology, etc., which led to an increase in production and sales, an increased market share and the further increase in competitiveness of the CPT business in the reporting period. The operation of such business became stable as a result. At the same time, the Group's new businesses such as those in luminous materials achieved further progress.

## 2. Operating Results

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

(RMB'000)	For the six months ended 30 June			
	2008	2007	Increase/ (decrease)	Change (%)
Turnover	<b>2,001,730</b>	1,412,346	589,384	41.73%
Sales of CPTs	<b>1,616,386</b>	1,191,274	425,112	35.69%
Sales of components	<b>385,344</b>	221,072	164,272	74.31%
Cost of sales	<b>(1,698,047)</b>	(1,285,154)	(412,893)	32.13%
Gross profit	<b>303,683</b>	127,192	176,491	138.76%
Operating expenses				
Administrative expenses	<b>(153,079)</b>	(85,780)	(67,299)	78.46%
(a) General administrative expenses	<b>(140,062)</b>	(74,358)	(65,074)	88.36%
(b) Research and development expenses	<b>(13,017)</b>	(11,422)	(1,595)	13.96%
Distribution expenses	<b>(91,281)</b>	(66,139)	(25,142)	38.01%
Other operating expenses	<b>(9,789)</b>	(5,771)	(4,018)	69.62%
Operating profit	<b>70,301</b>	51,277	19,024	37.10%
Financial expenses	<b>(29,266)</b>	(31,070)	1,804	(5.81%)
Profit/(loss) in the period	<b>40,779</b>	16,966	23,813	140.36%
Attributable to:				
Equity holders of the Company	<b>39,455</b>	17,686	21,769	123.09%
Minority shareholders	<b>1,324</b>	(720)	2,044	(283.89%)

(2) Turnover

Turnover by product (RMB'000)

Name	2008	2007	Increase/ (decrease)	Change (%)
CPTs	<b>1,616,386</b>	1,191,274	425,112	35.69%
Including:				
Small-sized CPTs	<b>261,757</b>	231,115	30,642	13.26%
Medium-sized CPTs	<b>1,196,631</b>	933,457	263,174	28.19%
Large-sized CPTs	<b>157,998</b>	26,702	131,296	491.71%
Components and materials	<b>385,344</b>	221,072	164,272	74.31%
<b>Total</b>	<b>2,001,730</b>	1,412,346	589,384	41.73%

Sales volume by product

Name	2008	2007	Increase/ (decrease)	Change (%)
Including:				
Small-sized CPTs	<b>2,167,110</b>	1,924,316	242,794	12.62%
Medium-sized CPTs	<b>5,276,335</b>	4,418,942	857,393	19.40%
Large-sized CPTs	<b>392,428</b>	65,076	327,352	503.03%
<b>Total</b>	<b>7,835,873</b>	6,408,334	1,427,539	22.28%

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

#### **(1) Turnover and Profit margin**

In the first half of 2008, the turnover of the Group increased by RMB589,384,000 or 41.73% to RMB2,001,730,000, as compared to the corresponding period in 2007. Of which, turnover from CPT increased by RMB425,112,000 or 35.69% to RMB1,616,386,000 when compared to that of the corresponding period in 2007. Turnover from components and materials increased by RMB164,272,000 or 74.31% to RMB385,344,000 as compared to the corresponding period in 2007. The overall profit margin of the Group increased from 9.01% in the first half of 2007 to 15.17% in the first half of 2008, mainly due to the Group's strategy of ongoing sales and marketing initiatives, its industry-leading cost portfolio and the support of new technology, which led to an increase in production and sales, an increased market share and the increase in competitiveness of the Group's CPT business in the reporting period. The operation of such business became stable as a result, and the Group's new businesses such as those in luminous materials achieved further progress.





(2) Administrative Expenses

The Group's administrative expenses in the first half of 2008 increased by RMB67,299,000 or approximately 78.46%, to RMB153,079,000 from RMB85,780,000 for the corresponding period in 2007. The main reason for the increase in administrative expenses was that according to the new accounting standards, the adjustment of management fee is based on the difference of the staff welfare benefit opening balance less staff welfare benefit budget in 2007.

(3) Financial expenses

The Group's finance costs in the first half of 2008 was RMB29,266,000, representing a decrease of RMB1,804,000, or approximately 5.81%, from RMB31,070,000 for the corresponding period in 2007. The decrease was mainly attributable to a decrease in bank loans in the year.

#### **4. Current assets and financial resources**

As at 30 June 2008, the Group's cash and bank balances aggregated to RMB640,835,000, representing an increase of RMB277,218,000 or 76.24%, from RMB363,617,000 as at 31 December 2007. The Group expended a total of RMB15,236,000 for capital expenditure during the half year ended 30 June 2008. Net cash inflow from operating activities was RMB615,121,000, representing a growth of RMB183,888,000 or 42.64% as compared to the corresponding period last year and net cash outflow from financing activities and investing activities were RMB316,140,000 and RMB21,763,000 respectively.

As at 30 June 2008, the Group's borrowings aggregated to RMB681,145,000 as compared to RMB962,684,000 as at 31 December 2007. As at 30 June 2008, the Group's short-term bank loans amounting to approximately RMB170,000,000 (as at 31 December 2007: RMB200,000,000) were secured by its properties, plants and equipment.

For the half year ended 30 June 2008, the turnover period for accounts receivable of the Group was 100 days, representing a decrease of 57 days from 157 days for the half year ended 30 June 2007 which was mainly attributable to the increased efforts in collecting receivables. For the half year ended 30 June 2008, the inventory turnover days of the Group decreased by 32 days from 104 days for the half year ended 30 June 2007 to 72 days, mainly attributable to the strengthening of sales, sales-oriented production and reduction of inventory.

## **5. Capital Structure**

As at 30 June 2008, the Group's borrowings were denominated in Renminbi, 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 2008, its liabilities including bank loans aggregated to RMB1,550,635,000 with cash and bank balances totaling RMB640,835,000 and a gearing ratio (defined as: total liabilities/total assets) of 32%.

## **6. Interim Dividend**

As there was no accumulated surplus in the first half of 2008, the Board resolved not to distribute any interim dividends.



## **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 2008, an increase of the Group's operating cost by RMB22,637,000 resulted from exchange rate fluctuations.

## **8. Undertakings**

As at 30 June 2008, capital commitments of the Group amounted to RMB10,108,000 (31 December 2007: RMB27,550,000) .

## **9. Contingent Liabilities**

Nil

## **10. Pledge of Assets**

As at 30 June 2008, the Group had bank loans of approximately RMB170,000,000, which were 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), as at 30 June 2008, the following Directors, Supervisors and senior management members were granted share appreciation rights by the Company as follows:

<b>Name</b>	<b>Number of Share Appreciation Rights</b> <i>(Shares)</i>	<b>Note</b>
Xing Daoqin	2,900,000	Director
Tao Kui	2,390,000	Director
Zhang Junhua	1,420,000	Director
Guo Mengquan	2,060,000	Director
Niu Xinan	1,200,000	Director
Fu Jiuquan	650,000	Director
Zhang Weichuan	920,000	Director
Fu Yusheng	400,000	Supervisor
Tang Haobo	200,000	Supervisor
Zhang Chunning	1,420,000	Senior Management
Zou Changfu	1,020,000	Senior Management
Wei Xiaojun	700,000	Senior Management
Ge Di	1,120,000	Senior Management
Liu Xiaodong	300,000	Senior Management



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

As at 30 June 2008, 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 (SFO)) 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 SFO (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 SFO), 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 SFO, 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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") effective from 30 June 2006.

**(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 2008 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 484,363,990 H Shares of the Company (representing 99.81% of the H Share capital). Xing Daoqin, Tao Kui and Guo Mengquan are the Company's Directors, and are IRICO Group Corporation's General Manager, Vice General Manager and Vice General Manager respectively.

Notes:

As at 30 June 2008, based on the information available to Directors and so far as the Directors are aware, HKSCC (Nominees) Limited held 484,363,990 H Shares, among which:

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

J.P. Morgan Chase & Co. through its controlled corporations had interests in 33,742,000 H Shares of the Company (representing approximately 6.95% of the H Share capital).

Montpelier Asset Management Limited through its controlled corporations had interests in 30,294,000 H shares (representing approximately 6.24% of the share capital of H shares) in the Company.

Pictet Asset Management Limited 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.

CQS Convertible and Quantitative Strategies Master Fund Limited through its controlled corporation had interests in 25,774,000 H Shares in the Company (representing approximately 5.31% of the share capital of H shares).

Atlantis Investment Management Ltd. through its controlled corporations had 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 (the “Code”) in Appendix 14 to the Listing Rules, the Company has established the Audit Committee.

The Board agreed to adopt all contents set out in the Code C.3.3 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 included the unaudited interim financial statements of the Group for the six months ended 30 June 2008.

**(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 appropriate accounting or relevant financial management 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 2008. 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 the Directors of Listed Issuers (“the Model Code”)**

For the six months period ended 30 June 2008, the Company has adopted a model code for securities transactions by Directors and Supervisors of the Company which is no less favorable than the standard stipulated by the Model Code. 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 Redemption of Shares**

During the period under review, neither had the Company nor its subsidiaries purchased, sold or redeemed any of its shares in issue.

### **(ix) Employees**

As at 30 June 2008, the Group has a total of 8,072\* employees. Of which, approximately 6.6% are management and administrative staff, 8.3% are technicians, 1% are financial and auditing staff, 1% are sales and marketing staff and 79% are production workers and others are 4.1%.

The Company's employment and remuneration policies remain unchanged from those described in the prospectus of the Company dated 8 December 2004. The Group's employees are enthusiastic about their work and are committed to the provision of high quality products and reliable services.

\* *Excluding service dispatch worker.*

### **(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 2008, the Company had not made any significant investment.

**(xii) Material Acquisition and Disposal**

During the reporting period, the Company had made the following material acquisition or disposal of subsidiaries and associated companies:

**(1) The Company's acquisition of 69.53% equity interests in IRICO Glass**

On 17 August 2007, the Company entered into an acquisition agreement with IRICO Group Corporation, pursuant to which IRICO Group Corporation agreed to sell and the Company agreed to purchase 69.53% equity interests in IRICO Glass held by IRICO Group Corporation. The total consideration of acquisition was determined and filed by the State-owned Assets Supervision and Administration Commission ("SASAC") on 22 May 2008, and amounted to approximately RMB313,583,900. During the reporting period, the acquisition was approved by SASAC of the State Council. As such, the Company has become the controlling shareholder of IRICO Glass.

The Board considers that (i) the acquisition will enable the Company to become a key participant in the new FPD devices industry in light of the trend of development; (ii) the timely involvement of the manufacture of the relevant spare parts related to FPD devices will have a positive impact on the Company's product upgrading and its future development; (iii) the acquisition will enhance the Company's position in the FPD industry chain, and such industry has been highly recognised and supported by the relevant government authorities in the PRC.

**(2) Force Top International Limited, a wholly-owned subsidiary of the Company, increased 30% equity interest in IRICO Phosphor and 25% equity interest in IRICO Shadow Mask**

On 23 June 2008, Force Top International Limited (as purchaser), a wholly-owned subsidiary of the Company, and Rui Bou Electronics (HK) Ltd. (as vendor) entered into an acquisition agreement pursuant to which Force Top International Limited shall purchase 30% equity interest in IRICO Phosphor and 25% equity interest in Xianyang IRICO Electronics Shadow Mask Co., Ltd. (“IRICO Shadow Mask”) from Rui Bou Electronics (HK) Ltd. The aggregate consideration for the acquisition is RMB88,115,000. The announcement has been issued and the circular has been dispatched by the Company. The acquisition will be carried out duly after the consideration and approval of the extraordinary general meeting. Upon completion of the acquisition, the Company’s equity interest in IRICO Phosphor and IRICO Shadow Mask will be increased from 45% to 75% and from 75% to 100% respectively.

The Board is of the view that the acquisition can further enhance its business in phosphor materials, in line with the Company’s development strategy. Furthermore, the Company believes that higher returns can be brought to the Shareholders when IRICO Phosphor and IRICO Shadow Mask continue to attain a profit in the future.

**(xiii) Directors, Supervisors and Senior Management**

In accordance with the proposal by IRICO Group Corporation, the controlling shareholder of the Company, proposed at the shareholders’ meeting held by the Company on 30 June 2008, Mr. Zhang Shaowen, Mr. Li Shikun, Mr. Zhang Xingxi no longer served as directors of the Company. It was resolved that Mr. Guo Mengquan and Mr. Niu Xinan were redesignated from executive directors to non-executive directors. Mr. Zhang Junhua was appointed as the executive director of the Company and Mr. Fu Jiuquan and Mr. Zhang Weichuan were appointed as the non-executive directors of the Company.



Besides, Mr. Fu Jiuquan, Mr. Zhang Weichuan and Mr. Zhang Zhankui resigned as supervisors of the Company. Ms. Wang Qi was elected as a shareholder supervisor of the Company; Mr. Tang Haobo and Mr. Fu Yusheng were elected as staff supervisors of the Company.

Due to contract termination, Mr. Li Shikun no longer served as the Chief Financial Officer of the Company.

Executive Directors: Xing Daoqin, Tao Kui, Zhang Junhua

Non-executive Directors: Guo Mengquan, Niu Xinan, Fu Jiuquan, Zhang Weichuan

Independent Non-executive Directors: Xu Xinzhong, Feng Bing, Wang Jialu, Lv Hua and Zhong Pengrong

Supervisors: Wang Qi, Fu Yusheng, Tang Haobo, 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**

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

In respect of the litigation between Xingyun and the Company as previously disclosed, the status is as follows:

On 23 November 2007, the High People's Court of Shaanxi issued a civil verdict ([2007] Shaan Min Er Chu Zi No. 10), the Court ruled that the claim by Xingyun against the Company to compensate for its investment and other losses for a sum of RMB30,010,000 was not justified and should be dismissed. Xingyun has filed an appeal to the Supreme People's Court of the PRC. The Supreme People's Court delivered the final judgment on 10 July 2008: appeal was dismissed and previous judgment was upheld.

## 5. CORPORATE INFORMATION

### **Executive Directors**

Xing Daoqin      *Chairman*  
Tao Kui            *Vice Chairman*  
Zhang Junhua    *President*

### **Non-executive Directors**

Guo Mengquan  
Niu Xinan  
Fu Jiuquan  
Zhang Weichuan

### **Independent Non-executive Directors**

Xu Xinzhong  
Feng Bing  
Wang Jialu  
Lv Hua  
Zhong Pengrong

### **Joint Company Secretaries**

Liu Xiaodong  
Lam Chun Lung

### **Qualified Accountant**

Lam Chun Lung

### **Authorized representatives**

Niu Xinan  
Liu Xiaodong

### **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  
Wanchai  
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 Financial Group Limited  
Unit 3103, 31st Floor  
Office Tower, Convention Plaza, 1 Harbour Road  
Wanchai  
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.*

## INDEPENDENT REVIEW REPORT



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 31 to 70 which comprises the condensed consolidated balance sheet of IRICO Group Electronics Company Limited as at 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flows statement for the six-month period then ended, and the 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 ("HKAS") 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 HKAS 34. 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 an 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 HKAS 34.

### **SHINEWING (HK) CPA LIMITED**

*Certified Public Accountants*

**Ip Yu Chak**

Practising certificate number: P04798

Hong Kong

26 August 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		<b>Six months ended 30 June</b>	
		<b>2008</b>	2007
		<b>RMB'000</b>	RMB'000
	<i>Notes</i>	<b>(Unaudited)</b>	<i>(Unaudited)</i>
Turnover	4	<b>2,001,730</b>	1,412,346
Cost of sales		<b>(1,698,047)</b>	(1,285,154)
<b>Gross profit</b>		<b>303,683</b>	127,192
Other operating income		<b>20,767</b>	81,775
Selling and distribution expenses		<b>(91,281)</b>	(66,139)
Administrative expenses		<b>(153,079)</b>	(85,780)
Other operating expenses		<b>(9,789)</b>	(5,771)
Finance costs	5	<b>(29,266)</b>	(31,070)
Share of results of associates		<b>4,135</b>	4,004
<b>Profit before taxation</b>	6	<b>45,170</b>	24,211
Taxation	7	<b>(4,391)</b>	(7,245)
<b>Profit for the period</b>		<b>40,779</b>	16,966
<b>Attributable to :</b>			
Equity holders of the Company		<b>39,455</b>	17,686
Minority interests		<b>1,324</b>	(720)
		<b>40,779</b>	16,966
Earnings per share — Basic	9	<b>RMB2.03 cents</b>	RMB0.91 cents





**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30 JUNE 2008

		<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>1,898,192</b>	2,009,640
Investment property	10	<b>4,587</b>	4,697
Leasehold land and land use rights	10	<b>44,714</b>	45,563
Intangible assets	10	<b>3,074</b>	4,433
Interests in associates		<b>344,986</b>	333,650
Available-for-sale investments		<b>24,060</b>	24,060
		<b>2,319,613</b>	2,422,043
<b>Current assets</b>			
Inventories		<b>677,836</b>	698,490
Trade receivables	11	<b>1,107,550</b>	1,463,798
Other receivables, deposits and prepayments		<b>128,149</b>	135,922
Bank balances and cash		<b>640,835</b>	363,617
		<b>2,554,370</b>	2,661,827

## CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2008

		<b>30 June</b>	31 December
		<b>2008</b>	2007
		<b>RMB'000</b>	RMB'000
	<i>Notes</i>	<b>(Unaudited)</b>	<i>(Audited)</i>
<b>Current liabilities</b>			
Trade payables	12	<b>432,827</b>	575,413
Other payables and accruals		<b>411,584</b>	215,313
Tax payables		<b>494</b>	4,305
Current portion of long-term payables		<b>2,938</b>	2,938
Short-term bank borrowings	13	<b>681,145</b>	962,684
		<b>1,528,988</b>	1,760,653
<b>Net current assets</b>		<b>1,025,382</b>	901,174
		<b>3,344,995</b>	3,323,217



**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

AS AT 30 JUNE 2008

		<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
	<i>Notes</i>		
<b>Capital and reserves:</b>			
Share capital	14	<b>1,941,174</b>	1,941,174
Reserves		<b>345,690</b>	306,235
<hr/>			
Equity attributable to equity holders of the Company		<b>2,286,864</b>	2,247,409
Minority interests		<b>1,036,484</b>	1,052,738
<hr/>			
		<b>3,323,348</b>	3,300,147
<hr/>			
<b>Non-current liabilities</b>			
Deferred income		—	1,023
Deferred income tax liabilities		<b>12,797</b>	12,797
Long-term payables		<b>8,850</b>	9,250
<hr/>			
		<b>21,647</b>	23,070
<hr/>			
		<b>3,344,995</b>	3,323,217
<hr/>			

The interim financial report on pages 31 to 70 were approved and authorised for issue by the Board of Directors on 26 August 2008 and are signed on its behalf by:

**Xing Daoqin**  
*Chairman*

**Zhang Junhua**  
*Director*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	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 2007 (Audited)	1,941,174	766,146	(526,422)	2,180,898	1,035,713	3,216,611
Profit (loss) for the period	—	—	17,686	17,686	(720)	16,966
Dividends 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
Profit for the period	—	—	48,825	48,825	6,366	55,191
Dividends paid to minority shareholders of certain subsidiaries	—	—	—	—	(1,786)	(1,786)
Partial disposal of a subsidiary	—	—	—	—	27,122	27,122
At 31 December 2007 (Audited)	1,941,174	766,146	(459,911)	2,247,409	1,052,738	3,300,147
Profit for the period	—	—	39,455	39,455	1,324	40,779
Acquisition of additional interests of a subsidiary	—	—	—	—	(7,253)	(7,253)
Dividends paid to minority shareholders of certain subsidiaries	—	—	—	—	(10,325)	(10,325)
At 30 June 2008 (Unaudited)	<u>1,941,174</u>	<u>766,146</u>	<u>(420,456)</u>	<u>2,286,864</u>	<u>1,036,484</u>	<u>3,323,348</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>615,121</b>	431,233
Net cash used in investing activities	<b>(21,763)</b>	(141,916)
Net cash used in financing activities	<b>(316,140)</b>	(117,317)
Net increase in cash and cash equivalents	<b>277,218</b>	172,000
Cash and cash equivalents at 1 January	<b>363,617</b>	479,503
Cash and cash equivalents at 30 June	<b><u>640,835</u></b>	<u>651,503</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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 manufacturing of color picture tubes (“CPTs”) 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. 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 (the “Stock Exchange”) on 20 December 2004.

The Group’s ultimate holding company is IRICO Group Corporation (“IRICO Group”), a state-owned enterprise established in the PRC.

### 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 and with the Hong Kong Accounting Standard (“HKAS”) 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 2008*

**3. PRINCIPAL ACCOUNTING POLICIES**

The unaudited 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 unaudited 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 2007, except for the adoption of following interpretations ("INTs"), which are adopted for the first time in the current period's financial statements.

HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The adoption of the abovementioned accounting standards has had no 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.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Cost <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Consolidated Financial Statements <sup>2</sup>
HKAS 32 and HKAS 1 (Amendments)	Financial Instruments: Presentation — Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations — Comprehensive Revision on Applying the Acquisition Method <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-INT 13	Customer Loyalty Programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008.





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

*FOR THE SIX MONTHS ENDED 30 JUNE 2008*

**3. PRINCIPAL ACCOUNTING POLICIES (Continued)**

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

**4. TURNOVER 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.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Interest expense on short-term bank borrowings	<b>25,144</b>	30,143
Interest expense to ultimate holding company	<b>809</b>	897
Finance charge on discounted bills	<b>3,313</b>	30
	<b>29,266</b>	31,070



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**6. PROFIT BEFORE TAXATION**

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Amortisation of intangible assets	<b>1,359</b>	2,263
Amortisation of leasehold land and land use rights	<b>944</b>	1,040
Depreciation of property, plant and equipment	<b>122,419</b>	142,364
Depreciation of investment property	<b>110</b>	—
Cost of inventories recognised as an expense	<b>1,698,047</b>	1,285,154
Employee benefit expenses	<b>246,064</b>	171,805
Loss on disposal of property, plant and equipment	<b>1,342</b>	496
Research and development costs	<b>13,017</b>	11,422
Provision for warranty	<b>11,730</b>	6,724
Impairment losses on trade and other receivables	<b>83</b>	3,312
Impairment losses on property, plant and equipment	<b>235</b>	2,630
Operating lease expenses	<b>24,572</b>	18,177
Allowance for inventories	<b>8,467</b>	6,167
Bank interest income	<b>(1,928)</b>	(3,279)
Dividend income from available-for-sale investment	<b>(4,510)</b>	(566)
Gain on disposal of available-for-sale investment	<b>(3,792)</b>	—
	<b><u>(3,792)</u></b>	<u>—</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**7. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current PRC income tax	<b><u>4,391</u></b>	<u>7,245</u>

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 25% (2007: 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 30 June 2008 except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the six months ended 30 June 2008 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 2008

**7. TAXATION (Continued)**

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Corporate Income Tax Law. The tax rate of the subsidiaries of which were subjected to tax rate of 33% was changed to 25% from 1 January 2008.

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 Guiding Catalogue for the Industrial Structure Adjustments for the year 2005 issued by National Development and Reform Commission 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 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.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 7. TAXATION *(Continued)*

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 2008 (Period ended 30 June 2007: 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 RMB39,455,000 (Period ended 30 June 2007: RMB17,686,000) and the weighted average number of approximately 1,941,174,000 (Period ended 30 June 2007: 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 2008 and 2007 and accordingly no diluted earnings per share is presented.



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

*FOR THE SIX MONTHS ENDED 30 JUNE 2008*

**10. CAPITAL EXPENDITURE**

During the period ended 30 June 2008, the Group spent approximately RMB15,236,000 (Period ended 30 June 2007: RMB33,880,000) on additions for property, plant and equipment. There are no additions noted for investment property, leasehold land and land use rights and intangible assets for both periods ended 30 June 2008 and 2007.

As at 30 June 2008, short-term bank borrowings of the Group amounting to RMB170,000,000 (31 December 2007: RMB200,000,000) are secured on the Group's buildings and machineries at the carrying amount of RMB194,800,000 (31 December 2007: RMB195,538,000) and on the Group's leasehold land and land use rights of RMB20,075,000 (31 December 2007: RMB20,387,000).

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**11. TRADE RECEIVABLES**

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. The following is an aged analysis of trade receivables (net of allowance for doubtful debts of approximately RMB12,704,000 (31 December 2007: RMB12,621,000)) at the balance sheet date:

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
0 — 90 days	<b>737,227</b>	612,190
91 — 180 days	<b>55,309</b>	62,313
181 — 365 days	<b>28,429</b>	38,694
Over 365 days	<b>23,694</b>	7,251
	<b>844,659</b>	720,448
Bills receivables	<b>262,891</b>	743,350
	<b>1,107,550</b>	1,463,798





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**12. TRADE PAYABLES**

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

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
0 — 90 days	<b>387,514</b>	472,486
91 — 180 days	<b>22,064</b>	8,151
181 — 365 days	<b>3,032</b>	8,655
Over 365 days	<b>10,045</b>	16,131
	<b>422,655</b>	505,423
Bills payables	<b>10,172</b>	69,990
	<b>432,827</b>	575,413

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**13. SHORT-TERM BANK BORROWINGS**

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Secured	<b>170,000</b>	200,000
Unsecured	<b>511,145</b>	762,684
	<b><u>681,145</u></b>	<u>962,684</u>

During the period, the Group obtained new bank loans amounting to RMB451,145,000. The bank borrowings carry interests ranging from 6.23% to 7.84% per annum (31 December 2007: 5.31% to 7.65% per annum). The loans raised during the period were used to finance the operations of the Group.

As at 30 June 2008, short-term bank borrowings of RMB170,000,000 (31 December 2007: RMB200,000,000) are secured by leasehold land and land use rights, buildings and machineries of the Group, and short-term bank borrowings of approximately RMB461,000,000 (31 December 2007: RMB490,000,000) are guaranteed by the Company's ultimate holding company.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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

As at 30 June 2008, included in the unsecured short-term bank borrowings are RMB170,000,000 (31 December 2007: RMB250,000,000), representing unguaranteed bank borrowings which are secured by certain land and buildings with carrying amount of approximately RMB161,641,000 (31 December 2007: RMB184,711,000) of the Company's ultimate holding company.

**14. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount RMB'000</b>
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 2008 and 30 June 2008	<u>1,941,174,000</u>	<u>1,941,174</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 15. RELATED PARTY TRANSACTIONS

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

Related parties include IRICO Group and its subsidiaries (other than the Group), associates and jointly controlled entities, corporations in which the Company is able to control, jointly control or exercise significant influences, key management personnel of the Company and IRICO Group and their close family members. IRICO Group does not produce financial statements available for public use.

IRICO Group is controlled by the 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 parties of the Group and defined as "Other state controlled enterprise". For the purpose of related party transactions 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 opinion of the directors, the majority of the Group's activities have been conducted with other state controlled enterprises in the Group's ordinary course of business. In the meantime, the meaningful information relating to related party transactions has been adequately disclosed.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

The following transactions were carried out with related parties:

**(a) Sales of goods**

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Sales of goods (note (i))		
The IRICO Group		
— Shannxi IRICO Electronics Glass Company Limited ("IRICO Glass")	43,368	—
— Shenzhen Hongyang Industry & Trade Company	5,132	9,065
— The utilities plant of the ultimate holding company	2,021	2,034
— Xianyang IRICO Thermoelectricity Co., Ltd.	1,791	—
— Caihong Labour Services Company	1,773	1,253
— Shannxi IRICO Photo Electronic Material Corporation (previously known as Shaanxi IRICO General Service Corporation)	235	186
— The ultimate holding company	214	—
— Shannxi IRICO Construction Engineering Co., Ltd.	2	4
— IRICO Colour Picture Tube Plant	—	3
— Xian IRICO Electrics Co. Ltd.	—	1
	<u>54,536</u>	<u>12,546</u>
Other state-controlled entities	<u>1,001,640</u>	<u>887,906</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

**(a) Sales of goods (Continued)**

*Note:*

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

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Purchases of goods from the		
IRICO Group (note (i))		
— Shannxi IRICO Photo Electronic Material Corporation	<b>31,136</b>	30,942
— Caihong Labour Services Company	<b>29,613</b>	37,706
— Xianyang Cailian Packaging Materials Co., Ltd.	<b>17,684</b>	18,200
— Shenzhen IRICO Electronics Co. Ltd.	<b>4,591</b>	3
— Xianyang Caihong Adhesive Belt Co., Ltd.	<b>2,025</b>	1,727
— Shenzhen Hongyang Industry & Trade Company	<b>86</b>	1,174
	<b>85,135</b>	89,752
Other state-controlled entities	<b>214,187</b>	285,024
Purchases of property, plant and equipment:		
Other state-controlled entities	<b>6,078</b>	—

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

	Six months ended 30 June	
	2008	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Provision of services from the IRICO Group:		
— Utility charges to the utilities plant of the ultimate holding company (note (ii))	<b>210,772</b>	188,419
— Rental expense to the ultimate holding company (note (iii))	<b>18,434</b>	17,360
— Trademark license fee to the ultimate holding company (note (iv))	<b>3,433</b>	868
— Social and ancillary service expense to the ultimate holding company (note (v))	<b>535</b>	—
— Xianyang Cailian Packing Materials Co., Ltd.	<b>127</b>	—
— Manufacturing expense to Caihong Labour Services Company	—	1,755
	<b>233,301</b>	208,402

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

*Notes:*

- (i) Purchases of goods and provision of services from related parties were conducted at prices not less than cost and with terms mutually agreed by both contractual parties.*
- (ii) Various kinetic energy charges were paid / payable by the companies of the Group to the utilities plant of the ultimate holding company based on the agreed rates for the six months ended 30 June 2008 and 2007.*
- (iii) From 1 January 2004, the Group is required to pay RMB11 per 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 2008 amounted to RMB18,434,000 (2007: RMB17,360,000).*





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

*Notes: (Continued)*

- (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) *Social and ancillary service charges for the provision of security and environmental services are paid / payable to the ultimate holding company on a cost reimbursement basis.*

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Carrying amount (note 15e)	<b>20,000</b>	—

Loan from the ultimate holding company is unsecured, repayable on 25 December 2008 and carried interests at 7.29% (31 December 2007: 6.12%) per annum. The interest expense paid to the ultimate holding company during the period amounted to RMB809,000 (Period ended 30 June 2007: RMB897,000).

**(d) Director's emolument afforded by the ultimate holding company**

Three non-executive directors of the Company, Mr. Zhang Weichuan, Mr. Fu Jiuquan and Mr. Niu Xinan (31 December 2007: Mr. Zhang Xing Xi and Mr. Niu Xinan), whose emolument are afforded by the Group's ultimate holding company, IRICO Group.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

**(e) Guarantees granted or assets pledged by the ultimate holding company**

As at 30 June 2008 and 31 December 2007, the ultimate holding company granted a guarantee and pledged certain of its land and buildings to the Company and the Group for certain bank borrowings (note 13).

**(f) Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Salaries and other short-term employee benefits	<b>1,021</b>	472
Retirement benefit contributions	<b>75</b>	48
	<b><u>1,096</u></b>	<u>520</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Trade receivables from related parties (note):		
The IRICO Group		
— Xianyang IRICO Digital Display Co., Limited	<b>3,743</b>	2,719
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	<b>3,421</b>	—
— Shenzhen Hongyang Industry & Trade Company	<b>2,216</b>	2,670
— The utilities plant of the ultimate holding company	<b>597</b>	—
— The ultimate holding company	<b>184</b>	—
— Shaanxi IRICO Electronics Glass Company Limited	<b>178</b>	1,371
— Shannxi IRICO Photo Electronic Material Corporation	<b>35</b>	3
— Caihong Labour Service Company	<b>15</b>	—
	<b>10,389</b>	6,763
Other state-controlled entities	<b>489,790</b>	549,150
	<b>500,179</b>	555,913
Representing:		
Trade receivables	<b>320,488</b>	239,545
Trade bills receivables	<b>179,691</b>	316,368
	<b>500,179</b>	555,913

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Trade payables to related parties (note (i)):		
The IRICO Group		
— Shannxi IRICO Photo Electronic Material Corporation	19,962	9,814
— Caihong Labour Service Company	9,053	11,021
— Xianyang Cailian Package Material Co. Ltd.	8,834	6,825
— Shaanxi IRICO Electronics Glass Company Limited	6,049	—
— Shenzhen Caihong Electronics Co. Ltd.	2,736	—
— The ultimate holding company	1,658	8,652
— Xianyang Caihong Adhesive Belt Co., Ltd.	1,057	1,349
— Shenzhen Hongyang Industry & Trade Company	848	2,979
— The utilities plant of the ultimate holding company	113	16,200
— Xianyang IRICO Digital Display Co., Limited	10	—
	<u>50,320</u>	56,840
Other state-controlled entities	<u>43,579</u>	82,716
	<u><b>93,899</b></u>	<u>139,556</u>
Representing:		
Trade payables	93,899	103,024
Trade bills payables	—	36,532
	<u><b>93,899</b></u>	<u>139,556</u>
Other payables and accruals (note (ii)):		
The ultimate holding company	<u><b>21,279</b></u>	<u>35,371</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

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

*Note:*

- (i) The trade balance in respect of sales and purchases are under the Group's normal trading terms.*
- (ii) Except for amount of RMB20,000,000 of the Group due to the ultimate holding company which carried interest at 7.29% per annum and due on 25 December 2008, the remaining non-trade balance due to the ultimate holding company is unsecured, interest-free and repayable on demand.*



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**15. RELATED PARTY TRANSACTIONS (Continued)**

**(h) Bank balances in and loans from state-controlled banks**

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Bank balances in state-controlled banks	<u><b>595,521</b></u>	<u>317,438</u>
Short-term borrowings from state-controlled banks	<u><b>562,000</b></u>	<u>792,684</u>
	<b>Six months ended 30 June 2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
Interest income from state-controlled banks	<u><b>1,791</b></u>	<u>1,754</u>
Interest and finance costs to state-controlled banks	<u><b>25,781</b></u>	<u>25,246</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**16. COMMITMENTS**

At the balance sheet date, the Group had committed future capital expenditures in respect of property, plant and equipment as follows:

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Property, plant and equipment:		
Contracted for but not provided	<u><b>10,108</b></u>	<u>27,550</u>

**As lessee**

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:

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Within one year	<b>59,958</b>	39,918
In the second to fifth years inclusive	<b>29,148</b>	39,461
	<u><b>89,106</b></u>	<u>79,379</u>





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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**16. COMMITMENTS (Continued)**

**As lessor**

At the balance sheet date, an investment property is leased out for a period of 3 years from the date of commencement of operation of a lessee that occupies the property and the lease did not have any renewal options given to the lessee. The rental yield for the period ended 30 June 2008 is 31.3% (31 December 2007: 30.4%). The Group had contracted with tenants for the following future minimum lease payments:

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Within one year	<b>364</b>	419
In the second to fifth years inclusive	—	192
	<b><u>364</u></b>	<b><u>611</u></b>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 17. PLEDGE OF ASSETS

At 30 June 2008, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	<b>30 June 2008 RMB'000 (Unaudited)</b>	31 December 2007 RMB'000 (Audited)
Property, plant and equipment	<b>194,800</b>	195,538
Leasehold land and land use rights	<b>20,075</b>	20,387
	<b><u>214,875</u></b>	<u>215,925</u>

### 18. MATERIAL LITIGATION

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.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**18. MATERIAL LITIGATION (Continued)**

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 utilised in the process of production by the Company, and therefore no loss would be incurred.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 18. MATERIAL LITIGATION *(Continued)*

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 made a written submission to the Court denying all liabilities in response to the allegations made by Xingyun. The Company believes that Xingyun's claim for litigations had no legal and factual basis, therefore its claim should be dismissed. On 23 November 2007, the People's High Court of Shaanxi issued the civil verdict ([2007] Shaan Min Er Chu Zi No. 10). The Court ruled that the claim by Xingyun against the Company demanding for compensation to its investment and other losses totaling RMB30,010,000 was not established and should be dismissed. On 15 April 2008, Xingyun has filed an appeal to the People's Supreme Court of the PRC.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**18. MATERIAL LITIGATION (Continued)**

On 10 July 2008, the People's Supreme Court of the PRC issued the civil verdict ([2008] Min Er Chu Zi No. 8). The Supreme Court had ruled that the claim by Xingyun against the Company demanding for compensation to its investment and other losses totaling RMB30,010,000 was not established and should be dismissed. The ruling by the People's Supreme Court of the PRC was the final judgment and the litigation has ended.

**19. EVENTS AFTER THE BALANCE SHEET DATE**

**(a) Acquisition of 69.5308% equity interests in IRICO Glass**

As mentioned in the announcement of the Company dated 17 August 2007, the Company and IRICO Group entered into an acquisition agreement, pursuant to which IRICO Group agreed to sell and the Company agreed to purchase the 69.5308% equity interests held by IRICO Group in IRICO Glass for a total consideration of approximately RMB279,580,000. On 19 June 2008, the Company received approval from the State-Owned Assets Supervision and Administration Commission ("SASAC") for the acquisition of IRICO Glass and the consideration was adjusted to RMB313,583,900.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**19. EVENTS AFTER THE BALANCE SHEET DATE (Continued)**

**(a) Acquisition of 69.5308% equity interests in IRICO Glass (Continued)**

Details of the above transactions are set out in the Company's announcements dated 17 August 2007, 14 April 2008 and 24 June 2008 respectively, and the Company's circular dated 7 September 2007.

On 24 July 2008, the Company had made cash payment of RMB100,000,000 to IRICO Group as partial settlement of the consideration.

As IRICO Group is the ultimate holding company of the Company, this acquisition is considered as a related party transaction.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

**19. EVENTS AFTER THE BALANCE SHEET DATE (Continued)**

**(b) Acquisition of 30% equity interests in Shaanxi IRICO Phosphor Material Co., Limited (“IRICO Phosphor”) and 25% equity interests in Xianyang IRICO Electronic Shadow Mask Co., Limited (“IRICO Shadow Mask”)**

As mentioned in the announcement and the circular issued by the Company dated 23 June 2008 and 21 July 2008, respectively, on 23 June 2008, Force Top International Limited (“Force Top”), a wholly-owned subsidiary of the Company, and Rui Bou Electronics (HK) Ltd. (“Rui Bou”, a company incorporated in Hong Kong with limited liability and a subsidiary of IRICO Group) entered into an acquisition agreement pursuant to which Force Top shall purchase 30% equity interests in IRICO Phosphor and 25% equity interests in IRICO Shadow Mask from Rui Bou for a consideration of RMB73,290,000 and RMB14,825,000, respectively, totaling to RMB88,115,000. The acquisition agreement is conditional upon the approval of the acquisition being obtained from the independent shareholders in an extraordinary general meeting to be held on 5 September 2008.

As Rui Bou is a subsidiary of IRICO Group, this acquisition is considered as a related party transaction.