NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2005

(All amounts in RMB thousand unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1 Reorganisation

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 PRC laws as a result of a group reorganisation (the "Reorganisation") effective as of 31 December 2003 with details set out in the Accountants' Report to the Company's prospectus dated on 8 December 2004. The Company issued 1,500,000,000 ordinary shares of RMB1 per share to IRICO Group Corporation, the ultimate holding company of the Company, in exchange for the core assets and businesses of IRICO Group Corporation relating to production and sale of colour picture tubes ("CPTs") and CPT-related components and materials. In addition, the Company completed its initial public offering and placing of shares on 20 December 2004. As a result, the issued share capital of the Company increased from 1,500,000,000 shares to 1,941,174,000 shares. Gross fund raised amounted to approximately HK$767 million (equivalent to approximately RMB816 million).

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated income statement for the six months ended 30 June 2004 present the consolidated results of the Group as if the Reorganisation was effective at the beginning of the earliest period presented.

1.2 Basis of preparation

These unaudited condensed consolidated interim financial report (the "Interim Financial Report") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Report should be read in conjunction with the 2004 annual financial statements.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

1.2 Basis of preparation *(Continued)*

The accounting policies and methods of computation used in the preparation of the Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively the "New HKFRSs") issued by the HKICPA which are effective for accounting periods commencing on or after 1 January 2005. The Group had not early adopted the New HKFRSs in the preparation of its 2004 annual financial statements.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

Effect of adopting the New HKFRSs

In 2005, the Group adopted the new/revised standards of the New HKFRSs below, which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements. The major and significant effects of the adoption of the New HKFRSs on the Group's accounting policies and amounts disclosed in the Interim Financial Report are summarised as follows:

(i) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests and share of after-tax results of associated companies and other disclosures. Minority interests are now included in equity on the balance sheet and share of profits less losses of associated companies is presented net of taxation on the income statement. These changes in presentation have been applied retrospectively.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Effect of adopting the New HKFRSs *(Continued)*

(ii) The adoption of HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously classified as "property, plant and equipment", and were carried at cost less accumulated depreciation and impairment. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease. Whereas the leasehold building is stated at cost less accumulated depreciation and impairment. The land element of the leasehold properties was previously included in "land use rights and buildings in the PRC" and is now disclosed as "land use rights". The adoption of HKAS 17 resulted in:

	30 June 2005	31 December 2004
Decrease in property, plant and equipment	**(39,044)**	(39,495)
Increase in land use rights	**39,044**	39,495

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Effect of adopting the New HKFRSs *(Continued)*

(iii) The adoption of HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policiy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries, associated companies and jointly controlled entities, were previously classified as long-term investments and trading securities. Effective from 1 January 2005, the Group redesignated all long-term investments as available-for-sale financial assets. They are carried at fair value, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial asssets there do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Trading securities are carried at fair value.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. Accounts and other receivables were previously carried at cost less impairment, if any.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material financial effect on the Interim Financial Report.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definitions, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year in respect of impairment test of property, plant and equipment are discussed below.

The Group tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sale orders on hand and other strategic new business development. Management believes that no provision for asset impairment in the property, plant and equipment is necessary up to the date of approval of the Interim Financial Report and acknowledges that any reasonably foreseeable change in any of the above key assumptions might cause the aggregate carrying value of the property, plant and equipment to exceed the aggregate recoverable amount. Accordingly, management will update these key assumptions on a continuous basis. Should there be any unforeseeable events (such as abandonment of the business expansion plan and other strategic new business development) and any adjustments that might have been found to be necessary concerning the recoverable amount of the property, plant and equipment, management will consider to provide for such impairment loss in the next half of the year.

4. CAPITAL EXPENDITURE

	Licences for technical knowledge	Property, plant and equipment	Land use rights
Net book amount as at 1 January 2005	67,074	3,416,191	39,495
Additions	1,399	198,462	—
Disposals	—	(2,323)	—
Depreciation/amortisation charge	(28,404)	(161,712)	(451)
Net book amount as at 30 June 2005	40,069	3,450,618	39,044
Net book amount as at 1 January 2004	112,605	2,376,036	31,600
Additions	2,673	372,990	389
Disposals	—	(11,275)	—
Depreciation/amortisation charge	(27,920)	(132,046)	(1,006)
Net book amount as at 30 June 2004	87,358	2,605,705	30,983
Additions	5,946	922,267	9,167
Acquisition of a subsidiary	—	4,703	—
Disposals	—	(7,372)	—
Depreciation/amortisation charge	(26,230)	(109,112)	(655)
Net book amount as at 31 December 2004 and 1 January 2005	67,074	3,416,191	39,495

As at 30 June 2005, the net book value of the property, plant and equipment pledged as security for the Group's short-term bank borrowings (note 14) amounted to approximately RMB303,323,000 (31 December 2004: RMB321,973,000).

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG-TERM INVESTMENTS

	As at 30 June 2005	As at 31 December 2004
Unlisted investments, at cost	**33,500**	33,500
Provision for impairment loss	**(9,440)**	(9,440)
	24,060	24,060

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG-TERM INVESTMENTS *(Continued)*

Unlisted investments substantially comprise the investment in equity interests in Western Trust & Investment Co., Ltd., a state controlled enterprise.

Pursuant to the transitional provisions of HKAS 39, the Group has redesignated all of those investments previously classified as long-term investments as at 31 December 2004 as shown above as available-for-sale financial assets with effect from 1 January 2005.

6. ACCOUNTS RECEIVABLE

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. Ageing analysis of accounts receivable at the respective balance sheet dates are as follows:

	As at 30 June 2005	As at 31 December 2004
0 to 90 days	**602,603**	605,884
91 to 180 days	**73,370**	44,403
181 to 365 days	**26,210**	4,259
Over 1 year	**3,150**	3,006
	705,333	657,552
Provision for doubtful debts	**(3,150)**	(3,006)
	702,183	654,546

As at 30 June 2005, accounts receivable amounting to approximately RMB201,431,000 (31 December 2004: RMB201,913,000) were due from state controlled enterprises other than related parties of the Group, which were interest free and unsecured.

7. TRADE BILLS RECEIVABLE

All trade bills receivable as at 31 December 2004 and 30 June 2005 have been outstanding for less than 180 days.

As at 30 June 2005, trade bills receivable amounting to approximately RMB57,946,000 (31 December 2004: RMB41,319,000) were pledged to secure short-term bank borrowings (note 14).

As at 30 June 2005, trade bills receivable amounting to approximately RMB140,904,000 (31 December 2004, RMB316,901,000) were due from stated controlled enterprises other than related parties of the Group, which were interest free and unsecured.

8. AMOUNTS DUE FROM/TO RELATED PARTIES

	Note	As at 30 June 2005	As at 31 December 2004
Amounts due from			
Trade balances:	(a)		
Shenzhen Hongyang Industry & Trade Co., Ltd.		**10,679**	7,949
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		**3,421**	3,421
Others		**15**	30
		14,115	11,400
Amounts due to			
Trade balances:	(a)		
Caihong Labour Services Company		**9,583**	10,218
Shannxi IRICO General Service Corporation		**5,919**	—
Shenzhen IRICO Electronics Co., Ltd.		**4,987**	7,126
Shenzhen Hongyang Industry & Trade Co., Ltd.		**477**	—
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		**342**	—
IRICO Utilities Plant		**90,945**	—
Shaanxi IRICO Construction Engineering Co., Ltd.		**140**	—
Xian IRICO Plastic Industry Co., Ltd.		**3,071**	827
Xianyang Caihong Adehesive Belt Co., Ltd.		**569**	1,390
Xianyang Caihong Electronic Materials Co., Ltd		**356**	293
Xianyang Cailian Package Materials Co., Ltd		**2,038**	1,577
Sakurai Denshikogyo Co., Ltd.		**135**	1,694
		118,562	23,125
Non-trade balance:			
The ultimate holding company	(b)	**423,561**	349,178
Total amounts due to related parties		**542,123**	372,303

Notes:

(a) *The trade balance in respect of sales and purchases are interest free, unsecured and repayable in accordance with normal commercial terms.*

(b) *Except for amounts of RMB79,000,000 (31 December 2004: RMB79,000,000) of the Group due to the ultimate holding company as at 30 June 2005 which carry interest at 5.31% per annum and are repayable on 9 November 2005, the non-trade balance are unsecured, interest free and have no fixed repayment terms.*

9. CASH AND BANK BALANCES

	As at 30 June 2005	As at 31 December 2004
Cash on hand	**190**	951
Bank balances in state controlled banks	**622,547**	1,116,565
	622,737	1,117,516

The weighted average effective interest rate on bank balances was 0.72% (2004: 0.72%) for the six months ended 30 June 2005.

10. SHARE CAPITAL

	Number of domestic shares of RMB1 each	Number of H shares of RMB1 each	Total number of shares of RMB1 each	RMB'000
At 1 January 2004 and 30 June 2004	1,500,000	—	1,500,000	1,500,000
Domestic shares converted to H shares	(44,120)	44,120	—	—
Allotted and issued upon listing of H shares	—	441,174	441,174	441,174
At 31 December 2004 and 30 June 2005	1,455,880	485,294	1,941,174	1,941,174

The Company was incorporated on 10 September 2004 with an initial share capital of RMB1,500,000,000, all of which were credited as fully paid, in consideration for the transfer of the relevant assets, liabilities and equity interests in various entities to the Company pursuant to the Reorganisation referred to in note 1. These domestic shares rank pari passu in all aspects with each other.

During the year ended 31 December 2004, the Company completed its initial public offering and placing of 485,294,000 H shares with a par value of RMB1.00 each at a price of HK$1.58 (equivalent to RMB1.68) per H share in cash for an aggregate consideration of HK$767 million (equivalent to approximately RMB816 million), which comprised 441,174,000 new H shares issued by the Company and 44,120,000 shares issued to the ultimate holding company pursuant to an approval from the State Assets Commission to convert such relevant domestic shares owned by the ultimate holding company into H shares as part of the public offering. As a result, the issued share capital of the Company increased to 1,941,174,000 shares, comprising 1,455,880,000 domestic shares and 485,294,000 H shares, representing 75% and 25% of the issued capital respectively.

10. 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.

11. OTHER RESERVES

	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Total
At 1 January 2004 and 30 June 2004	679,758	—	—	679,758
Premium on issue of shares	299,865	—	—	299,865
Share issuance costs	(63,490)	—	—	(63,490)
Contribution of ultimate holding company	4,739	—	—	4,739
Transfer from retained earnings	—	15,687	7,843	23,530
At 31 December 2004 and 30 June 2005	920,872	15,687	7,843	944,402

12. ACCOUNTS PAYABLE

	As at 30 June 2005	As at 31 December 2004
0 to 90 days	**509,760**	559,390
91 to 180 days	**97,612**	1,616
181 to 365 days	**1,081**	186
Over 1 year	**491**	415
	608,944	561,607

As at 30 June 2005, accounts payable amounting to approximately RMB170,349,000 (31 December 2004: RMB239,921,000) were due to state controlled enterprises other than related parties of the Group, which were interest free, unsecured and repayable in accordance with normal commercial terms.

13. TRADE BILLS PAYABLE

As at 30 June 2005, trade bills payable amounting to approximately RMB65,000,000 (31 December 2004: RMB93,616,000) were due to state controlled enterprises other than related parties of the Group, which were interest free, unsecured and repayable in 180 days.

14. SHORT-TERM BANK BORROWINGS

	As at 30 June 2005	As at 31 December 2004
Secured (note (a))	**535,000**	500,000
Unsecured (note (b))	**772,765**	920,000
	1,307,765	1,420,000

Notes:

(a) *As at 30 June 2005, short-term bank borrowings of approximately RMB300 million (31 December 2004: RMB300 million) are secured by certain property, plant and equipment of the Group with net book value of approximately RMB303,323,000 (31 December 2004: RMB321,973,000) (note 4). Short-term bank borrowings of approximately RMB235 million (31 December 2004: RMB200 million) are secured by trade bills receivable of the Group of approximately RMB57,946,000 (31 December 2004: bank deposits of RMB21,000,000 and trade bills receivable of RMB41,319,000) (note 7).*

(b) *As at 30 June 2005, short-term bank borrowings of approximately RMB220 million (31 December 2004: nil) were guaranteed by the ultimate holding company.*

(c) *Short-term bank borrowings bear interests ranging from 3.51% to 5.02% per annum (31 December 2004: 3.51% to 5.02%).*

(d) *All short-term bank borrowings are borrowed from state controlled banks.*

15. TURNOVER

The turnover of the Group comprise of the sales of CPTs and CPT components.

16. OTHER REVENUES

	Six months ended 30 June	
	2005	2004
Sales of goods other than CPTs and CPT components	**23,321**	17,268
Interest income	**2,648**	3,206
Rental income	**734**	1,308
Service income	**321**	930
	27,024	22,712

17. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2005	2004
Changes in inventory of finished goods and working in progress	**393,345**	29,920
Raw materials and consumables used	**1,078,400**	1,808,875
Depreciation	**161,712**	132,046
Amortisation of intangible assets	**28,404**	27,920
Amortisation of land use rights	**451**	1,006
Employee benefit expenses	**259,557**	252,447
Transportation	**35,881**	34,571
Operating lease expenses	**18,737**	20,045
Research and development expenses	**20,347**	19,527
Provision for warranty	**3,671**	7,922
Write down of inventories to net realisable value	**20,643**	—

18. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
Interest on bank loans wholly repayable within five years	**32,905**	25,866
Finance charge on discounting of bills to banks	**1,954**	2,615
	34,859	28,481

19. INCOME TAX EXPENSE

	Six months ended 30 June	
	2005	2004
PRC enterprise income tax ("EIT")		
– Current	**12,896**	81,409
– Deferred	**(4,212)**	16,546
	8,684	97,955

The provision for PRC current EIT is calculated based on the statutory income tax rate of 33% of the assessable income of the Company and its subsidiaries as determined in accordance with the relevant PRC income tax rules and regulations for the periods except for the Company and certain subsidiaries described in the note below. All corresponding EIT relating to the taxable profit during the periods have been recognised in the condensed consolidated income statement.

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, dated of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd., have met the requirements under the OUWC Policy for the six months ended 30 June 2004 and 2005, and accordingly, EIT has also been provided at 15%.

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% from 2003 to 2005.

Caizhu (Zhongshan) Electronic Glass Plant was established in 1992 without active operation until 2002. It has been granted the status of high technology company since 2003, and accordingly, EIT was provided at 15% in 2004 and 2005.

19. INCOME TAX EXPENSE *(Continued)*

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay income tax at a rate of 15% in 2004 and 2005.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2004 and 2005.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is still in the exemption period. Xianyang IRICO Electronics Shadow Mask Co., Ltd., established in 2003 has not make profit so far and has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

20. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of RMB30,840,000 (six months ended 30 June 2004: profit attributable to equity holders of RMB 183,681,000) and based on weighted average of 1,941,174,000 (six months ended 30 June 2004: 1,500,000,000) shares in issue, assuming that the 1,500,000,000 shares issued pursuant to the Reorganisation had been in issue throughout the periods.

There were no dilutive potential shares during the six months ended 30 June 2004 and 2005 and accordingly no diluted earnings per share is presented.

21. DIVIDEND/PROFIT DISTRIBUTION

	Six months ended 30 June	
	2005	2004
Special dividend (note (a))	**58,261**	—
Profit distribution (note (b))	**—**	165,809
	58,261	165,809

21. DIVIDEND/PROFIT DISTRIBUTION *(Continued)*

(a) At a meeting held on 15 April 2005, the directors proposed a special dividend of RMB0.03 per ordinary share which was approved at the shareholders' meeting held on 20 June 2005. The Company resolved to distribute a special dividend to equity holders before 30 June 2005.

(b) The profit distribution for the six months ended 30 June 2004 represented profit distribution paid by the Group to the ultimate holding company prior to the establishment of the Company. The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

22. TRANSACTIONS WITH RELATED PARTIES AND OTHER STATE CONTROLLED ENTERPRISES

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

Apart from the information of related parties and other state controlled enterprises shown on Note 5 to 9 and Note 12 to 14 to the Interim Financial Report, the following is a summary of other significant transactions with related parties and other state controlled enterprises during the six months ended 30 June 2004 and 2005 carried out in the normal course of business of the Group.

		Six months ended 30 June	
(Income)/expenses	*Note*	**2005**	2004
Purchase of raw materials and services			
— Affiliated companies of the ultimate holding company			
China National Electronics Imp. & Exp. Caihong Company	(a)	**—**	210,176
Caihong Labour Services Company		**39,269**	48,397
Shaanxi IRICO General Service Corporation		**20,877**	21,411
Xianyang Cailian Packaging Materials Co., Ltd.		**18,966**	12,169
Shenzhen IRICO Electronics Co., Ltd.		**2,281**	7,493
Xianyang Caihong Adhesive Belt Co., Ltd.		**751**	2,717
Xian Caihong Plastic Co., Ltd.		**5,125**	4,481
Shenzhen Hongyang Industry & Trade Co., Ltd.		**505**	1,300
Sakurai Denshikogyo Co., Ltd.		**1,805**	—
— Other state controlled enterprises		**582,862**	965,641
		672,441	1,273,785

22. TRANSACTIONS WITH RELATED PARTIES AND OTHER STATE CONTROLLED ENTERPRISES *(Continued)*

(Income)/expenses	*Note*	Six months ended 30 June **2005**	2004
Sales of goods			
— Affiliated companies of the ultimate holding company			
China National Electronics Imp. & Exp. Caihong Company	(a)	**—**	(326,506)
Shenzhen Hongyang Industry and Trade Co., Ltd.		**(20,663)**	(17,222)
IRICO Utilities Plant		**(10,889)**	(12,764)
Caihong Labour Services Company		**(527)**	(107)
Shaanxi IRICO General Service Corporation		**(195)**	(282)
Rui Bou Electronics (HK) Limited		**(547)**	—
— Other state controlled enterprises		**(483,309)**	(1,002,820)
		(516,130)	(1,359,701)
Others			
Management fee from the ultimate holding company	(a)	**—**	(6,648)
Rental expense to Xi'an Guangxin Electronics Co., Ltd.	(b)	**750**	750
Trademark license fee to the ultimate holding company	(c)	**1,633**	2,419
Utility charges to IRICO Utilities Plant	(d)	**229,562**	190,901
Rental expense to the ultimate holding company	(e)	**17,522**	17,522
Social and ancillary service charges to the ultimate holding company	(f)	**12,270**	7,460
Interest income from state controlled banks		**(2,648)**	(3,206)
Interest and finance expenses to state controlled banks		**34,859**	28,481

Notes:

(a) Sales to and purchase from China National Electronics Imp. & Exp. Caihong Company were discontinued before the listing of the Company. Management fee received/receivable from IRICO Utilities Plant, a unit of the IRICO Colour Picture Tube Plant held by the ultimate holding company, was levied based on 3% of the sales amount of IRICO Utilities Plant for financing and management service provided by the Group as agreed by the parties involved. This transaction was discontinued upon the incorporation of the Company.

22. TRANSACTIONS WITH RELATED PARTIES AND OTHER STATE CONTROLLED ENTERPRISES *(Continued)*

(b) *Rental expense of machinery and equipment at RMB125,000 per month paid to Xian Guangxin Electronics Co., Ltd., a fellow subsidiary of the Group, was determined based on the terms stipulated in a lease agreement entered into between the parties involved. The lease agreement was signed on 28 June 2001 for a period of three years and was renewed for another two and a half years up to 31 December 2006.*

(c) *Licence fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31 December 2006. In accordance with the agreement signed by the rest entities of the Group, the licence 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 not ice.*

(d) *Various kinetic energy charges were paid/payable by the companies of the Group to IRICO Utility Plants based on the agreed rates for the six months ended 30 June 2004 and 2005 respectively.*

(e) *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.*

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

Key management compensation

	Six months ended 30 June	
	2005	2004
Salaries and allowances	**1,611**	346
Retirement benefit contributions	**23**	21
	1,634	367

Short-term borrowings with state controlled banks

	Six months ended 30 June	
	2005	2004
Balance at beginning of the period	**1,420,000**	1,060,000
Additions	**357,765**	730,000
Repayments	**(470,000)**	(730,000)
Balance at end of the period	**1,307,765**	1,060,000

23. CAPITAL EXPENDITURE COMMITMENTS

	As at 30 June 2005	As at 31 December 2004
Authorised but not contracted for	**602,902**	381,877
Contracted but not provided for	**276,579**	298,039
	879,481	679,916

24. MATERIAL LITIGATION

BayStar Capital II, LP et al. v. Core Pacific-Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "BayStar Litigation"). On or about 11 February 2005, BayStar Capital Management, LLC and BayStar Capital II. L.P. (hereinafter collectively referred to as "BayStar"), a holder of the Company's H shares, commenced a litigation against Core Pacific-Yamaichi International (H.K.) Limited, et. al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA at the time of the Company's initial public offering. BayStar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to BayStar in the greater China area. BayStar claims that CPYI breached the agreement and its fiduciary duties to BayStar. In addition, BayStar alleges that CPYI made material misrepresentations and omissions to BayStar, in violation of United States Federal and State Securities Laws and the common law. BayStar has alleged no claims against the Company.

On or about 20 May 2005, CPYI commenced a third-party lawsuit against the Company and the lead underwriter of the Company, as part of the BayStar Litigation. CPYI seeks contractual and common law indemnification and/or contribution from the Company in the event that CPYI is found liable to BayStar. A copy of the third-party complaint was served on Law Debenture Society on or about 22 June 2005. The Company has retained Jones Day to represent the Company in the litigation. On 18 August 2005, Jones Day on behalf of the Company filed a motion to dismiss the third-party complaint in its entirety. The litigation is in its early stage. The Company denies that CPYI's claims have any merit and will defend itself vigorously.

In the opinion of the directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the Interim Financial Report of the Group for the six months ended 30 June 2005.