



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
2012

* For identification purpose 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	9
III. Other Information	19
(i) Share Appreciation Rights Plan	19
(ii) Interests and Short Positions of Directors, Supervisors and Senior Management	20
(iii) Interests and Short Positions of Substantial Shareholders and Other Persons	21
(iv) Audit Committee	22
(v) Independent Non-executive Directors	22
(vi) Corporate Governance Practices	22
(vii) Model Code for Securities Transactions by Directors of Listed Issuers	23
(viii) Purchase, Sale or Redemption of Shares	23
(ix) Employees	23
(x) Public Float	24
(xi) Significant Investments	24
(xii) Material Acquisition and Disposal	24
(xiii) Material Litigations	24
IV. Corporate Information	25
Independent Review Report	28
Condensed Consolidated Statement of Comprehensive Income ..	30
Condensed Consolidated Statement of Financial Position.	32
Condensed Consolidated Statement of Changes in Equity	35
Condensed Consolidated Statement of Cash Flows	37
Notes to the Condensed Consolidated Interim Financial Information	38

I. RESULTS HIGHLIGHTS

	First half of 2012	First half of 2011	Increase/ (decrease)	Percentage change (%)
<i>(RMB'000)</i>				
Turnover	1,223,344	1,455,740	(232,396)	(15.96)
Gross (loss) profit	(17,140)	154,903	(172,043)	(111.06)
Operating (loss) profit	(149,015)	61,782	(210,797)	(341.19)
(Loss) profit before income tax	(230,067)	21,623	(251,690)	(1163.99)
(Loss) profit for the period	(241,773)	11,967	(253,740)	(2120.33)
Attributable to:				
Owners of the Company	(169,518)	56,413	(225,931)	(400.49)
Non-controlling interests	(72,255)	(44,446)	(27,809)	(62.57)
Total comprehensive (expenses) income for the period	(241,129)	15,404	(256,533)	(1665.37)
Attributable to:				
Owners of the Company	(168,874)	59,850	(228,724)	(382.16)
Non-controlling interests	(72,255)	(44,446)	(27,809)	(62.57)
Gearing ratio	64%	51%	13%	—

II. MANAGEMENT DISCUSSION AND ANALYSIS

(i) Conditions of the Industry

1. Solar Photovoltaic Glass

During the reporting period, the continuing robust growth of demand from countries such as the United States, Japan and China largely offset the adverse impact of cutbacks in government subsidies for photovoltaic products by certain European countries, leading to a 45% year-on-year increase in global demand for photovoltaic modules, which reached 12.8GW in the first half of 2012. Driven by this, the solar photovoltaic glass market experienced synchronized growth in the first half of the year. However, due to visible overcapacity resulted from manufacturers' concentrated investment, prices of photovoltaic modules and solar photovoltaic glass remained low in the first half of the year, causing a general downturn of the industry.

Global demand for photovoltaic modules in 2012 is expected to reach 30GW, with the growth rate slowing to 8% year-on-year. Prices of photovoltaic products will remain volatile at low levels in the second half of 2012 and the overall industry dynamics will be roughly similar to the first half of the year. Domestically, photovoltaic companies still face many challenges such as overcapacity in the industry starting from the second half of 2011 and the adverse impact of the anti-dumping and countervailing investigation into Chinese imports of solar products initiated by the US. However, the decrease in prices of photovoltaic products has further enhanced the attractiveness of photovoltaic products and indicated a huge potential for the growth of the solar photovoltaic industry in future.

2. Luminous Materials

With respect to the industry of energy saving lamp phosphors, the imbalance between supply and demand became worse and the competition within the industry was getting fiercer during the reporting period. On one hand, the original suppliers were not running at full capacity while new entrants were putting new production lines into operation gradually, leading to a rapid increase in market supply. On the other hand, the high price of rare earth and European debt crisis prompted a decline in the overall market demand for energy saving lamp phosphors. In addition, LED lamps are increasingly more cost-effective and will have an adverse impact on the industry of energy saving lamps and energy saving lamp phosphors. Looking into the second half of 2012, the energy saving lamp phosphors industry is not expected to see a significant revival of market activity.

In respect of plasma display panel (PDP) phosphor, there are good market opportunities with continuous improvement of PDP technology and acceleration of localization. The application of lithium battery powder in the battery field has been growing rapidly by virtue of its advantages in high capacity, proper platform and good safety performance. As a new material with environmentally friendly, highly efficient and energy saving features, electronic silver paste comes at a cost similar to that of traditional materials, which indicates an increasingly larger scope of application in the electronic information industry in the future.

3. TFT-LCD Glass Substrate

In the first half of 2012, boosted by hot sales of smartphones and tablet computers, global demand for LCD panels maintained a growing momentum. Global demand for LCD glass substrate increased by 9% year-on-year to 170 million m². The oversupply of glass substrate triggered a competition on price among foreign glass substrate manufacturers, leading to a 10% decrease in market price in the first quarter of 2012. Such decline in prices had however slowed in the second quarter. Domestically, market demand for homemade LCD glass substrate grew strongly due to higher tariff for LCD panels and a stable increase in the capacity of newly built panel production lines.

Looking into the second half of the year, global demand for LCD panels is expected to grow steadily and global demand for LCD glass substrate is expected to grow by 11% year-on-year to reach 360 million m² in 2012. Against the backdrop where mainstream manufacturers are reducing production to prop up prices, further decline will be constrained in a narrower range. Domestically, as manufacturers put many advanced generation of panels into production, demand for LCD glass substrate will maintain at high-speed growth. As the domestic glass substrate manufacturers accumulating more experiences and becoming stronger in terms of technology and brand, they will capture more market shares in the second half of the year.

(ii) Business Review

1. Operation Highlights

During the reporting period, IRICO Group Electronic Company Limited* (the "Company") and its subsidiaries (collectively, the "Group") suffered a loss due to the declining product prices of solar photovoltaic glass and luminous materials resulting from the increase in market competition, the continuing contraction of the CRT business as well as the fact that the LCD glass substrates business is still at the stage of trial operation. In the first half of 2012, the Group recorded sales of RMB1,223,344,000, representing a decrease of 16% compared with the corresponding period of last year. Profit attributable to owners of the Company decreased by 400% to a loss of RMB169,518,000, as compared with a profit of RMB56,413,000 for the corresponding period of last year.

2. Business Achievements

(1) Solar Photovoltaic Glass Business

During the reporting period, the Group constantly enhanced the core competitiveness of its solar photovoltaic glass business by integrating resources, cutting costs, improving efficiency, ramping up R&D efforts and stepping up marketing. In the first half of the year, the Xianyang Phase I Project of the solar photovoltaic glass business underwent cold repair for its furnace; the Xianyang Phase II Project was running normally; the Xianyang Phase IV Project saw a successful furnace ignition in June 2012 and began pilot production with its first fine product rolling off the production line in July; the Xianyang Phase III Project and the Hefei Photovoltaic Project were proceeding smoothly, and the Company will, in light of the market conditions, start furnace ignition and pilot production when appropriate.

(2) Luminous Materials Business

In the luminous materials business, in the first half of 2012, the sales of energy saving lamp phosphor dropped due to the unfavorable rare earth policy and low operating rates of energy saving lamp manufacturers. Besides, as a result of the successful marketing for PDP phosphor, electronic silver paste and lithium battery powder, the sales of PDP phosphor and electronic silver paste increased by approximately 11% and 23% respectively; the lithium battery powder business recorded a substantial year-on-year growth and started large-scale production and sales. New production lines with annual production capacity of 100 tonnes of lithium battery powder are expected to be built in the second half of the year and commence its pilot production. The cold cathode fluorescent lamp phosphor (“CCFL phosphor”) for LCD backlight business declined notably due to substitution effects of LED backlight technology. In general, confronted by the complex external environment, the Group further enhanced competitiveness of luminous materials business during the reporting period by constantly improving products, technology and services, optimizing customer structure and stepping up R&D and marketing efforts.

(3) TFT-LCD Glass Substrate Business

During the reporting period, the Group continued to vigorously tackle key technical problems in relation to the TFT-LCD glass substrate business and gradually stabilized production process whilst stepping up marketing and certification and accelerating large scale sales. Optimization and renovation of the equipments of a number of production lines was completed by leveraging advantage of resources and resolving outstanding issues through coordination. Production line CX02 has been successfully completed its tests in June 2012. During the reporting period, the Group sold 152,400 pieces of LCD glass substrate. In the first half of the year, the Group completed the shift from 0.7mm to 0.5mm thick products for its LCD glass substrate production line to meet the market needs.

(4) Display Device Business and Trading of Liquid Crystal Related Products

During the reporting period, the Group took a series of effective measures and made reasonable use of available resources to minimize the impact of the CPT business on the Group's results. Also, the Group achieved better performance on liquid crystal television production and sales business, income increased 45% compared with the corresponding period of last year.

(iii) FINANCIAL REVIEW

1. Overall performance

The overall gross profit margin of the Group decreased from 10.64% for the first half of 2011 to gross loss of 1.40% for the first half of 2012, mainly attributable to the downward product prices of our solar photovoltaic glass and luminous materials businesses which faced fiercer market competition. The profit attributable to owners of the Company decreased by 400% to a loss of approximately RMB169,518,000, as compared with a profit of RMB56,413,000 for the corresponding period of last year, which was mainly attributable to lower profitability as a result of continued contraction of CRT business, and increased competition for the solar photovoltaic glass and luminous materials businesses.

2. Business Results

1) Unaudited profit and loss

	For the six months ended 30 June			
	2012	2011	Increase/ (decrease)	Percentage change (%)
<i>(RMB'000)</i>				
Turnover	1,223,344	1,455,740	(232,396)	(15.96)
Sales of CPTs and components	163,364	330,004	(166,640)	(50.50)
Sales of luminous materials	308,572	483,132	(174,560)	(36.13)
Sales of liquid crystal related products	652,803	451,416	201,387	44.61
Sales of solar photovoltaic glass	86,407	191,188	(104,781)	(54.81)

For the six months ended 30 June

	2012	2011	Increase/ (decrease)	Percentage change (%)
<i>(RMB'000)</i>				
Sales of TFT-LCD glass substrate and display devices	12,198	—	12,198	—
Cost of sales	(1,240,484)	(1,300,837)	(60,353)	(4.64)
Gross (loss) profit	(17,140)	154,903	(172,043)	(111.06)
Operating expenses				
Administrative expenses	(124,033)	(113,090)	10,943	9.68
a) General administrative expenses	(112,321)	(101,386)	10,935	10.79
b) Research and development expenses	(11,712)	(11,704)	8	0.07
Selling and distribution costs	(31,462)	(42,338)	(10,876)	(25.69)
Other operating expenses	(11,242)	(1,402)	9,840	701.85
Operating (loss) profit	(149,015)	61,782	(210,797)	(341.19)
Finance costs	(63,288)	(36,884)	26,404	71.59
(Loss) profit for the period	(241,773)	11,967	(253,740)	(2120.33)
Attributable to:				
Owners of the Company	(169,518)	56,413	(225,931)	(400.49)
Non-controlling interests	(72,255)	(44,446)	(27,809)	(62.57)
Total comprehensive (expenses) income for the period	(241,129)	15,404	(256,533)	(1665.37)

2) Turnover

Turnover by product (RMB'000)

Name	2012	2011	Increase/ (decrease)	Percentage change (%)
CPTs and components	163,364	330,004	(166,640)	(50.50)
Luminous materials	308,572	483,132	(174,560)	(36.13)
Liquid crystal related products	652,803	451,416	201,387	44.61
Solar photovoltaic glass	86,407	191,188	(104,781)	(54.81)
TFT-LCD glass substrate and display device	12,198	—	12,198	—
Total	<u>1,223,344</u>	<u>1,455,740</u>	<u>(232,396)</u>	<u>(15.96)</u>

3. Changes compared with the corresponding period of last year and reasons

1) Turnover and gross profit margin

In the first half of 2012, the Group recorded a turnover of RMB1,223,344,000, representing a decrease of RMB232,396,000, or 15.96% as compared with the corresponding period in 2011. Of which, turnover of the CPTs and components business amounted to RMB163,364,000, representing a decrease of RMB166,640,000 or 50.50% as compared with the corresponding period in 2011; turnover from luminous materials amounted to RMB308,572,000, representing a decrease of RMB174,560,000 or 36.13% as compared with the corresponding period in 2011; turnover from liquid crystal related products amounted to RMB652,803,000, representing an increase of RMB201,387,000 or 44.61% as compared with the corresponding period in 2011; turnover from solar photovoltaic glass amounted to RMB86,407,000, representing a decrease of RMB104,781,000 or 54.81% as compared with the corresponding period in 2011; and turnover from TFT-LCD glass substrate and display device amounted to RMB12,198,000, representing an increase of RMB12,198,000 over the corresponding period in 2011. The Group's overall gross loss margin was 1.4% for the first half of 2012 as compared with the gross profit margin of 10.64% for the first half of 2011, which was mainly attributable to the declining product prices of solar photovoltaic glass and luminous materials resulting from the increase in market competition.

2) Administrative expenses

The Group's administrative expenses for the first half of 2012 increased by RMB10,943,000, or approximately 9.68%, to RMB124,033,000 from RMB113,090,000 for the corresponding period in 2011. The increase in administrative expenses was mainly attributable to the losses resulted from the downtime of CPT and cold repair of Xianyang Phase I of solar photovoltaic glass Project.

3) Finance costs

The Group's finance costs for the first half of 2012 was RMB63,288,000 (net of interest expense capitalised amounting to RMB133,656,000), representing an increase of RMB26,404,000, or approximately 71.59% as compared with RMB36,884,000 for the corresponding period in 2011. The increase in finance cost was mainly attributable to more borrowings for the development of new business.

4. Current assets and financial resources

As at 30 June 2012, the Group's cash and bank balances amounted to RMB1,310,797,000, representing a decrease of RMB769,537,000, or 36.99% from RMB2,080,334,000 as at 31 December 2011. For the half year ended 30 June 2012, the Group's capital expenditures amounted to RMB828,721,000 in total (30 June 2011: RMB1,237,205,000). Net cash used for operating activities amounted to RMB105,569,000 (Net cash from operating activities as at 30 June 2011: RMB24,726,000), while net cash from financing activities and net cash used for investing activities were RMB184,377,000 (30 June 2011: RMB789,668,000) and RMB848,435,000 (30 June 2011: RMB1,661,572,000) respectively.

As at 30 June 2012, the Group's total borrowings amounted to RMB6,201,127,000, of which borrowings due within one year amounted to RMB1,416,045,000 and borrowings with maturity beyond one year amounted to RMB4,785,082,000. As at 31 December 2011, the Group's total borrowings amounted to RMB5,777,233,000, of which borrowings due within one year amounted to RMB1,568,601,000 and borrowings with maturity beyond one year amounted to RMB4,208,632,000. As at 30 June 2012, the Group's bank loans amounting to approximately RMB3,303,139,000 (31 December 2011: RMB3,452,233,000) were secured by certain land and land use rights, buildings and equipments, and bills receivables of the Group.

For the half year ended 30 June 2012, the turnover period for accounts receivable of the Group was 87 days, representing an increase of 17 days from 70 days for the half year ended 30 June 2011. The increase in the turnover days for accounts receivable was mainly attributable to the prolonged collection period of solar photovoltaic glass and luminous materials businesses which faced fiercer market competition. For the half year ended 30 June 2012, the inventory turnover days of the Group decreased by 27 days to 60 days from 87 days for the half year ended 30 June 2011, which was mainly attributable to the effective measures taken by the Group to strengthen inventory control, sales-based production and scientific arrangement of procurement and production, as well as to reduce capital locked by inventories.

5. Capital structure

As at 30 June 2012, 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 intended 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 2012, its total liabilities including bank borrowings and obligations under finance leases amounted to RMB6,331,562,000 in aggregate (as at 31 December 2011: RMB5,937,476,000), its cash and bank balances amounted to RMB1,310,797,000 in aggregate (as at 31 December 2011: RMB2,080,334,000) and its gearing ratio (i.e. total liabilities divided by total assets) was 64% (as at 31 December 2011: 62%).

6. Interim Dividend

As there was no accumulated surplus in the first half of 2012, the Board resolved not to distribute any interim dividends for the six months ended 30 June 2012.

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 2012, the operating costs of the Group decreased by RMB183,000 as a result of exchange rate fluctuations (as at 30 June 2011: increased by RMB3,666,000). There was no material impact on the Group's operating capital or liquidity as a result of exchange rate fluctuations.

8. Commitments

As at 30 June 2012, the capital commitments of the Group amounted to RMB1,989,792,000 (as at 31 December 2011: RMB2,586,802,000).

9. Contingent liabilities

As at 30 June 2012, the Group had no material contingent liability.

10. Pledged assets

As at 30 June 2012, the bank loans of the Group amounted to approximately RMB3,303,139,000, which were secured by certain leasehold land and land use rights, buildings, equipments and bills receivables of the Group.

As at 31 December 2011, the bank loans of the Group amounted to approximately RMB3,452,233,000, which were secured by certain leasehold land and land use rights, buildings, equipments and bills receivables of the Group.

11. Significant Investments and Capital Assets Acquisition Plan and Related Financing Arrangement

- (1) In respect of (i) Very Substantial Disposal and Connected Transaction in relation to the Issue of New A Shares by IRICO Display Device Co., Ltd (“A Share Company”); (ii) Connected Transaction in relation to the Acquisition of Further Equity Interest in IRICO (Foshan) Flat Panel Display Co., Ltd; (iii) Discloseable Transaction in relation to the Capital Injection into IRICO (Foshan) Flat Panel Display Co., Ltd; and (iv) Very Substantial Acquisition in relation to the Capital Injection into IRICO (Foshan) Flat Panel Display Glass Co., Ltd.. The Company intended to subscribe for the New A Shares to be issued by A Share Company at a consideration ranging from RMB100 million to RMB600 million (the “Transactions”).

For details, please refer to the announcement of the Company dated 6 April 2011.

Up to now, no other progress has been made for the Transactions other than that stated below.

On 26 August 2011, as considered and approved by the second Board after the third round of voting in writing, the Company proposed to terminate the IRICO Electronics Subscription Agreement and the subscription for the shares to be issued by the A Share Company by way of non-public offering. Meanwhile, it came to the attention of the Company that IRICO Group Corporation, the controlling shareholder of the Company, decided to adjust the amount for subscription for shares of the A Share Company, by way of non-public offering, from “with an amount ranging from RMB100 million to RMB400 million” to “not less than RMB800 million”. The matters referred to above were subject to consideration by the board of directors of the A Share Company.

For details, please refer to the announcement of the Company dated 26 August 2011.

- (2) Major transaction in relation to the acquisition of a further 30% equity interests in Jiangsu Yongneng Photovoltaic Technology Company Limited.

On 29 September 2011, the Company, Sunlink Power Holdings Co., Ltd., Suzhou Yongjin Investment Co., Ltd. and Suzhou Huilian Solar Energy Technology Co., Ltd (the “Sellers”) and the other existing shareholders of Jiangsu Yongneng Photovoltaic Technology Company Limited entered into the Share Purchase Agreement, pursuant to which, among other things, the Company conditionally agreed to acquire and the Sellers conditionally agreed to sell, an aggregate of 30% equity interest in Jiangsu Yongneng Photovoltaic Technology Company Limited for a total Consideration of RMB105,000,000.

For details, please refer to the announcement of the Company dated 29 September 2011.

As the acquisition is to be further confirmed up to now, additional time is needed to determine the information to be included in the circular.

12. Shares Pledged by Controlling Shareholder

As at 30 June 2012, IRICO Group Corporation (“IRICO Group”), being the Company’s controlling shareholder, was interested in 1,601,468,000 domestic shares of the Company. IRICO Group has pledged 800,734,000 domestic shares of the Company held by it (i.e. 50% of the issued domestic shares of the Company and approximately 35.87% of the total number of issued shares of the Company as at 30 June 2012) to China Development Bank to secure (i) an eight-year loan facility commenced from 9 May 2008 for an amount of USD32,000,000 granted by China Development Bank to IRICO Group and Shaanxi IRICO Electronics Glass Company Limited (“IRICO Glass”), which is a non-wholly-owned subsidiary of the Company; and (ii) an eight-year loan facility commenced from 2 June 2008 for an amount of RMB100,000,000 granted by China Development Bank to IRICO Group and IRICO Glass. The purpose of the above two loans is to facilitate the import of equipments and raw materials for TFT-LCD glass substrate industrialization project to construct a fifth generation TFT-LCD glass substrate production line with a designed production capacity of 750,000m² per annum.

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 2012, details of the share appreciation rights of the Company held by the directors of the Company (the "Directors"), the supervisors of the Company (the "Supervisors") and the senior management of the Company are set out as follows:

Name	Number of the Share Appreciation Rights <i>(shares)</i>	Note
Tao Kui	1,060,000	Director
Zhang Junhua	1,060,000	Director
Guo Mengquan	800,000	Director
Niu Xinan	800,000	Director
Fu Jiuquan	850,000	Director
Zhang Weichuan	800,000	Director
Fu Yusheng	400,000	Supervisor
Tang Haobo	400,000	Supervisor
Zhang Chunling	600,000	Senior Management
Zou Changfu	600,000	Senior Management
Ma Jianchao	400,000	Senior Management
Chu Xiaohang	330,000	Senior Management

(ii) Interests and Short Positions of Directors, Supervisors and Senior Management

Save as disclosed in (1) above, as at 30 June 2012, 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 interests and short positions which any such Directors, Supervisors, chief executive or senior management members was deemed or taken to have under such provisions of the SFO), or which was otherwise required to be recorded in the register 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 shares of the Company (the "Shares") or underlying Shares (as the case may be) as at 30 June 2012 and as entered in the register required to be kept under section 336 of the SFO: IRICO Group had interests in 1,601,468,000 domestic Shares (representing 100% of the domestic share capital of the Company), whereas HKSCC (Nominees) Limited had interests in 629,108,189 H shares of the Company (representing 99.71% of the H share capital). Tao Kui, Guo Mengquan, Zhang Junhua and Fu Jiuquan, each being a Director and concurrently the assistant general manager, the assistant general manager, the assistant general manager and the chief accountant of IRICO Group, respectively.

Notes:

As at 30 June 2012, based on the information available to the Directors and so far as the Directors are aware, HKSCC (Nominees) Limited held 629,108,189 H Shares, among which:

Baystar Capital II, L.P. had beneficial interests in 49,554,000 H Shares (representing approximately 7.85% of the issued H Shares). 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 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 (representing 5.35% of the issued H Shares) 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 4.36% of the share capital of H Shares) on behalf of Pictet Funds Asian Equities (holding interests in 28,504,000 H Shares).

(iv) Audit Committee

In compliance with the provisions set out in the Corporate Governance Code (the “Code”) in Appendix 14 to the Listing Rules, the Company established an audit committee of the Company (the “Audit Committee”).

The Board adopted all contents set out in code provisions C.3.3 of the Code as the terms of reference of the Audit Committee. The Audit Committee has considered and reviewed the accounting standards and methods adopted by the Company and other matters relating to the auditing, internal control and financial reporting, which included the unaudited interim financial statements for the six months ended 30 June 2012.

(v) Independent Non-executive Directors

The Group has complied with the requirements 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 as set out in Rules 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 corporate governance, and is of the opinion that such documents are in compliance with the principles and code provisions as set out in the Code.

The Directors are not aware of any information that would reasonably indicate the non-compliance of the Company or any of the Directors regarding the Code at any time during the period ended 30 June 2012. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code in effect before 1 April 2012 during the period from 1 January 2012 to 31 March 2012, and with those set out in the Code that took effect on 1 April 2012 during the period from 1 April 2012 to 30 June 2012.

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

For the six months period ended 30 June 2012, the Company has adopted a model code for securities transactions by Directors and Supervisors which is no less exacting than the required standard set out in 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 Repurchase of Shares

During the reporting period, the Group had not purchased, sold or repurchased any of the issued Shares in the Company in issue.

(ix) Employees

As at 30 June 2012, the Group had a total of 6,634 employees (excluding service dispatch workers) with various talents, of which, approximately 10.3% were management and administrative personnel, 11.3% were technical personnel, 1% were accounting and audit personnel, 1.3% were sales and marketing personnel and 76.1% were production workers.

The employee and remuneration policies of the Company remain the same as those set out in the Company's prospectus dated 8 December 2004. The Group's dedicated and enthusiastic employees are committed to ensure the high quality and reliability of products and services.

(x) Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the percentage of Shares in public hands at all times during the reporting period was in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

(xi) Significant Investments

During the reporting period, save as disclosed in this report, the Company had not made any significant investment.

(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

As at 30 June 2012, the Directors were not aware of any new litigation or claim of material importance pending or threatened against any member of the Group save as the claims brought by Fanshawe College against the Company and IRICO Display Devices Co., Ltd. ("A Share Company"), claims by Curtis Saunders against the Company and the A Share Company and claims by American Crago Company against the A Share Company as set out in the Company's 2010 annual report dated 11 April 2011.

During the reporting period, there was no update on the pending litigations which were disclosed by the Company previously. In the opinion of the Directors, such cases did not have any material impact on the Group's interim financial statements for the six months ended 30 June 2012. For details of such cases, please refer to the Company's 2010 annual report dated 11 April 2011.

IV. CORPORATE INFORMATION

Executive Directors

Tao Kui *Vice Chairman*

Zhang Junhua *President*

Non-executive Directors

Guo Mengquan

Niu Xinan

Fu Jiuquan

Zhang Weichuan

Independent Non-executive Directors

Xu Xinzong

Feng Bing

Wang Jialu

Lv Hua

Zhong Pengrong

Chief Financial Controller

Ma Jianchao

Joint Company Secretaries

Chu Xiaohang
Lam Chun Lung

Qualified Accountant

Lam Chun Lung

Authorized Representatives

Zhang Junhua
Chu Xiaohang

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

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No. 41 Connaught Road Central,
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Company website

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Legal advisers

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

Auditor

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, 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
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No. 41 Connaught Road Central,
Hong Kong

* *The Chinese translation of the interim financial information is for reference only. In case of any discrepancy between the Chinese translation and the original English version, the latter shall prevail.*

INDEPENDENT REVIEW REPORT



SHINEWING (HK) CPA Limited
43/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay, 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 condensed consolidated interim financial information of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 76, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of these report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

SHINEWING (HK) CPA LIMITED

Certified Public Accountants

Chong Kwok Shing

Practising certificate number: P05139

Hong Kong
27 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Turnover	3	1,223,344	1,455,740
Cost of sales		(1,240,484)	(1,300,837)
Gross (loss) profit		(17,140)	154,903
Other operating income		34,862	67,099
Gain on disposal of a subsidiary	16	—	12,871
Selling and distribution costs		(31,462)	(42,338)
Administrative expenses		(124,033)	(113,090)
Other operating expenses		(11,242)	(1,402)
Finance costs	4	(63,288)	(36,884)
Share of results of associates		(17,764)	(19,536)
(Loss) profit before tax		(230,067)	21,623
Income tax expense	5	(11,706)	(9,656)
(Loss) profit for the period	6	(241,773)	11,967

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Other comprehensive income			
Exchange differences arising on translation		90	1,590
Share of exchange reserve of an associate		554	1,847
Other comprehensive income for the period		644	3,437
Total comprehensive (expense) income for the period		(241,129)	15,404
(Loss) profit for the period attributable to:			
Owners of the Company		(169,518)	56,413
Non-controlling interests		(72,255)	(44,446)
		(241,773)	11,967
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(168,874)	59,850
Non-controlling interests		(72,255)	(44,446)
		(241,129)	15,404
(Loss) earnings per share			
— Basic and diluted	8	RMB(7.59) cents	RMB2.53 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		30 June 2012	31 December 2011
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	9	8,968,172	8,202,921
Investment properties	9	55,058	55,272
Leasehold land and land use rights	9	320,585	324,664
Intangible assets	9	732	870
Interests in associates		334,284	278,394
Available-for-sale investment		24,060	24,060
Deposits paid for acquisition of property, plant and equipment		132,875	196,001
Deposit paid for acquisition of an associate		—	73,500
		9,835,766	9,155,682
Current assets			
Inventories		410,787	402,839
Trade and bills receivables	10	587,123	545,034
Tax recoverable		183	—
Other receivables, deposits and prepayments		1,169,947	1,030,783
Restricted bank balances		60,653	104,716
Bank balances and cash		1,310,797	2,080,334
		3,539,490	4,163,706

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2012

		30 June	31 December
		2012	2011
	<i>NOTES</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Trade and bills payables	11	817,336	819,765
Other payables and accruals		929,632	1,065,524
Tax payables		—	3,733
Bank and other borrowings			
— due within one year	12	1,416,045	1,568,601
Termination benefits		3,623	3,112
Obligations under finance lease		62,958	60,717
		3,229,594	3,521,452
Net current assets		309,896	642,254
Total assets less current liabilities		10,145,662	9,797,936

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2012

		30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
	<i>NOTES</i>		
Capital and reserves			
Share capital	13	2,232,349	2,232,349
Other reserves		1,329,930	1,329,286
Accumulated losses		(1,873,346)	(1,703,828)
Equity attributable to owners of the Company		1,688,933	1,857,807
Non-controlling interests		3,112,639	3,194,371
Total equity		4,801,572	5,052,178
Non-current liabilities			
Bank and other borrowings — due after one year	12	4,785,082	4,208,632
Deferred income		476,518	421,693
Termination benefits		6,673	7,567
Obligations under finance leases		67,477	99,526
Deferred income tax liabilities		8,340	8,340
		5,344,090	4,745,758
		10,145,662	9,797,936

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (Audited)	2,232,349	1,332,716	(1,450,790)	2,114,275	3,623,424	5,737,699
Profit (loss) for the period	—	—	56,413	56,413	(44,446)	11,967
Other comprehensive income for the period	—	3,437	—	3,437	—	3,437
Total comprehensive income (expense) for the period	—	3,437	56,413	59,850	(44,446)	15,404
Released on disposal of a subsidiary	—	—	—	—	(3,450)	(3,450)
Dividend paid to non-controlling interest in a subsidiary	—	—	—	—	(11,254)	(11,254)
	—	—	—	—	(14,704)	(14,704)
Balance at 30 June 2011 (Unaudited)	<u>2,232,349</u>	<u>1,336,153</u>	<u>(1,394,377)</u>	<u>2,174,125</u>	<u>3,564,274</u>	<u>5,738,399</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012 (Audited)	2,232,349	1,329,286	(1,703,828)	1,857,807	3,194,371	5,052,178
Loss for the period	—	—	(169,518)	(169,518)	(72,255)	(241,773)
Other comprehensive income for the period	—	644	—	644	—	644
Total comprehensive income (expense) for the period	—	644	(169,518)	(168,874)	(72,255)	(241,129)
Dividend paid to non-controlling interest in a subsidiary	—	—	—	—	(9,477)	(9,477)
Balance at 30 June 2012 (Unaudited)	<u>2,232,349</u>	<u>1,329,930</u>	<u>(1,873,346)</u>	<u>1,688,933</u>	<u>3,112,639</u>	<u>4,801,572</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(105,569)	24,726
Net cash used in investing activities	(848,435)	(1,661,572)
Net cash from financing activities	184,377	789,668
Net decrease in cash and cash equivalents	(769,627)	(847,178)
Cash and cash equivalents at 1 January	2,080,334	2,698,430
Effect of foreign exchange rate changes	90	1,435
Cash and cash equivalents at 30 June represented by bank balances and cash	<u>1,310,797</u>	<u>1,852,687</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. GENERAL INFORMATION

IRICO Group Electronics Company Limited (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 Company Law of the PRC. The Company’s shares were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 20 December 2004. The address of its registered office and principal place of business are No.1 Caihong Road, Xianyang, Shaanxi Province, the PRC.

The Company and its subsidiaries (collectively referred to as the “Group”) are engaged in the manufacturing and trading of colour picture tubes (“CPTs”) and related components of coloured television sets, luminous materials, thin film transistor liquid crystal display (“TFT-LCD”) glass substrate and display devices, solar photovoltaic glass and trading of liquid crystal products.

The directors of the Company consider that IRICO Group Corporation, a state-owned enterprise established in the PRC, is the Company’s parent company and ultimate holding company.

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated interim financial information is presented in Renminbi (“RMB”) which is also the functional currency of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

- amendments to HKFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*;
- amendments to HKFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets*; and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated interim financial information and / or disclosures set out in these condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2012

	CPTs production and sales RMB'000 (Unaudited)	Luminous materials production and sales RMB'000 (Unaudited)	Liquid crystal related products production and sales RMB'000 (Unaudited)	TFT-LCD glass substrate and display devices production and sales RMB'000 (Unaudited)	Solar photovoltaic glass production and sales RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE						
External sales	<u>163,364</u>	<u>308,572</u>	<u>652,803</u>	<u>12,198</u>	<u>86,407</u>	<u>1,223,344</u>
Segment (loss) profit	<u>(65,146)</u>	<u>21,003</u>	<u>(145)</u>	<u>(47,822)</u>	<u>(72,127)</u>	<u>(164,237)</u>
Unallocated income						16,680
Unallocated expenses						(1,458)
Finance costs						(63,288)
Share of results of associates						<u>(17,764)</u>
Loss before tax						<u><u>(230,067)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2011

	CPTs production and sales RMB'000 (Unaudited)	Luminous materials production and sales RMB'000 (Unaudited)	Liquid crystal related products production and sales RMB'000 (Unaudited)	TFT-LCD glass substrate and display devices production and sales RMB'000 (Unaudited)	Solar photovoltaic glass production and sales RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE						
External sales	<u>330,004</u>	<u>483,132</u>	<u>451,416</u>	<u>—</u>	<u>191,188</u>	<u>1,455,740</u>
Segment (loss) profit	<u>(34,080)</u>	<u>57,429</u>	<u>1,906</u>	<u>(8,742)</u>	<u>44,916</u>	<u>61,429</u>
Unallocated income						18,580
Unallocated expenses						(1,966)
Finance costs						(36,884)
Share of results of associates						<u>(19,536)</u>
Profit before tax						<u>21,623</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

3. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's assets by reportable and operating segments:

At 30 June 2012

	CPTs production and sales <i>RMB'000</i> (Unaudited)	Luminous materials production and sales <i>RMB'000</i> (Unaudited)	Liquid crystal related products production and sales <i>RMB'000</i> (Unaudited)	TFT-LCD glass substrate and display devices production and sales <i>RMB'000</i> (Unaudited)	Solar photovoltaic glass production and sales <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment assets	<u>272,031</u>	<u>473,044</u>	<u>561,260</u>	<u>7,397,388</u>	<u>2,697,265</u>	11,400,988
Unallocated corporate assets						<u>1,974,268</u>
Consolidated total assets						<u><u>13,375,256</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

3. SEGMENT INFORMATION (Continued)

At 31 December 2011

	CPTs production and sales RMB'000 (Audited)	Luminous materials production and sales RMB'000 (Audited)	Liquid crystal related products production and sales RMB'000 (Audited)	TFT-LCD glass substrate and display devices production and sales RMB'000 (Audited)	Solar photovoltaic glass production and sales RMB'000 (Audited)	Total RMB'000 (Audited)
Segment assets	<u>333,728</u>	<u>524,163</u>	<u>567,768</u>	<u>6,620,771</u>	<u>2,622,587</u>	10,669,017
Unallocated corporate assets						<u>2,650,371</u>
Consolidated total assets						<u>13,319,388</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

4. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	133,681	35,934
Bank and other borrowings wholly repayable over five years	56,528	52,820
Discounted trade receivables to banks	52	—
Obligations under finance leases	6,028	—
Amount due to ultimate holding company	655	1,075
	<hr/>	<hr/>
Total borrowing costs	196,944	89,829
Less: amounts capitalised in the cost of qualifying assets	(133,656)	(52,945)
	<hr/>	<hr/>
	63,288	36,884
	<hr/>	<hr/>

Borrowing costs capitalised during the period arose on general borrowings pool and are calculated by applying a capitalisation rate of 6.29% per annum (six months ended 30 June 2011: 5.87% per annum) to expenditure on qualifying assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	11,706	9,794
Deferred income tax	—	(138)
	11,706	9,656

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong for both periods ended 30 June 2012 and 2011.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Group in the PRC is 25% from 1 January 2008 onwards.

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) and Guiding Catalogue for Industrial Structure Adjustment (2011) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

5. INCOME TAX EXPENSE *(Continued)*

The operations of IRICO Display Devices Co., Ltd. (“A Share Company”) and Xian IRICO Zixun Co., Ltd. have met the requirements under the OUWC Policy for the six months ended 30 June 2012 and 2011, and accordingly, EIT has also been provided at 15%.

Xianyang IRICO Electronics Shadow Mask Co., Ltd. (“IRICO Shadow Mask”) is Sino-foreign equity joint ventures engaging in the production business and is exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, IRICO Shadow Mask which was established in 2003 and the entity is in the 50% relief period for the six months ended 30 June 2012 and 2011.

Certain subsidiaries of the Group, which are registered in a special economic zone or a technological economic development zone, are taxed at preferential rates ranging from 15% to 22% for the six months ended 30 June 2011. The tax concession was expired on 31 December 2011 and the tax rate of certain subsidiaries is 25% from 1 January 2012 onwards.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

6. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	138	238
Amortisation of leasehold land and land use rights	4,079	2,703
Depreciation of property, plant and equipment	57,305	55,917
Depreciation of investment properties	1,368	1,024
Cost of inventories recognised as an expense	1,240,484	1,300,837
Employee benefit expenses	211,863	278,606
Research and development costs	11,712	11,704
Provision for warranty	2,435	1,061
Impairment losses on trade receivables	22	744
Operating lease expenses	13,218	15,527
Allowance of inventories (included in cost of sales)	18,848	32,616
Gain on disposal of an associate	—	(3,235)
Share of tax of associates (included in share of results of associates)	554	7
Amortisation of deferred income on grants received	(11,986)	(3,119)
Cash-settled share-based payments income	(303)	—
Dividend income from available-for-sale investment	(2,175)	(2,175)
Net loss (gain) on disposal of property, plant and equipment	732	(25,588)
Reversal of impairment losses on trade receivables	(2,186)	(915)
Bank interest income	(10,106)	(11,064)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

7. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the interim period.

8. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share are based on the Group's loss attributable to owners of the Company for the six months ended 30 June 2012 of approximately RMB169,518,000 (six months ended 30 June 2011: profit of RMB56,413,000) and the weighted average number of approximately 2,232,349,000 (six months ended 30 June 2011: 2,232,349,000) ordinary shares in issue during the period.

As there were no dilutive potential shares during both periods ended 30 June 2012 and 2011, the diluted (loss) earnings per share is the same as basic (loss) earnings per share for both periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

9. CAPITAL EXPENDITURE

During the period, the Group spent approximately RMB828,721,000 (six months ended 30 June 2011: RMB1,237,205,000) on additions of property, plant and equipment, nil (six months ended 30 June 2011: RMB179,129,000) on additions of leasehold land and land use rights, RMB1,154,000 (six months ended 30 June 2011: nil) on additions of investment properties for both periods ended 30 June 2012 and 2011. Included in the additions to property, plant and equipment, the Group spent approximately RMB609,701,000 (six months ended 30 June 2011: RMB769,203,000) and RMB183,372,000 (six months ended 30 June 2011: RMB403,148,000) on the production line of TFT-LCD and display devices and solar photovoltaic glass respectively.

During the period, the Group received cash proceeds of approximately RMB17,952,000 (six months ended 30 June 2011: RMB95,339,000) on disposal of property, plant and equipment with carrying values of approximately RMB6,165,000 (six months ended 30 June 2011: RMB69,751,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

10. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period ranging from cash on delivery to 90 days to its trade customers.

The following is an aged analysis of trade receivables (net of accumulated impairment losses of approximately RMB22,516,000) (at 31 December 2011: net of accumulated impairment losses of approximately RMB24,680,000) presented based on the invoice date at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade receivables		
0 to 90 days	337,158	287,482
91 to 180 days	43,571	40,514
181 to 365 days	32,203	14,804
Over 365 days	10,195	8,983
	423,127	351,783
Bills receivables	163,996	193,251
	587,123	545,034

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

11. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade payables		
0 to 90 days	233,336	327,022
91 to 180 days	122,679	101,884
181 to 365 days	150,843	101,320
Over 365 days	126,154	91,421
	633,012	621,647
Bills payables	184,324	198,118
	817,336	819,765

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

12. BANK AND OTHER BORROWINGS

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Bank loans — secured	3,303,139	3,452,233
Bank loans — unsecured	2,152,155	1,275,000
Other loans — secured	50,000	50,000
Other loans — unsecured	200,000	200,000
Bank loans — unguaranteed	495,833	800,000
	6,201,127	5,777,233
Carrying amount repayable:		
On demand or within one year	1,416,045	1,568,601
More than one year, but not exceeding two years	627,890	335,204
More than two years, but not more than five years	2,347,971	2,021,814
More than five years	1,809,221	1,851,614
	6,201,127	5,777,233
Less: Amounts shown under current liabilities	(1,416,045)	(1,568,601)
Amounts shown under non-current liabilities	4,785,082	4,208,632

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

12. BANK AND OTHER BORROWINGS (Continued)

During the period, the Group obtained new bank borrowings amounting to approximately RMB1,282,631,000. The bank and other borrowings carry interests ranging from 2.39% to 8.00% per annum (at 31 December 2011: 2.96% to 8.00% per annum). The loans raised during the period were used to acquire plant and equipment specifically relating to the production of solar photovoltaic glass, organic light-emitting diode and TFT-LCD glass substrate, finance the operations and used for general working capital of the Group.

13. SHARE CAPITAL

A summary of the registered, issued and fully paid capital of the Company is as follows:

	Domestic shares		H shares		Total	
	Number of		Number of		Number of	
	shares	Amount	shares	Amount	shares	Amount
	'000	RMB' 000	'000	RMB' 000	'000	RMB' 000
Registered, issued and fully paid:						
At 1 January 2011 (audited),						
31 December 2011 (audited) and						
30 June 2012 (unaudited)	1,601,468	1,601,468	630,881	630,881	2,232,349	2,232,349

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

13. SHARE CAPITAL *(Continued)*

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

14. RELATED PARTY TRANSACTIONS

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 71.74% of the Company's shares. The remaining 28.26% of the shares are widely held.

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

In accordance with HKAS24 (Revised), the Group is exempted from disclosures of transactions with other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS (Continued)

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other state-owned enterprises, during the six months ended 30 June 2012 and 2011 and balances as at 30 June 2012 and 31 December 2011 with related party transactions.

The following transactions were carried out with related parties:

(a) Sales of goods

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<hr/>		
Sales of goods to the IRICO Group (Note)		
— Shenzhen Hongyang Industrial Trade Company ("Shenzhen Hongyang")	—	10,739
— Xianyang IRICO Thermoelectricity Co., Ltd.	92	92
— Caihong Labour Services Company ("Caihong Labour")	39	1,975
— Shannxi IRICO Photo Electronic Material Corporation ("IRICO Photo")	6,189	3,795
	<hr/>	

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS (Continued)

(a) Sales of goods (Continued)

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
— The ultimate holding company	6,860	—
— Shannxi IRICO Construction Engineering Co., Ltd.	—	3
— IRICO Colour Picture Tube Plant ("Colour Picture Tube Plant")	278	850
— Xianyang IRICO Solar Photovoltaic Technology Co., Ltd. ("Xianyang IRICO Digital Display Co., Ltd.")	1,117	—
— Xianyang Cailian Packaging Materials Co., Ltd. ("Xiangyang Cailian")	8	—
	14,583	17,454
Other state-owned enterprises	21,119	40,164

Note:

Sales to related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Purchases of goods and acceptances of services

	Six months ended 30 June	
	2012	2011
	RMB'000	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Purchases of goods from the IRICO Group (Note i)		
— IRICO Photo	5,340	5,395
— Caihong Labour	1,989	3,718
— Xianyang Cailian	10,869	20,488
— Xianyang Caihong Adhesive Belt Co., Ltd.	—	106
— Shenzhen Hongyang	6,397	4,492
— Xianyang IRICO Solar Photovoltaic Technology Co., Ltd. (“Xianyang IRICO Digital Display Co., Ltd.”)	4,300	4,460
— Xianyang IRICO Thermos Co., Ltd.	747	491
— Xianyang IRICO Electronic Materials Co., Ltd.	65	—
	29,707	39,150
	159,003	199,927

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Acceptances of services provided by the IRICO Group		
— Utility charges to Color Picture Tube Plant	98,978	165,290
— Network fee to the ultimate holding company	—	1
— Rental expense to the ultimate holding company <i>(Note ii)</i>	22,900	22,919
— Trademark license fee to the ultimate holding company <i>(Note iii)</i>	64	192
— Miscellaneous charges to Color Picture Tube Plant	2,057	748
— Interest expense paid to the ultimate holding company	655	1,075
— IRICO Hospital	51	710
	124,705	190,935

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

Notes:

- (i) *Purchases from related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.*
- (ii) *From 1 January 2010, the Group is required to pay RMB14.5 (six months ended 30 June 2011: RMB14.5) per square metre per annum for the use of land use rights and RMB9.5 (six months ended 30 June 2011: RMB9.5) per square metre per month for the use of buildings in Xianyang, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the six months ended 30 June 2012 amounted to approximately RMB22,900,000 (six months ended 30 June 2011: RMB22,919,000).*
- (iii) *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, A Share Company, the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to the end on 31 December 2006. In accordance with the agreement signed by the other entities of the 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 2012.*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Disposal of a subsidiary

As mentioned in the announcement of the Company dated 8 April 2011, the Company and IRICO Photo, a wholly-owned subsidiary of IRICO Group Corporation, entered into an agreement, pursuant to which the Company agreed to sell and IRICO Photo agreed to purchase the entire 87.16% equity interests in Xianyang Caiqin for a total consideration approximately of RMB36,289,000. The details of the disposal are set out in Note 16.

(d) Balance with ultimate holding company

(i) Amount due from the ultimate holding company

	30 June 2012	31 December 2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Included in other receivables, deposits and prepayments	61,963	63,103

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

(ii) Amount due to the ultimate holding company

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Included in other payables and accruals	102,285	140,188

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

(iii) Loans from the ultimate holding company

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Included in other payables and accruals	20,000	20,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

(iii) Loans from the ultimate holding company *(Continued)*

Loans from the ultimate holding company were unsecured and bore interests at 6.55% (31 December 2011: 5.47% to 6.22%) per annum and were repayable on demand. The interest expense paid to the ultimate holding company during the period amounted to approximately RMB655,000 (Six months ended 30 June 2011: RMB1,075,000).

(iv) Directors' emolument borne by the ultimate holding company

For the period ended 30 June 2012, the emoluments of four non-executive directors of the Company, Mr. Fu Jiuquan, Mr. Zhang Weichuan, Mr. Niu Xinan and Mr. Guo Mengquan and two executive directors, Mr. Tao Kui and Mr. Zhang Junhua, were also borne by IRICO Group.

For the period ended 30 June 2011, the emoluments of three non-executive directors of the Company, Mr. Fu Jiuquan, Mr. Zhang Weichuan and Mr. Niu Xinan are borne by IRICO Group. Besides, started from March of 2011, the emoluments for a non-executive director of the Company, Mr. Guo Mengquan and three executive directors, Mr. Xing Daoqin, Mr. Tao Kui and Mr. Zhang Junhua, which were also borne by IRICO Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

At 30 June 2012 and 31 December 2011, the ultimate holding company granted a guarantee and pledged certain of its land and buildings to the Group for certain bank borrowings.

At 30 June 2012 and 31 December 2011, the ultimate holding company had pledged its 35.87% equity interests in the Company to secure certain bank borrowings granted to the Group.

(e) Amount due to a fellow subsidiary

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Included in other payables and accruals Rui Bou Electronics (HK) Limited	9	9

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

(f) Key management compensation

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and other short-term employee benefits	698	1,497
Retirement benefit contributions	70	50
Cash-settled share-based payments expense	112	—
	880	1,547

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS (Continued)

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade receivables from related parties (Note):		
The IRICO Group		
— IRICO Photo	21,823	21,753
— Caihong Labour	—	4
— IRICO Group Corporation	1,546	85
— Color Picture Tube Plant	3	7
— 西安彩輝顯示技術有限公司	—	730
— Xianyang Caiqin Electronic Device Co Ltd	—	4
— Xianyang IRICO Solar Photovoltaic Technology Co., Ltd. ("Xianyang IRICO Digital Display Co., Ltd.")	514	—
	23,886	22,583
Other state-owned enterprises	3,836	2,939
	27,722	25,522

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Representing:		
Trade receivables	25,539	25,522
Trade bills receivables	2,183	—
	<u>27,722</u>	<u>25,522</u>

The balance with other state-owned enterprise and its fellow subsidiaries only accounted for less than 5% of the Group's trade and bills receivables as at 30 June 2012 and 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS *(Continued)*

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade payables to related parties <i>(Note):</i>		
The IRICO Group		
— Caihong Labour Services Company	823	762
— Xianyang Cailian Packaging Material Co., Ltd.	9,466	6,320
— Shenzhen Hongyang Industrial Trade Company	5,677	3,414
— The ultimate holding company	869	5,366
— Xianyang IRICO Solar Photovoltaic Technology Co., Ltd. ("Xianyang IRICO Digital Display Co., Ltd.")	801	1,911
— Color Picture Tube Plant	39,996	22,336
— Xianyang IRICO Electronic Materials Co., Ltd.	119	311
— Xiangyang Caiqin Electronic Device Co Ltd	—	5,581
— 咸陽彩虹勞保用品有限公司	—	146
— Xianyang Caihong Adhesive Belt Co., Ltd.	5	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

14. RELATED PARTY TRANSACTIONS (Continued)

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

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
— Shannxi IRICO Photo Electronic Material Corporation	<u>5,334</u>	<u>—</u>
	63,090	46,147
Other state-owned enterprises	<u>460</u>	<u>1,200</u>
	<u>63,550</u>	<u>47,347</u>
Representing:		
Trade payables	<u>63,550</u>	<u>47,347</u>

The balance with other state-owned enterprises and its fellow subsidiaries only accounted for less than 5% of the Group's trade payable as at 30 June 2012 and 31 December 2011.

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

15. COMMITMENTS

Capital expenditure

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated interim financial information:		
— Construction of organic light-emitting diode production lines	416,514	671,545
— Construction of photovoltaic glass production line	878,221	1,029,195
— Construction of liquid crystal display glass substrate and display devices production lines	590,057	781,062
— Acquisition of interests in an associate (<i>Note</i>)	105,000	105,000
	<u>1,989,792</u>	<u>2,586,802</u>

Note:

On 29 September 2011, the Company entered into an agreement to acquire additional 30% equity interests of an existing associate namely Jiangsu Yongneng Photovoltaic Technology Company Limited from an independent third party for a total consideration of RMB105,000,000. For details, please refer to announcement of the Company dated 29 September 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

15. COMMITMENTS *(Continued)*

Operating leases

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follow:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	<u>21,577</u>	<u>43,564</u>

Operating lease payments represent rentals payable by the Group for certain of its land use rights and leasehold buildings. Leases are negotiated for an average term of three years respectively and rentals are fixed for an average of one and three years respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

15. COMMITMENTS *(Continued)*

Operating leases *(Continued)*

As lessor

Property held for earning rental income is expected to generate rental yields of 9.9% (2011: 14.3%) on an ongoing basis. All the properties held have committed tenants for the next 1 year to 9 years (2011: 1 year to 9 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	9,820	11,433
In the second to fifth years inclusive	12,880	15,583
Over five years	4,791	5,901
	27,491	32,917

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

16. DISPOSAL OF A SUBSIDIARY

On 7 April 2011, the Group disposed of its entire 87.16% interests in Xianyang Caiqin to IRICO Photo, a wholly-owned subsidiary of IRICO Group Corporation, at a consideration approximately of RMB36,289,000. The net assets of Xianyang Caiqin at the date of disposal were as follows:

	<i>RMB'000</i>
Net assets disposed of:	
Property, plant and equipment	1,830
Leasehold land and land use rights	127
Inventories	4,331
Trade and bills receivables	7,471
Other receivables, deposits and prepayments	32,047
Bank balances and cash	1,257
Trade payables	(7,374)
Other payables and accruals	(11,029)
Tax payables	(1,792)
Non-controlling interests	(3,450)
	<hr/>
	23,418
Gain on disposal	<hr/> 12,871
	23,418
Total consideration	<hr/> <hr/> <u>36,289</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

16. DISPOSAL OF A SUBSIDIARY (Continued)

	<i>RMB'000</i>
Satisfied by:	
Cash	36,289
Net cash inflow arising on disposal:	
Cash consideration received	36,289
Less: Bank balances and cash disposed of	(1,257)
	<u>35,032</u>

17. PLEDGE OF ASSETS

At 30 June 2012, certain assets of the Group were pledged to secure bank borrowings granted to the Group as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Property, plant and equipment	1,545,726	1,867,845
Leasehold land and land use rights	138,087	139,196
Bills receivables	64,441	20,090
	<u>1,748,254</u>	<u>2,027,131</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

18. MATERIAL LITIGATION

(i) **The litigation of Curtis Saunders against the Company, A Share Company and IRICO Group Corporation**

As set out in the announcement published on the Shanghai Stock Exchange on 25 January 2010 by A Share Company, IRICO Group Corporation, the Company and A Share Company received a statement of claim from Supreme Court of British Columbia in respect of the litigation brought by Curtis Saunders.

Curtis Saunders, the plaintiff, accused approximately 50 global Cathode Ray Tube ("CRT") manufacturers, including IRICO Group Corporation, the Company and A Share Company, of a collusion to manipulate the market and enter into agreements raising the price of CRT to an unreasonable level during the period from 1 January 1995 to 1 January 2008. 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. Supreme Court of British Columbia has accepted this claim but there is no judgement or ruling yet.

Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1995. The directors of the Company consider that the above litigations 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 unaudited condensed consolidated interim financial information for the period ended 30 June 2012 and 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

18. MATERIAL LITIGATION *(Continued)*

(ii) **The litigation of The Fanshawe College of Applied Arts and Technology (hereafter referred as “Fanshawe College”) against A Share Company**

As set out in the announcement published on the Shanghai Stock Exchange on 7 July 2009 by A Share Company, A Share Company 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 A Share Company, of a conspiracy to maintain, control and stabilise 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 judgement or ruling yet.

Upon inspection of the Company, the Company has never sold CRT products in the market of Canada directly or via agency since 1995. The directors of the Company considers that the above litigations 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 condensed consolidated interim financial information for the period ended 30 June 2012 and 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2012

18. MATERIAL LITIGATION *(Continued)*

(iii) The litigation of American Crago Company against A Share Company

As set out in the announcement published on the Shanghai Stock Exchange on 30 January 2008 by A Share Company, A Share Company received a statement of claim from the U.S. District Court, Northern District of California in respect of the litigation brought by American Crago Company.

American Crago Company, the plaintiff, accused a various CRT manufacturing enterprises, including A Share Company, of a conspiracy to control the market which was in violation of antitrust law. It was alleged that the plaintiff and other members in the class proceedings paid more than that would have been determined by competitive market and therefore claimed for triple damages. U.S. District Court, Northern District of California has accepted this claim but there is no judgement or ruling yet.

Upon inspection of the Company, the Company has never sold CRT products in the market of USA directly or via agency since 1995. The directors of the Company consider that the above litigations 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 condensed consolidated interim financial information for the period ended 30 June 2012 and 31 December 2011.