



**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**  
**2009**

\* For identification purposes only

## CONTENTS

|   | <i>Page</i> |
|---|-------------|
| I. Results Highlights .....   | 2           |
| II. Management Discussion and Analysis .....  | 3           |
| (i) Conditions of the Industry .....  | 3           |
| (ii) Business Review .....  | 6           |
| (iii) Financial Review .....  | 10          |
| III. Other Information .....  | 17          |
| (i) Share Appreciation Rights Plan .....  | 17          |
| (ii) Interests and Short Positions of Directors,<br>Supervisors and Senior Management ..... | 18          |
| (iii) Interests and Short Positions of<br>Substantial Shareholders and Other Persons .....  | 19          |
| (iv) Audit Committee .....  | 20          |
| (v) Independent Non-executive Directors .....   | 20          |
| (vi) Corporate Governance Practices .....   | 21          |
| (vii) Model Code for Securities Transactions<br>by the Directors of Listed Issuers .....    | 21          |
| (viii) Purchase, Sale or Redemption of Shares .....   | 21          |
| (ix) Employees .....  | 22          |
| (x) Public Float .....  | 22          |
| (xi) Significant Investments .....  | 22          |
| (xii) Material Acquisition and Disposal .....   | 23          |
| (xiii) Material Litigations .....   | 23          |
| IV. Corporate Information .....   | 25          |
| Independent Review Report .....   | 28          |
| Condensed Consolidated Income Statement .....   | 30          |
| Condensed Consolidated Statement of<br>Comprehensive Income .....                           | 32          |
| Condensed Consolidated Statement of Financial Position .....                                | 33          |
| Condensed Consolidated Statement of Changes in Equity .....                                 | 36          |
| Condensed Consolidated Cash Flow Statement .....  | 38          |
| Notes to the Condensed Consolidated<br>Financial Statements .....                           | 39          |

**I. RESULTS HIGHLIGHTS**

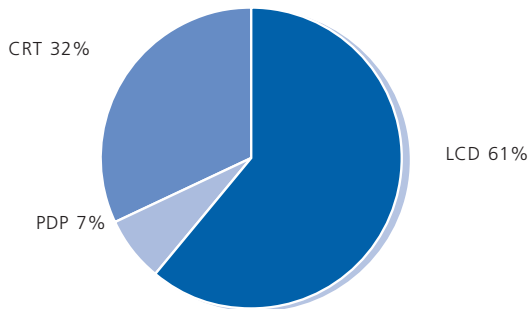
| <i>(RMB'000)</i>             | <b>First half of<br/>2009</b> | First half of<br>2008<br>(Restated) | Increase/<br>(decrease) | Percentage<br>of change |
|------------------------------|-------------------------------|-------------------------------------|-------------------------|-------------------------|
| Turnover                     | <b>818,277</b>                | 2,001,730                           | (1,183,453)             | (59.12)                 |
| (Gross loss)/Gross profit    | <b>(22,715)</b>               | 303,683                             | (326,398)               | (107.48)                |
| Operating (loss)/profit      | <b>(174,346)</b>              | 68,355                              | (242,701)               | (355.06)                |
| (Loss)/profit before tax     | <b>(189,582)</b>              | 43,224                              | (232,806)               | (538.60)                |
| (Loss)/profit for the period | <b>(189,552)</b>              | 38,833                              | (228,385)               | (588.12)                |
| Attributable to:             |                               |                                     |                         |                         |
| Owners of the Company        | <b>(120,390)</b>              | 38,102                              | (158,492)               | (415.97)                |
| Non-controlling interests    | <b>(69,162)</b>               | 731                                 | (69,893)                | (9561.29)               |
| Gearing ratio                | <b>40%</b>                    | 32%                                 | 8%                      | N/A                     |

## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (I). Conditions of the Industry

During the reporting period, under the dual impact of the financial crisis and flat-panel television sets, cathode ray tube ("CRT") (with colour picture tube ("CRT") being a type of CRT) industry further declined and the pace of which exceeded the general market expectation. During the first half of 2009, the output of CRT television sets amounted to 28,740,000 units globally, representing a decrease of 31% as compared with the corresponding period last year, while output of liquid crystal display ("LCD") television sets increased by 23% to 54,740,000 units. CRT television sets, whose sales volume accounted for less than one third of all kinds of television sets, were becoming more marginalized.

#### **Breakdown of the global output volume of television sets in first half of 2009**



*Source: iSuppli, Global TV Track, 09H1*

The freefall of the demand for CRT television sets was weighing more on the operation of CPT industry. In the first half of 2009, domestic CRT television sets market fell by 62% from the corresponding period last year. At the same time, under the influence of the financial crisis, China's CPT export shrank by 62% during the reporting period, which led to CPT output falling by over 50% year on year. With 30% of capacity utilization for the industry and various production lines were suspended, several players were driven out of the industry. Looking into the second half of the year, the Group expects that CPT industry will severe challenges. The flat-panel television sets replacement pressure is to continue in China and overseas market.

Thin film transistor liquid crystal display ("TFT-LCD") glass substrates, as one of the most critical raw materials in the industry chain of TFT-LCD, had seen demand over supply since the LCD panel market recovered in the second quarter of 2009. In mainland China, as supported by market demand and government initiatives, TFT-LCD industry brought external opportunities and relatively vast market prospects for glass substrate industry in PRC.

In the second half of the year, as capacity growth of glass substrate producers is relatively slower than that of panels, the tight supply of glass substrate is expected to continue throughout the third quarter or even longer. As a result, the Group believes that the industry climate for glass substrate would remain relatively high. According to the forecast of iSuppli, global glass substrate market is to grow more than 40% in the second half of 2009 over the first half, with total market scale of 227 million square meters for the year, hitting record high. In mainland China, demand for glass substrate may reach 7.35 million square meters in 2009.

Photovoltaic industry was one of those industries highly affected by the financial crisis on a comparative basis. The substantial subsidy cut in Europe and the US and low oil price have somewhat hindered the usage of photovoltaic products. iSuppli forecasted that in 2009, photovoltaic battery installation around the world will contract by more than 20% from 2008. However, the PRC government has launched a series of concrete photovoltaic products subsidy plans to support the growth of photovoltaic products in mainland China in 2009. The Group believes that the photovoltaic products market in mainland China will grow by 100% over last year to over 100MW for the first time. As one of the basic components of solar crystal silicon battery, photovoltaic ultra-white glass market is also expecting growth.

Luminous materials are another stronghold of the Group's current business, especially in new luminous material sector, including energy saving lamp phosphors, cold cathode fluorescent lamp ("CCFL") phosphor (for LCD backlight) and plasma display panel ("PDP") phosphor. As affected by the financial crisis, the price of energy saving lamp phosphors saw downturn in the first quarter, but in light of the domestic demand as well as the guidance and support of government policy, the Group considers that energy saving lamp and energy saving lamp phosphors could recover gradually.

**(II) Business Review**

**1. Operation Highlights**

Under the influence of various negative factors such as the financial crisis and constantly declining CRT market, the Group encountered unprecedented challenges during the reporting period. Turnover of the Group was RMB818,277,000 for the first half of 2009, representing a decrease of 59.12% as compared to the corresponding period last year. Despite the sharp decrease in the Group's results for the first half of 2009, the Group is currently shifting its business focus from traditional CPT to flourishing areas such as electronic glass, photovoltaic glass, phosphor materials, FPD devices and their relevant components. The Group believes that, as the new projects such as the TFT-LCD glass substrate and solar photovoltaic glass are smoothly implemented and the expansion of which are accelerating, the Group's strategic transformation will gradually be materialised.

## 2. Progress of the New Businesses

### (1) *TFT-LCD Glass Substrate*

In respect of phase I of the Group's TFT-LCD glass substrate project, the first domestic production line of the fifth generation TFT-LCD glass substrate had been completed. At present, the facilities at phase I project are operating normally, and with stable craftwork conditions, the quality product ratio has been gradually increasing. The products passed the ISO9001 quality system certification in January 2009 and went through user certification before they are currently being marketed.

The Group officially commenced construction for the extension of the TFT-LCD glass substrate project on 19 May 2009, the total investment of which amounted to approximately RMB1.7 billion. In addition, the Group plans to construct another three fifth generation TFT-LCD glass substrate production lines. Currently, the project is progressing smoothly.

### (2) *Solar Photovoltaic Glass*

In line with the country's strategy in expediting the construction of energy saving community and renewable development while demonstrating the existing advantage, continuous efforts were made to integrate effective resources and further strengthen the core competitiveness of the Group. In view of the demand for photovoltaic glass from solar industry at present and in the near future, the Group decided to construct solar photovoltaic glass production line. In January 2009, the construction of the solar photovoltaic glass project was officially commenced, with a total investment of approximately RMB 250 million. The project could provide support for the production of 702 MW solar batteries. The project is expected to commence operation at the end of 2009 and put into production in the first half of 2010, with an annual production capacity of approximately 5.02 million square metres. The project is listed as a key construction project in the Shaanxi Province for 2009.



(3) *Luminous Material*

China, as one of the production base for energy saving lamps in the world, was affected by the global financial crisis. Accordingly, the energy saving lamps and energy saving lamp phosphors market declined to a certain extent during the reporting period. The sales volume of the Group's energy saving lamp phosphors also decreased to a certain extent, but through adopting the measures such as strengthening marketing, optimising product quality and enhancing technical service, the Group's domestic market share of energy saving lamp phosphors increased as compared to the end of last year, which effectively improved the brand image of the Group's energy saving lamp phosphors.

The Group's self-developed CCFL phosphor possessed relatively better cost and quality edges, which enabled this business to enjoy relatively stronger competitiveness in the domestic market. The construction of China's first CCFL phosphor production line with an annual capacity of approximately 50 tonnes by the Group, had been put into production and realised sales revenue. The Group's CCFL/PDP phosphor compatible production line project was officially launched in June 2009. The project is currently under construction, with its equipment installation and tests expected to be completed before the end of 2009.

(4) *Organic light-emitting diode (“OLED”) Business*

IRICO Display Devices Company Limited (彩虹顯示器件股份有限公司) (“IRICO Display”), a non-wholly owned subsidiary of the Company, and Shenzhen Hongyang Industry and Trade Co., Ltd. (深圳虹陽工貿公司), a wholly-owned subsidiary of IRICO Group, jointly invested and established IRICO (Foshan) Flat Panel Display Company Limited (彩虹(佛山)平板顯示有限公司) to develop the research and development and industrialised project of OLED display. It is expected that an annual capacity of approximately 12 million units of OLED display screens (2.2 inch product) be reached upon completion of phase I of the project. The construction of the project was officially commenced in Shunde District, Foshan, Guangdong Province in May 2009, and is expected to be completed and put into operation in 2010.

(5) *PDP Business*

The PDP project, jointly established by the Company and Sichuan Changhong Electrical Group Co., Ltd. (四川長虹電子集團有限公司), started batch production in March 2009. Relevant products had been officially launched to the market.

### 3. Traditional Business

#### *CPT Business*

Under the impact of the financial crisis and slashing price of flat-panel television sets, the decline in global CPT industry had been further expedited. In the first half of 2009, the Group sold 3,453,000 units of CPT, representing a decrease of 4,383,000 units or approximately 55.93% as compared with the corresponding period last year; turnover of CPT business was RMB572,980,000, representing a decrease of RMB1,043,406,000 or approximately 64.55% as compared with the corresponding period last year. The Group mainly adopted the following measures in response to the challenges in the industry: firstly, putting more efforts in marketing and establishing rapid response mechanisms; secondly, imposing strict controls on inventories and accounts receivable; thirdly, further cutting production cost; fourthly, achieving daily settlement of bills through precise management. The domestic market share of our CPT in the first half of 2009 increased by 6 percentage points as compared with the corresponding period last year, maintaining our leading market position in the domestic industry, which underpinned the foundation of effective operation of the Group.

## (III) Financial Review

### 1. Overall performance

The profit margin of the Group decreased from 15.17% for the first half of 2008 to -2.78% for the first half of 2009, which was mainly attributable to the significant decrease in the price of CPT. In the second half of 2009, the Company intends to strive to boost overseas sales, expedite the repayment of account receivables and increase sales revenue. Meanwhile, leveraging on the advantage edge in CPT devices, the Company also intends to strive to lower costs and improve profit margin.

## 2. Business Results

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

| (RMB'000)                              | For the six months ended 30 June |                    |                         |            |
|--|----------------------------------|--------------------|-------------------------|------------|
|  | 2009                             | 2008<br>(Restated) | Increase/<br>(decrease) | Change (%) |
| Turnover                               | <b>818,277</b>                   | 2,001,730          | (1,183,453)             | (59.12)    |
| Sales of CPTs                          | <b>572,980</b>                   | 1,616,386          | (1,043,406)             | (64.55)    |
| Sales of components                    | <b>245,297</b>                   | 385,344            | (140,047)               | (36.34)    |
| Cost of sales                          | <b>(840,992)</b>                 | (1,698,047)        | (857,055)               | (50.47)    |
| Gross (loss) profit                    | <b>(22,715)</b>                  | 303,683            | (326,398)               | (107.48)   |
| Operating expenses                     |                                  |                    |                         |            |
| Administrative expenses                | <b>(135,581)</b>                 | (155,025)          | (19,444)                | (12.54)    |
| — a) General administrative expenses   | <b>(145,216)</b>                 | (142,008)          | 3,208                   | 2.26       |
| — b) Research and development expenses | <b>(9,635)</b>                   | (13,017)           | (22,652)                | (174.02)   |
| Selling and distribution expenses      | <b>(37,973)</b>                  | (91,281)           | (53,308)                | (58.40)    |
| Other operating expenses               | <b>(15,523)</b>                  | (9,789)            | 5,734                   | 58.58      |
| Operating (loss) profit                | <b>(174,346)</b>                 | 68,355             | (242,701)               | (355.06)   |
| Finance cost                           | <b>(18,423)</b>                  | (29,266)           | (10,843)                | (37.05)    |
| (Loss)/profit in the period            | <b>(189,552)</b>                 | 38,833             | (228,385)               | (588.12)   |
| Attributable to:                       |                                  |                    |                         |            |
| Equity holders of the Company          | <b>(120,390)</b>                 | 38,102             | (158,492)               | (415.97)   |
| Minority interests                     | <b>(69,162)</b>                  | 731                | (69,893)                | (9,561.29) |

2) *Turnover*

Turnover by product (RMB'000)

| Name                        | 2009           | 2008      | Increase/<br>(decrease) | Change (%) |
|-----------------------------|----------------|-----------|-------------------------|------------|
| CPTs                        | <b>572,980</b> | 1,616,386 | (1,043,406)             | (64.55)    |
| Components<br>and materials | <b>245,297</b> | 385,344   | (140,047)               | (36.34)    |
| Total                       | <b>818,277</b> | 2,001,730 | (1,183,453)             | (59.12)    |

3. **Change Over Corresponding Period Last Year and Reasons**1) *Turnover and gross profit margin*

In the first half of 2009, the turnover of the Group decreased by RMB1,183,453,000 or 59.12% to RMB818,277,000, as compared to the corresponding period in 2008. Of which, turnover from CPT decreased by RMB1,043,406,000 or 64.55% to RMB572,980,000 when compared to that of the corresponding period in 2008. Turnover from components and materials decreased by RMB140,047,000 or 36.34% to RMB245,297,000 as compared to the corresponding period in 2008. The overall gross profit margin of the Group decreased from 15.17% in the first half of 2008 to -2.78% in the first half of 2009, mainly due to a substantial plunge in the price of CPT resulted from the dramatic decrease in market demand under the influences of the financial turmoil and the emerging FPD devices.

2) *Administrative expenses*

The Group's administrative expenses in the first half of 2009 decreased by RMB19,444,000 or approximately 12.54%, to RMB135,581,000 from RMB155,025,000 for the corresponding period in 2008. The decrease in administrative expenses was mainly attributable to the decrease in exchange loss as compared to the same period last year.

3) *Finance cost*

The Group's finance costs in profit and loss in the first half of 2009 was RMB18,423,000 (excluding interest expense capitalized amounting to RMB11,167,000), representing a decrease of RMB10,843,000 or approximately 37.05%, from RMB29,266,000 for the corresponding period in 2008. The decrease in finance cost was mainly attributable to a decrease in the interest rates of bank borrowings.

#### **4. Current Assets and Financial Resources**

As at 30 June 2009, the Group's cash and bank balances aggregated to RMB566,922,000, representing an increase of RMB109,507,000 or 23.94%, from RMB457,415,000 as at 31 December 2008. For the half year ended 30 June 2009, the Group's capital expenditures totalled RMB64,494,000 (as at 30 June 2008: RMB15,236,000). Net cash inflow from operating activities was RMB216,493,000 (as at 30 June 2008: RMB615,121,000), while net cash outflow from financing activities and investing activities were RMB45,231,000 (as at 30 June 2008: RMB316,140,000) and RMB61,783,000 (as at 30 June 2008: RMB21,763,000), respectively.

As at 30 June 2009, the Group's total borrowings aggregated to RMB979,621,000, of which borrowings due within one year amounted to RMB606,000,000 and borrowings with maturity beyond one year amounted to RMB373,621,000. As at 31 December 2008, the Group's total borrowings was RMB991,707,000, of which borrowings due within one year amounted to RMB673,000,000 and borrowings with maturity beyond one year amounted to RMB318,707,000. As at 30 June 2009, bank borrowings amounted to approximately RMB206,000,000 (as at 31 December 2008: RMB256,000,000) were secured by certain leasehold land and land use rights, buildings, machineries and trade receivables of the Group.

For the half year ended 30 June 2009, the turnover period for accounts receivable of the Group was 176 days, representing an increase of 76 days from 100 days for the half year ended 30 June 2008 which was mainly attributable to the increase in collection period resulting from the shrinking CPT market under the influence of the financial crisis and the emerging FPD devices. For the half year ended 30 June 2009, the inventory turnover days of the Group increased by 92 days from 72 days for the half year ended 30 June 2008 to 164 days, mainly attributable to the rapidly contracted sales of CPT and components resulted from the dramatic decrease in such market demand as the price for FPD televisions decreased.

## 5. Capital Structure

As at 30 June 2009, 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 an appropriate ratio of share capital to liabilities, so as to ensure that an effective capital structure is maintained from time to time. As at 30 June 2009, its total liabilities including bank borrowings aggregated to RMB2,159,978,000 (as at 31 December 2008: RMB2,243,032,000) with cash and bank balances aggregated to RMB566,922,000 (as at 31 December 2008: RMB457,415,000) and a gearing ratio (i.e. total liabilities divided by total assets) of 40% (as at 31 December 2008: 40%).

## 6. Interim Dividend

As there was no accumulated surplus in the first half of 2009, 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 2009, the operating cost of the Group increased by RMB429,000 as a result of exchange rate fluctuations (as at 30 June 2008: RMB22,637,000). There was no material impact on the operating capital or liquidity as a result of exchange rate fluctuations.



**8. Commitments**

As at 30 June 2009, capital commitments of the Group amounted to RMB85,675,000 (31 December 2008: RMB11,304,000).

**9. Contingent Liabilities**

As at 30 June 2009, the Group had no material contingent liability.

**10. Pledge of Assets**

As at 30 June 2009, bank borrowings of the Group amounted to approximately RMB206,000,000, which were secured by certain leasehold land and land use rights, buildings, machineries and trade receivables of the Group.

As at 31 December 2008, the bank borrowings of the Group amounted to approximately RMB256,000,000, which were secured by certain leasehold land and land use rights, buildings, machineries and trade receivables of the Group.

### III. 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 2009, the following Directors, Supervisors and senior management members were granted share appreciation rights by the Company:

| Name           | Number of Share<br>Appreciation Rights<br><i>(Shares)</i> | Note              |
|----------------|---|-------------------|
| 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 | 1,270,000   | 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**

Save as disclosed in (i) above, as at 30 June 2009, 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 of Hong Kong Limited (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 members was deemed or taken to have under provisions of such chapters of the SFO), or which was otherwise required to be entered in the register 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").

**(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 senior management of the Company, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 30 June 2009 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 483,311,990 H Shares of the Company (representing 99.58% of the H Share capital). Xing Daoqin, Tao Kui, Guo Mengquan and Fu Jiuquan are the Company's Directors, and are IRICO Group Corporation's General Manager, Vice General Manager, Vice General Manager and Chief Accountant respectively.

*Notes:*

*As at 30 June 2009, based on the information available to Directors and so far as the Directors are aware, HKSCC (Nominees) Limited held 483,311,990 H Shares, among which:*

*Baystar Capital II, L.P. had beneficial interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the issued H shares of the Company). Each of Baystar Capital Management LLC, Mr. Derby Steven P., Mr. Goldfarb Lawrence and Mr. Lamar Steven M. was deemed to be interested in the same tranche of H shares of the Company by virtue of their direct or indirect control of Baystar Capital II, L.P..*

*J.P. Morgan Fleming Asset Management Holdings Inc. held 33,742,000 H shares of the Company (representing 6.95% of the issued H shares of the Company) in the capacity of investment manager and through its controlled corporations, of which 33,198,000 H shares of the Company were held by JF Asset Management Limited and 544,000 H shares of the Company were held by JF International Management Inc..*

*Pictet Asset Management Limited held direct interests in 27,488,000 H shares (representing approximately 5.66% of the H Share capital) in the Company on behalf of Pictet Funds Asian Equities, which had interests in 28,504,000 shares.*

**(iv) Audit Committee**

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30 June 2009.

**(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 five independent non-executive Directors, one of whom possesses financial management expertise.

**(vi) 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.

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 six months period ended 30 June 2009. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code during 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 2009, the Company has adopted a model code for securities transactions by Directors and Supervisors of the Company which is no less exacting 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 or Redemption of Shares**

During the reporting period, the Group had not purchased, sold or redeemed any of the shares in the Company in issue.

**(ix) Employees**

As at 30 June 2009, the Group has a total of 6,473\* employees. Of which, approximately 7.9% are management and administrative staff, 10.2% are technicians, 1.1% are financial and auditing staff, 1.2% are sales and marketing staff, 75% are production workers and others are 4.7%.

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 of the Company, 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**

During the reporting period, save as disclosed below, the Company had not made any other significant investment.

Leverage on the experience of the successful establishment of the first fifth generation TFT-LCD glass substrate production line and its technology, Shaanxi IRICO Electronics Glass Company Limited, a subsidiary of the Company, expanded the construction of three fifth generation TFT-LCD glass substrate production lines in the New Industrial Storing Zone (新產業聚積區) in Qindu District, Xianyang City in May 2009. According to the preliminary planning of the project, the estimated total investment is approximately RMB1.7 billion with an annual production capacity of possibly up to 2.21 million square metres per annum.

#### **(xii) Material Acquisition and Disposal**

During the reporting period, the Company did not have any material acquisition or disposal of subsidiaries and associated companies.

#### **(xiii) Material Litigations**

During the reporting period, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group.

However, after the balance sheet date, the Fanshawe College of Applied Arts and Technology ("Fanshawe College") brought a legal claim against IRICO Display.

As set out in the announcement published on the Shanghai Stock Exchange on 7 July 2009 by IRICO Display, IRICO Display received a statement of claim from Ontario Superior Court of Justice Canada in respect of the litigation brought by Fanshawe College.



Fanshawe College, the plaintiff, accused various global CRT manufacturing enterprises, including IRICO Display, of a conspiracy to sustain, control and stabilize the price of CRT since 1 January 1998, and a collusion to manipulate the market and to enter into agreements raising the price of CRT to an unreasonable level. All these coerced the plaintiff and the public to pay an artificially high price for the CRT products which caused damage to their interests. No judgment or ruling has been given yet.

Upon inspection of IRICO Display, it has never sold CRT products in the Canadian market directly or via agency since 1998. IRICO Display's preliminary assessment is that the litigation will not pose any negative impact on its normal business operation.

The Company has also recently received a statement of claim from Fanshawe College, the content and the subject of proceedings of which are basically consistent with the above statement of claim. Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1998. The Company considers that the litigation will not pose any negative impact on its normal business operation.

In the opinion of the directors of the Company, the above case did not have any material impact on the Group's interim financial statement for the six months ended 30 June 2009.

#### IV. 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](http://www.irico.com.cn)

**Legal adviser**

Baker & McKenzie

23rd Floor, One Pacific Place

88 Queensway

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  
Rooms 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 30 to 84 which comprises the condensed consolidated statement of financial position of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2009 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and 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 an interim financial report to be in compliance with 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial information 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 consists principally of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures to the interim financial report based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review does not constitute an audit and thus does not include usual audit procedures such as test of controls and verification of assets, liabilities and transactions. A review is substantially less extensive in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion.

## REVIEW 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

19 August 2009

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2009

|                                   | Notes | Six months ended 30 June       |  |
|-----------------------------------|-------|--------------------------------|--|
|                                   |       | 2009<br>RMB'000<br>(Unaudited) | 2008<br>RMB'000<br>(Restated)<br>(Unaudited) |
| Turnover                          | 5     | <b>818,277</b>                 | 2,001,730                                    |
| Cost of sales                     |       | <b>(840,992)</b>               | (1,698,047)                                  |
| Gross (loss) profit               |       | <b>(22,715)</b>                | 303,683                                      |
| Other operating income            |       | <b>37,446</b>                  | 20,767                                       |
| Selling and distribution expenses |       | <b>(37,973)</b>                | (91,281)                                     |
| Administrative expenses           |       | <b>(135,581)</b>               | (155,025)                                    |
| Other operating expenses          |       | <b>(15,523)</b>                | (9,789)                                      |
| Finance costs                     | 6     | <b>(18,423)</b>                | (29,266)                                     |
| Share of results of associates    |       | <b>3,187</b>                   | 4,135  |
| (Loss) profit before taxation     | 7     | <b>(189,582)</b>               | 43,224                                       |
| Taxation                          | 8     | <b>30</b>                      | (4,391)                                      |
| (Loss) profit for the period      |       | <b>(189,552)</b>               | <b>38,833</b>                                |

**CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2009

|                                   |                    | <b>Six months ended 30 June</b> |                             |
|-----------------------------------|--------------------|---------------------------------|-----------------------------|
|                                   |                    | <b>2009</b>                     | 2008                        |
|                                   |                    | <b>RMB'000</b>                  | RMB'000                     |
|                                   |                    |                                 | (Restated)                  |
| <i>Notes</i>                      | <b>(Unaudited)</b> |                                 | (Unaudited)                 |
| <hr/>                             |                    |                                 |                             |
| (Loss) profit attributable to:    |                    |                                 |                             |
|                                   |                    | <b>(120,390)</b>                | 38,102                      |
|                                   |                    | <b>(69,162)</b>                 | 731                         |
|                                   |                    | <hr/> <b>(189,552)</b> <hr/>    | <hr/> 38,833 <hr/>          |
| (Loss) earnings per share - Basic | 10                 | <b><u>(RMB6.20 cents)</u></b>   | <b><u>RMB1.96 cents</u></b> |
| <hr/>                             |                    |                                 |                             |



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

|  | <b>Six months ended 30 June</b> |                           |
|--|---------------------------------|---------------------------|
|  | <b>2009</b>                     | 2008                      |
|  | <b>RMB'000</b>                  | RMB'000                   |
|  | <b>(Unaudited)</b>              | (Restated)<br>(Unaudited) |
| (Loss) profit for the period   | <b>(189,552)</b>                | 38,833                    |
| Exchange difference<br>on translation of foreign<br>operations and other<br>comprehensive income<br>for the period | <u>28</u>                       | <u>—</u>                  |
| Total comprehensive income<br>and expense for the period,<br>net of tax  | <u><b>(189,524)</b></u>         | <u>38,833</u>             |
| Total comprehensive income<br>attributable to:   |                                 |                           |
| Owners of the Company  | <b>(120,362)</b>                | 38,102                    |
| Non-controlling interests  | <b>(69,162)</b>                 | 731                       |
|  | <u><b>(189,524)</b></u>         | <u>38,833</u>             |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2009

|  |              | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|--------------|---|---|
|  | <i>Notes</i> |   |   |
| <b>Non-current assets</b>  |              |   |   |
| Property, plant and equipment  | 11           | <b>2,572,626</b>                                    | 2,642,474                                   |
| Investment property  | 11           | <b>16,173</b>                                       | 16,563                                      |
| Leasehold land and land<br>use rights                                | 11           | <b>78,695</b>                                       | 54,270                                      |
| Intangible assets  | 11           | <b>2,299</b>  | 3,017                                       |
| Interests in associates  |              | <b>368,882</b>                                      | 366,055                                     |
| Available-for-sale investments                                       |              | <b>24,060</b>                                       | 24,060                                      |
| Deferred income tax assets   |              | <b>1,664</b>  | 1,857                                       |
| Deposits paid for acquisition<br>of property, plant<br>and equipment |              | <b>35,674</b>                                       | —   |
|  |              | <b>3,100,073</b>                                    | 3,108,296                                   |
| <b>Current assets</b>  |              |   |   |
| Inventories  |              | <b>766,803</b>                                      | 708,475                                     |
| Trade and bills receivables  | 12           | <b>801,072</b>                                      | 1,195,731                                   |
| Other receivables, deposits<br>and prepayments                       |              | <b>126,313</b>                                      | 167,399                                     |
| Bank balances and cash   |              | <b>566,922</b>                                      | 457,415                                     |
|  |              | <b>2,261,110</b>                                    | 2,529,020                                   |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*(Continued)*

AS AT 30 JUNE 2009

|  |              | <b>30 June<br/>2009</b> | 31 December<br>2008 |
|--|--------------|-------------------------|---------------------|
|  |              | <b>RMB'000</b>          | <i>RMB'000</i>      |
|  | <i>Notes</i> | <b>(Unaudited)</b>      | (Audited)           |
| <b>Current liabilities</b>               |              |                         |                     |
| Trade and bills payables                 | 13           | <b>484,008</b>          | 559,902             |
| Other payables and accruals              |              | <b>589,124</b>          | 641,114             |
| Tax payables                             |              | <b>1,531</b>            | 5,819               |
| Current portion of<br>long-term payables |              | <b>2,644</b>            | 3,574               |
| Bank borrowings - due<br>within one year | 14           | <b>606,000</b>          | 673,000             |
|  |              | <b>1,683,307</b>        | 1,883,409           |
| <b>Net current assets</b>                |              | <b>577,803</b>          | 645,611             |
|  |              | <b>3,677,876</b>        | 3,753,907           |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 30 JUNE 2009

|   |              | <b>30 June<br/>2009</b> | 31 December<br>2008 |
|---|--------------|-------------------------|---------------------|
|   |              | <b>RMB'000</b>          | RMB'000             |
|   | <i>Notes</i> | <b>(Unaudited)</b>      | (Audited)           |
| <b>Capital and reserves</b>                     |              |                         |                     |
| Share capital                                   | 15           | <b>1,941,174</b>        | 1,941,174           |
| Other reserves                                  |              | <b>716,436</b>          | 716,408             |
| Accumulated losses                              |              | <b>(486,825)</b>        | (366,435)           |
| Equity attributable to<br>owners of the Company |              | <b>2,170,785</b>        | 2,291,147           |
| Non-controlling interests                       |              | <b>1,030,420</b>        | 1,103,137           |
| <b>Total equity</b>                             |              | <b>3,201,205</b>        | 3,394,284           |
| <b>Non-current liabilities</b>                  |              |                         |                     |
| Bank borrowings - due after<br>one year         | 14           | <b>373,621</b>          | 318,707             |
| Deferred income                                 |              | <b>85,489</b>           | 21,040              |
| Deferred income tax liabilities                 |              | <b>8,311</b>            | 9,655               |
| Long-term payables                              |              | <b>9,250</b>            | 10,221              |
|   |              | <b>476,671</b>          | 359,623             |
|   |              | <b>3,677,876</b>        | 3,753,907           |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2009

|   | Attributable to owners of the Company |                |                    | Non-controlling |           | Total     |
|---|---------------------------------------|----------------|--------------------|-----------------|-----------|-----------|
|   | Share capital                         | Other reserves | Accumulated losses | Total           | interests |           |
|   | RMB'000                               | RMB'000        | RMB'000            | RMB'000         | RMB'000   | RMB'000   |
| At 1 January 2008 (audited),  |                                       |                |                    |                 |           |           |
| as originally stated  | 1,941,174                             | 766,146        | (459,911)          | 2,247,409       | 1,052,738 | 3,300,147 |
| Effect of common control combination                                | —                                     | 271,170        | (1,848)            | 269,322         | 118,020   | 387,342   |
| At 1 January 2008 (audited),  |                                       |                |                    |                 |           |           |
| as restated   | 1,941,174                             | 1,037,316      | (461,759)          | 2,516,731       | 1,170,758 | 3,687,489 |
| Profit for the period and total comprehensive income for the period | —                                     | —              | 38,102             | 38,102          | 731       | 38,833    |
| Merger reserve arising from common control combination              | —                                     | (313,584)      | —                  | (313,584)       | —         | (313,584) |
| 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),  |                                       |                |                    |                 |           |           |
| as restated   | 1,941,174                             | 723,732        | (423,657)          | 2,241,249       | 1,153,911 | 3,395,160 |
| Profit for the period   | —                                     | —              | 57,222             | 57,222          | 22,323    | 79,545    |
| Exchange difference arising from translation of foreign operations  | —                                     | (126)          | —                  | (126)           | —         | (126)     |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2009

|  | Attributable to owners of the Company |                |                  |                  | Non-             |                  |
|--|---------------------------------------|----------------|------------------|------------------|------------------|------------------|
|  | Share                                 | Other          | Accumulated      | Total            | controlling      | Total            |
|  | capital                               | reserves       | losses           |                  | interests        |                  |
|  | RMB'000                               | RMB'000        | RMB'000          | RMB'000          | RMB'000          | RMB'000          |
| Total comprehensive income and expense for the period                          | —                                     | (126)          | 57,222           | 57,096           | 22,323           | 79,419           |
| Acquisition of additional interests in subsidiaries from minority shareholders | —                                     | (7,198)        | —                | (7,198)          | (73,097)         | (80,295)         |
| At 31 December 2008 (audited)  | 1,941,174                             | 716,408        | (366,435)        | 2,291,147        | 1,103,137        | 3,394,284        |
| Loss for the period  | —                                     | —              | (120,390)        | (120,390)        | (69,162)         | (189,552)        |
| Exchange difference arising from translation of foreign operations             | —                                     | 28             | —                | 28               | —                | 28               |
| Total comprehensive income and expense for the period                          | —                                     | 28             | (120,390)        | (120,362)        | (69,162)         | (189,524)        |
| Dividends paid to minority shareholders of certain subsidiaries                | —                                     | —              | —                | —                | (3,555)          | (3,555)          |
| At 30 June 2009 (unaudited)  | <u>1,941,174</u>                      | <u>716,436</u> | <u>(486,825)</u> | <u>2,170,785</u> | <u>1,030,420</u> | <u>3,201,205</u> |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2009

|   | <b>Six months ended 30 June</b> |                       |
|---|---------------------------------|-----------------------|
|   | <b>2009</b>                     | 2008                  |
|   | <b>RMB'000</b>                  | RMB'000               |
|   | <b>(Unaudited)</b>              | (Unaudited)           |
| Net cash from operating activities        | <b>216,493</b>                  | 615,121               |
| Net cash used in investing activities     | <b>(61,783)</b>                 | (21,763)              |
| Net cash used in financing activities     | <b>(45,231)</b>                 | (316,140)             |
| Net increase in cash and cash equivalents | <b>109,479</b>                  | 277,218               |
| Cash and cash equivalents at 1 January    | <b>457,415</b>                  | 363,617               |
| Effect of foreign exchange rate changes   | <b>28</b>                       | —                     |
| Cash and cash equivalents at 30 June      | <b><u>566,922</u></b>           | <b><u>640,835</u></b> |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 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. 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.

On 17 August 2007, the Company and IRICO Group Corporation entered into an acquisition agreement for the purchase of 69.5308% equity interests in Shaanxi IRICO Electronics Glass Company Limited ("IRICO Glass"), a limited liability company established in the PRC, for which 69.5308% equity interests was held by IRICO Group Corporation prior to the acquisition. Pursuant to the acquisition agreement, the Company will acquire IRICO Glass at a consideration of approximately RMB279,580,000. On 19 June 2008, approval was obtained from the Stated-owned Assets Supervision and Administration Commission ("SASAC") and the consideration had been adjusted to RMB313,583,900. The transaction was completed on 24 July 2008 and IRICO Glass became a non-wholly owned subsidiary of the Company.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**1. GENERAL INFORMATION (Continued)**

The above acquisition was accounted for using merger accounting under common control combination. The Company and IRICO Glass are both under the control of IRICO Group Corporation, and thus regarded as different entities under common control. These interim financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), assuming that the current structure of the Group has been in existence since the date when the Company and IRICO Glass first came under the control of IRICO Group Corporation.

**2. BASIS OF PREPARATION**

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provision of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 2009

**3. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated interim financial statements have 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 2008.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretation (new "HKFRS") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2009.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

Improvements to HKFRSs May 2008

Improvements to HKFRSs April 2009

HKFRS 2 Share-based Payment - Vesting Conditions and Cancellations

HKFRS 7 Financial Instruments: Disclosure

HKFRS 8 Operating Segments

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 23 Borrowing Costs (Revised)

HKAS 32 Financial Instruments: Presentation and HKAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

HK(IFRIC) 13 Customer Loyalty Programmes

HK(IFRIC) 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement

HK(IFRIC) 16 Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRS had no material effect on how the results and financial position for the current or prior accounting periods have been 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 2009

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

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

|   |  |
|---|--|
| HKFRSs (Amendments)   | Improvements to HKFRSs May 2008 <sup>1</sup>   |
| HKFRSs (Amendments)   | Improvements to HKFRSs April 2009 <sup>2</sup>   |
| HKAS 27 (Revised)   | Consolidated and Separate Financial Statements <sup>3</sup>                            |
| HKAS 39 (Amendment)   | Eligible hedged items <sup>3</sup>   |
| HKFRS 1 (Revised)   | First-time Adoption of HKFRS <sup>3</sup>  |
| HKFRS 2 (Amendments)  | Share-based Payment - Group Cash-Settled Share-based Payment Transactions <sup>6</sup> |
| HKFRS 3 (Revised)   | Business Combinations <sup>3</sup>   |
| HK(IFRIC) - Interpretation ("INT") 9 and HKAS 39 (Amendments) | Embedded Derivatives <sup>4</sup>  |
| HK(IFRIC) - INT 17  | Distributions of Non-cash Assets to Owners <sup>3</sup>                                |
| HK(IFRIC) - INT 18  | Transfer of Assets from Customers <sup>5</sup>   |

<sup>1</sup> *Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 July 2009.*

<sup>4</sup> *Effective for annual periods ending on or after 30 June 2009.*

<sup>5</sup> *Effective for transfers of assets from customers received on or after 1 July 2009.*

<sup>6</sup> *Effective for annual periods beginning on or after 1 January 2010.*

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

*FOR THE SIX MONTHS ENDED 30 JUNE 2009*

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

The application 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. The directors of the Company anticipate that the application of the other revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 4. SUMMARY OF THE EFFECTS FOR COMMON CONTROL COMBINATION

The effect of changes in accounting policies resulted from the adoption of common control combination for prior period by line items are as follows:

|                                     | <b>Six months ended 30 June<br/>2008</b> |
|-------------------------------------|--|
|                                     | <i>RMB'000</i>                           |
| Increase in administrative expenses | (1,946)                                  |
| Decrease in profit for the period   | <u>(1,946)</u>                           |
| Attributable to:                    |  |
| Owners of the Company               | (1,353)                                  |
| Non-controlling interests           | <u>(593)</u>                             |
|                                     | <u>(1,946)</u>                           |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 4. SUMMARY OF THE EFFECTS FOR COMMON CONTROL COMBINATION *(Continued)*

The effects of changes in accounting policies resulted from the adoption of common control combination on the Group's equity at 1 January 2008 are summarised below:

|                           | As at<br>1 January<br>2008<br>(originally<br>stated) | Adjustments    | As at<br>1 January<br>2008<br>(restated) |
|---------------------------|--|----------------|--|
|                           | <i>RMB'000</i>                                       | <i>RMB'000</i> | <i>RMB'000</i>                           |
| Accumulated losses        | (459,911)  | (1,848)        | (461,759)                                |
| Non-controlling interests | 1,052,738  | 118,020        | 1,170,758                                |
|                           | <hr/>  | <hr/>          | <hr/>                                    |
| Total effect on equity    | <u>592,827</u>                                       | <u>116,172</u> | <u>708,999</u>                           |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 4. SUMMARY OF THE EFFECTS FOR COMMON CONTROL COMBINATION *(Continued)*

The effects of the adoption of common control combination on the Group's basic earnings per share for the current and prior periods:

|  | <b>Six months ended 30 June<br/>2008</b> |
|--|--|
| Expressed in RMB per share                           | <i>RMB</i>                               |
| Reported figures before adjustments                  | 2.03 cents                               |
| Adjustments arising on common<br>control combination | <u>(0.07 cents)</u>                      |
| Restated   | <u><u>1.96 cents</u></u>                 |



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

*FOR THE SIX MONTHS ENDED 30 JUNE 2009*

**5. 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. On first-time adoption of HKFRS 8 “Operating segments”, the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting.

The Group’s revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the production and sales of CPTs and CPT-related components. The directors consider that there is only one business segment for the Group.

The Group’s principal market is in the PRC. The direct exports sales made by the Group contributed to less than 10% of the total revenues and results of the Group. Accordingly, no geographical segment is presented.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 6. FINANCE COSTS

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2009</b>                     | 2008        |
|   | <b>RMB'000</b>                  | RMB'000     |
|   | <b>(Unaudited)</b>              | (Unaudited) |
| Interest on:  |                                 |             |
| Bank borrowings wholly repayable within five years  | <b>20,596</b>                   | 25,144      |
| Bank borrowings wholly repayable over five years    | <b>5,033</b>                    | —           |
| Finance charge on discounted trade bills to bank    | <b>399</b>                      | 3,313       |
| Amount due to ultimate holding company (note 16(c)) | <b>3,562</b>                    | 809         |
|   | <hr/>                           | <hr/>       |
| Total borrowing costs                               | <b>29,590</b>                   | 29,266      |
| Less: amounts capitalised                           | <b>(11,167)</b>                 | —           |
|   | <hr/>                           | <hr/>       |
|   | <b>18,423</b>                   | 29,266      |
|   | <hr/> <hr/>                     | <hr/> <hr/> |

Borrowing costs capitalised during the period arose on certain bank borrowings and are calculated at the interest rate of 7.01% per annum (2008: nil) to expenditure on qualifying assets.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 7. (LOSS) PROFIT BEFORE TAXATION

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

|  | <b>Six months ended 30 June</b> |                           |
|--|---------------------------------|---------------------------|
|  | <b>2009</b>                     | 2008                      |
|  | <b>RMB'000</b>                  | RMB'000                   |
|  | <b>(Unaudited)</b>              | (Restated)<br>(Unaudited) |
| Amortisation of intangible assets                  | <b>718</b>                      | 1,359                     |
| Amortisation of leasehold land and land use rights | <b>946</b>                      | 944                       |
| Depreciation of property, plant and equipment      | <b>119,003</b>                  | 123,123                   |
| Depreciation of investment property                | <b>390</b>                      | 110                       |
| Cost of inventories recognised as an expense       | <b>772,908</b>                  | 1,689,580                 |
| Employee benefit expenses                          | <b>232,146</b>                  | 246,064                   |
| Research and development costs                     | <b>9,635</b>                    | 13,017                    |
| Provision for warranty                             | <b>8,852</b>                    | 11,730                    |
| Impairment losses on trade and other receivables   | —                               | 83                        |
| Impairment losses on property, plant and equipment | —                               | 235                       |
| Operating lease expenses                           | <b>24,591</b>                   | 24,572                    |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 7. (LOSS) PROFIT BEFORE TAXATION *(Continued)*

(Loss) profit before taxation has been arrived at after charging (crediting):  
*(Continued)*

|   | <b>Six months ended 30 June</b> |                           |
|---|---------------------------------|---------------------------|
|   | <b>2009</b>                     | 2008                      |
|   | <b>RMB'000</b>                  | RMB'000                   |
|   | <b>(Unaudited)</b>              | (Restated)<br>(Unaudited) |
| Allowance for inventories<br>(included in cost of sales)      | <b>55,775</b>                   | 8,467                     |
| Share of tax of associates                                    | <b>32</b>                       | 59                        |
| Net loss on disposal of property,<br>plant and equipment      | <b>1,907</b>                    | 1,342                     |
| Reversal of impairment loss on<br>trade and other receivables | <b>(131)</b>                    | —                         |
| Bank interest income  | <b>(1,150)</b>                  | (1,928)                   |
| Dividend income from<br>available-for-sale investment         | —                               | (4,510)                   |
| Gain on disposal of<br>available-for-sale investment          | —                               | (3,792)                   |
|   | <b>—————</b>                    | <b>—————</b>              |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 8. TAXATION

|                        | Six months ended 30 June |             |
|------------------------|--------------------------|-------------|
|                        | 2009                     | 2008        |
|                        | <b>RMB'000</b>           | RMB'000     |
|                        | <b>(Unaudited)</b>       | (Unaudited) |
| Current PRC income tax | <b>1,314</b>             | 4,391       |
| Deferred income tax    | <b>(1,344)</b>           | —           |
|                        | <b>(30)</b>              | 4,391       |

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor derived from Hong Kong for the two periods ended 30 June 2009 and 2008.

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 25% (2008: 25%) 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 2009 except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the six months ended 30 June 2009 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 2009***8. 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%. From 10 September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

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.

**9. DIVIDEND**

The directors do not recommend the payment of any interim dividend for the period ended 30 June 2009 (Period ended 30 June 2008: nil).

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

*FOR THE SIX MONTHS ENDED 30 JUNE 2009*

**10. (LOSS) EARNINGS PER SHARE**

The calculations of basic (loss) earnings per share are based on the Group's loss attributable to owners of the Company of approximately RMB120,390,000 (Period ended 30 June 2008: profit of approximately RMB38,102,000) and the weighted average number of approximately 1,941,174,000 (Period ended 30 June 2008: 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 2009 and 2008 and accordingly no diluted (loss) earnings per share is presented.

**11. CAPITAL EXPENDITURE**

During the period ended 30 June 2009, the Group spent approximately RMB39,093,000 (Period ended 30 June 2008: RMB15,236,000) on additions for property, plant and equipment and RMB25,401,000 (Period ended 30 June 2008: nil) on additions of leasehold land and land use rights. There were no additions for investment property and intangible assets for both periods ended 30 June 2009 and 2008.

As at 30 June 2009, bank borrowings of the Group amounting to RMB206,000,000 (31 December 2008: RMB256,000,000) were secured by the Group's buildings and machineries of approximately RMB181,688,000 (31 December 2008: RMB186,330,000), by the Group's leasehold land and land use rights of approximately RMB19,451,000 (31 December 2008: RMB19,763,000) and by the Group's trade and bills receivables of approximately RMB83,612,000 (31 December 2008: RMB150,201,000).

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 12. TRADE AND BILLS 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 RMB43,679,000 (31 December 2008: RMB43,810,000)) at the balance sheet date:

|                   | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|-------------------|---|---|
| 0 - 90 days       | <b>445,231</b>                                      | 329,282                                     |
| 91 - 180 days     | <b>155,960</b>                                      | 50,370                                      |
| 181 - 365 days    | <b>29,079</b>                                       | 32,378                                      |
| Over 365 days     | <b>17,251</b>                                       | 5,157                                       |
|                   | <b>647,521</b>                                      | 417,187                                     |
| Bills receivables | <b>153,551</b>                                      | 778,544                                     |
|                   | <b>801,072</b>                                      | 1,195,731                                   |



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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 13. TRADE AND BILLS PAYABLES

At the end of the reporting period, the ageing analysis of trade payables was as follows:

|                | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|----------------|---|---|
| 0 - 90 days    | <b>335,103</b>                                      | 412,329                                     |
| 91 - 180 days  | <b>48,726</b>                                       | 33,346                                      |
| 181 - 365 days | <b>92,561</b>                                       | 1,466                                       |
| Over 365 days  | <b>7,558</b>  | 12,531                                      |
|                | <b>483,948</b>                                      | 459,672                                     |
| Bills payables | <b>60</b>   | 100,230                                     |
|                | <b>484,008</b>                                      | 559,902                                     |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**14. BANK BORROWINGS**

|           | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|-----------|---|---|
| Secured   | <b>206,000</b>                                      | 256,000                                     |
| Unsecured | <b>773,621</b>                                      | 735,707                                     |
|           | <b><u>979,621</u></b>                               | <b><u>991,707</u></b>                       |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 14. BANK BORROWINGS (Continued)

|   | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---|---|---|
| The bank and other borrowings are repayable as follows:           |   |   |
| Within one year or on demand                                      | <b>606,000</b>                                      | 673,000                                     |
| More than one year, but not exceeding two years                   | <b>177,328</b>                                      | 37,338                                      |
| More than two years, but not exceeding five years                 | <b>86,983</b>                                       | 112,014                                     |
| More than five years  | <b>109,310</b>                                      | 169,355                                     |
|   | <b>979,621</b>                                      | 991,707                                     |
| Less: Amounts due within one year shown under current liabilities | <b>(606,000)</b>                                    | (673,000)                                   |
|   | <b>373,621</b>                                      | 318,707                                     |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***FOR THE SIX MONTHS ENDED 30 JUNE 2009***14. BANK BORROWINGS (Continued)**

During the period, the Group obtained new bank loans amounting to RMB401,000,000. The bank borrowings carry interests ranging from 4.18% to 7.84% (31 December 2008: 5.31% to 7.84%) per annum. The loans raised during the period were used to finance the operations of the Group.

As at 30 June 2009, bank borrowings of RMB206,000,000 (31 December 2008: RMB256,000,000) were secured by leasehold land and land use rights, buildings and machineries of the Group, and bank borrowings of approximately RMB209,000,000 (31 December 2008: RMB109,000,000) were guaranteed by the Company's ultimate holding company.

As at 30 June 2009, included in the unsecured bank borrowings were RMB145,000,000 (31 December 2008: RMB238,000,000), representing unguaranteed bank borrowings which were secured by certain land and buildings with carrying amount of approximately RMB173,367,000 (31 December 2008: RMB180,447,000) of the Company's ultimate holding company. In addition to the above securities, 37.5% of the issued shares of the Company held by the ultimate holding company were pledged against the borrowing granted to the Group during both periods.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**15. SHARE CAPITAL**

|                                       | <b>Number of<br/>shares</b> | <b>Amount<br/>RMB'000</b> |
|---------------------------------------|-----------------------------|---------------------------|
| <hr/>                                 |                             |                           |
| Issued and fully paid:                |                             |                           |
| Domestic shares of RMB1 each          | 1,455,880,000               | 1,455,880                 |
| H shares of RMB1 each                 | <u>485,294,000</u>          | <u>485,294</u>            |
| At 1 January 2009 and<br>30 June 2009 | <u><u>1,941,174,000</u></u> | <u><u>1,941,174</u></u>   |
| <hr/>                                 |                             |                           |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***FOR THE SIX MONTHS ENDED 30 JUNE 2009***16. RELATED PARTY TRANSACTIONS**

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are 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.

IRICO Group Corporation 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 purpose of related 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 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

The following transactions were carried out with related parties:

#### (a) Sales of goods

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2009                     | 2008        |
|   | RMB'000                  | RMB'000     |
|   | (Unaudited)              | (Unaudited) |
| Sales of goods (note i)   |                          |             |
| The IRICO Group   |                          |             |
| — Shenzhen Hongyang Industry & Trade Company  | 3,800                    | 5,132       |
| — The utilities plant of the ultimate holding company   | —                        | 2,021       |
| — Xianyang IRICO Thermoelectricity Co., Ltd.  | —                        | 1,791       |
| — Caihong Labour Services Company   | 51                       | 1,773       |
| — Shannxi IRICO Photo Electronic Material Corporation (previously known as Shaanxi IRICO General Service Corporation) | 99                       | 235         |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS *(Continued)*

The following transactions were carried out with related parties:  
*(Continued)*

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

|  | Six months ended 30 June |                  |
|--|--------------------------|------------------|
|  | 2009                     | 2008             |
|  | RMB'000                  | RMB'000          |
|  | (Unaudited)              | (Unaudited)      |
| — The ultimate holding company                     | 1,284                    | 214              |
| — Shannxi IRICO Construction Engineering Co., Ltd. | —                        | 2                |
| — IRICO Colour Picture Tube Plant                  | 133                      | —                |
|  | <u>5,367</u>             | <u>11,168</u>    |
| Other state-controlled entities                    | <u>312,344</u>           | <u>1,001,640</u> |

*Note:*

- (i) *Sales to related parties were conducted with terms mutually agreed by both contractual parties.*



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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

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

|  | Six months ended 30 June   |                     |
|--|----------------------------|---------------------|
|  | 2009                       | 2008                |
|  | <b>RMB'000</b>             | <b>RMB'000</b>      |
|  | <b>(Unaudited)</b>         | <b>(Unaudited)</b>  |
| <hr/>  |                            |                     |
| Purchases of goods from the<br>IRICO Group (note (i))    |                            |                     |
| — Shannxi IRICO Photo Electronic<br>Material Corporation | <b>11,472</b>              | 31,136              |
| — Caihong Labour Services Company                        | <b>18,522</b>              | 29,613              |
| — Xianyang Cailian Packaging Materials<br>Co., Ltd.      | <b>16,587</b>              | 17,684              |
| — Shenzhen IRICO Electronics Co. Ltd.                    | —                          | 4,591               |
| — Xianyang Caihong Adhesive Belt Co., Ltd.               | <b>580</b>                 | 2,025               |
| — Shenzhen Hongyang Industry &<br>Trade Company          | <b>9,577</b>               | 86                  |
| — the ultimate holding company                           | <b>107,017</b>             | —                   |
|  | <hr/> <b>163,755</b> <hr/> | <hr/> 85,135 <hr/>  |
| Other state-controlled entities                          | <b>134,557</b>             | 214,187             |
|  | <hr/> <b>134,557</b> <hr/> | <hr/> 214,187 <hr/> |
| Purchases of property, plant and equipment:              |                            |                     |
| Other state-controlled entities                          | —                          | 6,078               |
|  | <hr/> <b>—</b> <hr/>       | <hr/> 6,078 <hr/>   |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

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

|  | Six months ended 30 June       |                                |
|--|--------------------------------|--------------------------------|
|  | 2009<br>RMB'000<br>(Unaudited) | 2008<br>RMB'000<br>(Unaudited) |
| Provision of services from the IRICO Group   |                                |                                |
| — Utility charges to the utilities plant of the ultimate holding company (note (ii)) | 45,063                         | 210,772                        |
| — Utility charges to the IRICO Color Picture Tube Plant                              | 9,974                          | —                              |
| — Network fee to the ultimate holding company  | 144                            | —                              |
| — Rental expense to the ultimate holding company (note (iii))                        | 18,207                         | 18,434                         |
| — Trademark license fee to the ultimate holding company (note (iv))                  | 569                            | 3,433                          |
| — Social and ancillary service expense to the ultimate holding company (note (v))    | 252                            | 535                            |
| — Xianyang Cailian Packing Materials Co., Ltd.                                       | —                              | 127                            |
|  | <u>74,209</u>                  | <u>233,301</u>                 |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

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

*Notes:*

- (i) *Purchases from related parties were conducted 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 2009 and 2008.*
- (iii) *From 1 January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the six months ended 30 June 2009 amounted to RMB18,207,000 (2008: RMB18,434,000).*

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**16. 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 2009

### 16. RELATED PARTY TRANSACTIONS *(Continued)*

#### (c) Balance with ultimate holding company

- (i) Loans from the ultimate holding company

|  | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|---|---|
| Included in other payables<br>and accruals | <b><u>111,663</u></b>                               | <b><u>121,663</u></b>                       |

Loans from the ultimate holding company were unsecured and bear interests at 5.31% to 8.22% (31 December 2008: 7.47% to 8.22%) per annum and were repayable on demand. The interest expense paid to the ultimate holding company during the period amounted to RMB3,562,000 (Period ended 30 June 2008: RMB809,000).

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

**(c) Balance with ultimate holding company (Continued)**

(ii) Amount due from the ultimate holding company

|  | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|---|---|
| Included in other receivables,<br>deposits and prepayments | <u><b>5,148</b></u>                                 | <u>36,623</u>                               |

The balances are unsecured, interest-free and repayable on demand.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balance with ultimate holding company (Continued)

(iii) Amount due to the ultimate holding company

|  | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|---|---|
| Included in other payables<br>and accruals | <b><u>215,423</u></b>                               | <b><u>215,460</u></b>                       |

The balances are unsecured, interest-free and repayable on demand.

(iv) Director's emolument borne by the ultimate holding company

Three non-executive directors of the Company, Mr. Fu Jiuquan, Mr. Zhang Werchuan and Mr. Niu Xinan (31 December 2008: Mr. Fu Jiuquan, Mr. Zhang Weichuan, Mr. Niu Xinan and Mr. Zhang Xingxi), whose emolument are borne by the Group's ultimate holding company, IRICO Group.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balance with ultimate holding company (Continued)

- (v) Guarantees granted or assets pledged by the ultimate holding company

As at 30 June 2009 and 31 December 2008, 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 14).

As at 30 June 2009 and 31 December 2008, the ultimate holding company had pledged its 37.5% equity interests in the Company for certain bank borrowings granted to the Group (Note 14).

#### (d) Amount due to a fellow subsidiary

|   | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---|---|---|
| Included in other payables and accruals |   |   |
| Rui Bou Electronics (HK) Limited        | <b>69,278</b>                                       | 69,188                                      |

The balance is unsecured, interest-free and repayable on demand.



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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS *(Continued)*

#### (e) Key management compensation

|  | Six months ended 30 June |              |
|--|--------------------------|--------------|
|  | 2009                     | 2008         |
|  | <b>RMB'000</b>           | RMB'000      |
|  | <b>(Unaudited)</b>       | (Unaudited)  |
| Salaries and other short-term<br>employee benefits | 732                      | 1,021        |
| Retirement benefit<br>contributions                | 58                       | 75           |
|  | <u>790</u>               | <u>1,096</u> |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

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

|   | 30 June<br>2009<br>RMB'000<br>(Unaudited) | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---|---|---|
| Trade receivables from related parties (note):  |   |   |
| The IRICO Group   |   |   |
| — Shannxi IRICO Photo Electronic Material Corporation (previously known as Shaanxi IRICO General Service Corporation) | 282                                       | 22  |
| — Xianyang IRICO Construction Engineering Co., Ltd  | —   | 5   |
| — Xianyang IRICO Digital Display Co., Limited   | —   | 3,733                                       |
| — Shenzhen Hongyang Industry & Trade Company  | 1,210                                     | —   |
| — The ultimate holding company  | 31  | —   |
| — IRICO Colour Picture Tube Plant   | 5   | —   |
| — Caihong Labour Service Company  | 2   | —   |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (f) Balances arising from sales / purchases of goods / provision of services (Continued)

|                                 | 30 June<br>2009<br>RMB'000<br>(Unaudited) | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---------------------------------|---|---|
| Other state-controlled entities | 1,530<br><b>469,296</b>                   | 3,760<br>362,072                            |
|                                 | <b>470,826</b>                            | <b>365,832</b>                              |
| Representing:                   |   |   |
| Trade receivables               | <b>382,757</b>                            | 190,341                                     |
| Bills receivables               | <b>88,069</b>                             | 175,491                                     |
|                                 | <b>470,826</b>                            | <b>365,832</b>                              |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (f) Balances arising from sales / purchases of goods / provision of services (Continued)

|  | 30 June<br>2009<br>RMB'000<br>(Unaudited) | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|---|---|
| Trade payables to related parties (note (i)):            |   |   |
| The IRICO Group  |   |   |
| — Shannxi IRICO Photo Electronic<br>Material Corporation | 2,039                                     | 8,448                                       |
| — Caihong Labour Service Company                         | 3,013                                     | 3,720                                       |
| — Xianyang Cailian Package Material<br>Co. Ltd.          | 18,576                                    | 14,942                                      |
| — Shenzhen Caihong Electronics<br>Co. Ltd.               | —   | 1,209                                       |
| — The ultimate holding company                           | 8,041                                     | 23  |
| — Xianyang Caihong Adhesive Belt<br>Co., Ltd.            | 1,318                                     | 525   |
| — Shenzhen Hongyang Industry &<br>Trade Company          | 6,089                                     | 361   |
| — IRICO Hospital   | —   | 231   |
| — Color Picture Tube Plant                               | —   | 4,261                                       |
| — Xianyang IRICO Digital Display<br>Co., Limited         | 6,550                                     | 7,108                                       |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (f) Balances arising from sales / purchases of goods / provision of services (Continued)

|                                 | 30 June<br>2009<br>RMB'000<br>(Unaudited) | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---------------------------------|---|---|
| Other state-controlled entities | 45,626                                    | 40,828                                      |
|                                 | <u>57,099</u>                             | <u>66,716</u>                               |
|                                 | <b><u>102,725</u></b>                     | <b><u>107,544</u></b>                       |
| Representing:                   |   |   |
| Trade payables                  | 102,725                                   | 70,012                                      |
| Bills payables                  | —   | 37,532                                      |
|                                 | <u>102,725</u>                            | <u>107,544</u>                              |
|                                 | <b><u>102,725</u></b>                     | <b><u>107,544</u></b>                       |

Note:

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

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (g) Bank balances in and borrowings from state-controlled banks

|  | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b>                  | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|--|---|
| Bank balances in<br>state-controlled banks     | <u><b>282,737</b></u>  | <u>306,129</u>                              |
| Bank borrowings from<br>state-controlled banks | <u><b>979,621</b></u>  | <u>912,707</u>                              |
|  | <b>Six months ended 30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 2008<br>RMB'000<br>(Unaudited)              |
| Interest income from<br>state-controlled banks | <u><b>683</b></u>  | <u>1,791</u>                                |
| Interest expense to<br>state-controlled banks  | <u><b>24,791</b></u>   | <u>25,781</u>                               |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 17. COMMITMENTS

Capital commitments at the end of the reporting period is as follows:

|   | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|---|---|---|
| Contracted for but not provided for             |   |   |
| Investment in an associate                      | <b>7,200</b>  | 7,200                                       |
| Acquisition of property,<br>plant and equipment | <b>78,475</b>                                       | 4,104                                       |
|   | <b><u>85,675</u></b>                                | <b><u>11,304</u></b>                        |

#### 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<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|-----------------|---|---|
| Within one year | <b><u>41,345</u></b>                                | <b><u>82,689</u></b>                        |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 17. COMMITMENTS (Continued)

#### As lessor

At the balance sheet date, investment properties are 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 2009 is 9.8% (31 December 2008: 17.6%). The Group had contracted with tenants for the following future minimum lease payments:

|  | <b>30 June<br/>2009<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2008<br>RMB'000<br>(Audited) |
|--|---|---|
| Within one year                        | <b>859</b>  | 1,004                                       |
| In the second to fifth years inclusive | <b>969</b>  | 1,081                                       |
| Over five years                        | <b>535</b>  | 773   |
|  | <b><u>2,363</u></b>                                 | <u>2,858</u>                                |



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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 18. PLEDGE OF ASSETS

At 30 June 2009, certain assets of the Group were pledged to secure bank borrowings granted to the Group as follows:

|                                    | <b>30 June<br/>2009<br/>RMB'000</b> | 31 December<br>2008<br>RMB'000 |
|------------------------------------|-------------------------------------|--------------------------------|
| Property, plant and equipment      | <b>181,688</b>                      | 186,330                        |
| Leasehold land and land use rights | <b>19,451</b>                       | 19,763                         |
| Trade and bills receivables        | <b>83,612</b>                       | 150,201                        |
|                                    | <b><u>284,751</u></b>               | <u>356,294</u>                 |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***FOR THE SIX MONTHS ENDED 30 JUNE 2009***19. MATERIAL LITIGATION****The litigation of The Fanshawe College of Applied Arts and Technology (hereafter referred as “Fanshawe College”) against IRICO Display.**

As set out in the announcement published on the Shanghai Stock Exchange on 7 July 2009 by IRICO Display, IRICO Display received a statement of claim from Ontario Superior Court of Justice Canada in respect of the litigation brought by Fanshawe College.

Fanshawe College, the plaintiff, accused approximately 30 global CRT manufacturers, including IRICO Display, of a conspiracy to maintain, control and stabilize the price of CRT since 1 January 1998, and a collusion to manipulate the market and enter into agreements raising the price of CRT products to an unreasonable level. All these coerced the plaintiff and the public to pay an artificially high price for the CRT products which caused damage to their interests. Hence, the parties filed a claim for damages. Ontario Superior Court of Justice Canada has accepted this claim but there is no judgment or ruling yet.

Upon inspection of IRICO Display, it has never sold CRT products in the Canadian market directly or via agency since 1998. IRICO Display’s preliminary assessment is that the litigation will not pose any negative impact on its normal business operation.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**19. MATERIAL LITIGATION (Continued)**

The Company has also recently received a statement of claim from Fanshawe College, the content and the subject of proceedings of which are basically consistent with the above statement of claim. Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1998. The Company considers that the litigation will not pose any negative impact on its normal business operation.

In the opinion of the directors of the company, the above case did not have any material impact on the Group's interim financial statement for the six months ended 30 June 2009.

**20. EVENTS AFTER THE REPORTING PERIOD**

**(a) Further capital injection into IRICO Phosphor Material Co., Limited ("IRICO Phosphor")**

On 3 July 2009, the Company entered into a Capital Injection Agreement with IRICO Phosphor, pursuant to which the Company has agreed to inject further capital amount of RMB 5 million by way of cash contribution into IRICO Phosphor, a non-wholly owned subsidiary of the Company. The other shareholder of IRICO Phosphor will not inject any further capital into IRICO Phosphor at the time of capital injection.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***FOR THE SIX MONTHS ENDED 30 JUNE 2009***20. EVENTS AFTER THE REPORTING PERIOD (Continued)****(a) Further capital injection into IRICO Phosphor Material Co., Limited ("IRICO Phosphor") (Continued)**

Immediately prior to the completion of the capital injection, the Company and IRICO (HK) (a wholly-owned subsidiary of the Company) are interested in the equity interests of IRICO Phosphor as to 45% and 30% respectively. The Company's effective equity interest in IRICO Phosphor is therefore 75%.

Immediately following the completion of the capital injection, the Company's equity interest in IRICO Phosphor will increase to approximately 47.9% and the equity interests in IRICO Phosphor held by IRICO (HK) will be diluted to approximately 28.42%. Thus, the Company's effective equity interest in IRICO Phosphor will increase to 76.32%.

Pursuant to the capital injection agreement, the transaction would be completed after the issue of the revised corporate certificate.

Since IRICO Phosphor is already consolidated into the Group during the period, the above transaction of further capital injection resulted only in a change in non-controlling interest.

Details of which are set out in the Company's announcement dated 3 July 2009.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2009

**20. EVENTS AFTER THE REPORTING PERIOD (Continued)**

**(b) Reduction of shareholding in IRICO Display Devices Co., Ltd. ("IRICO Display")**

On 14 July 2009, the Company has sold on the exchange 4 million of its unrestricted tradable shares held in IRICO Display, resulting in the decrease of its shareholding in IRICO Display by approximately 0.95%.

Prior to the reduction in shareholding, a total of 174,515,652 shares of IRICO Display were held by the Company, representing approximately 41.44% of the total issued share capital of IRICO Display. Out of those shares held in IRICO Display by the Company, 140,678,212 shares were restricted tradable shares and the remaining 33,837,440 shares were unrestricted tradable shares.

Following the reduction of shareholding, the Company holds 170,515,652 shares in IRICO Display, representing approximately 40.49% of the total issued share capital of IRICO Display. The unrestricted tradable shares held by the Company have been reduced to 29,837,440.

Details of which are set out in the Company's announcement dated 14 July 2009.