

SHENZHEN HUAFA ELECTRONICS CO., LTD.

2001 ANNUAL REPORT

Important: Board of Directors of SHENZHEN HUAFA ELECTRONICS CO., LTD. (hereinafter referred to as the Company) hereby confirms that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. Director Huang Junmin absented himself from the meeting of the Board.

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I. COMPANY PROFILE

1. Name of the Company

In Chinese: 深圳华发电子股份有限公司

In English: SHENZHEN HUAFU ELECTRONICS CO., LTD.

2. Legal Representative: Wu Dehua

3. Secretary of the Board of Directors: Hu Jianping

E-mail: jphu@huafa.com

Authorized Representative in charge of Securities affairs: Liu Yang

E-mail: lyang@huafa.com

Liaison Address: 6/F, 411/Bldg., Huafa N. Rd., Futian District, Shenzhen

Tel: (86) 755-3352207

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4. Registered Address: 411/Bldg., Huafa N. Rd., Futian District, Shenzhen

Office Address: 6/F, 411/Bldg., Huafa N. Rd., Futian District, Shenzhen

Post Code: 518031

Company's Internet Web Site: <http://www.huafa.com>

E-mail: webmaster@huafa.com

5. Newspapers for Disclosing the Information of the Company:

Securities Times, Ta Kung Pao

Internet Web Site for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed:

6/F, 411/Bldg., Huafa N. Rd., Futian District, Shenzhen

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHENHUAFU A, SHENHUAFU B

Stock Code: 0020, 2020

7. Other Relevant Information of the Company

Original registration date and place or changed registration date and place:

Registration date: May 1992

Registration place: 411/Bldg., Huafa N. Rd., Futian District, Shenzhen

Registered number of enterprise juristic person's business license: 100296

Tax registered number: 113260

Name and office address of the certified public accountants engaged by the Company:

Name: Zhongtian Huazheng (Shenzhen) Certified Public Accountants

Address: 16/F of Aihua Mansion, Shennan M. Rd., Shenzhen

Name: HO and HO & Company Certified Public Accountants

Address: No. 2-12 Queen West Avenue, Hong Kong

II. FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

(I) Major financial highlights as of the report year

Items	Unit: In RMB
	Amount
Total Profit	3,045,897.71
Net Profit	3,045,897.71
Net profit after deducting non-recurring gains and losses	-1,963,200.19
Profit from main business lines	2,400,647.76
Profit from other business lines	15,684,758.58
Operating profit	-1,011,770.09
Investment income	-900,000.00
Subsidy income	-
Net income/expenditure from non-operating activities	4,957,667.80
Net cash flows arising from operating activities	39,994,526.70
Net increase/decrease in cash and cash equivalents	-13,617,173.87

Note: Shenzhen Huafa Electronics Co., Ltd. (hereinafter referred to as the Company) is a listed company of both A-share and B-share. The net profit of the Company as calculated according to Chinese Accounting Standards (CAS) and International Accounting Standards (IAS) and relevant system was RMB 3,045,897.71 and RMB 1,889,445.37 respectively.

Reason of the differences: As calculated according to CAS and the relevant system, organization expenses retrospect to adjust undistributed profit at beginning of the year, and amounting to RMB 1,156,452.34; and as calculated according to IAS and the relevant system, the said expenses reckon in the gains and losses as of the report period.

Item of deducting non-recurring gains and losses is income from sale of assets and amounting to RMB 5,009,097.90.

(II) Major accounting data and financial indexes over the past three years ended by the report year

Unit: In RMB

Items	2001	2000		1999	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Income from main business lines	82,861,879	118,411,642	118,411,642	164,663,658	164,663,658
Net profit	3,045,898	2,928,449	2,928,449	10,013,131	10,013,131
Total assets	455,355,399	466,966,588	455,366,931	485,131,947	462,489,474
Shareholders' equity (excluding minority shareholders' equity)	290,776,801	299,330,560	287,730,904	309,892,111	285,092,455
Earnings per share	0.01	0.01	0.01	0.035	0.035
Net assets per share	1.03	1.057	1.016	1.094	1.007
Net assets per share after adjustment	0.98	0.97	0.94	1.06	0.93

Net cash flows per share arising from operating activities	0.14	0.016	0.016	0.110	0.110
Return on equity	1.05%	0.98%	1.02%	3.23%	3.51%

(III) The Company's return on equity and earnings per share as of the year 2001 as calculated in accordant with Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by China Securities Regulatory Commission:

Profit in the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main business lines	0.83	0.83	0.0085	0.0085
Operating profit	-0.35	-0.35	-0.0036	-0.0036
Net profit	1.05	1.05	0.0108	0.0108
Net profit after deducting non-recurring gains and losses	-0.66	-0.66	-0.0068	-0.0068

(II) Particulars about changes in shareholders' equity in the report year

In RMB'000

Items	Share capital	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Undistributed profit	Total shareholders' equity
Amount at beginning of the report period	283,161,227	98,460,750	77,391,593	373,108	-171,282,667	287,730,904
Increase in the report period	—	—	—	—	3,045,898	3,045,898
Decrease in the report period	—	—	—	—	—	—
Amount at end of the report period	283,161,227	98,460,750	77,391,593	373,108	-168,236,769	290,776,802

Reason for change: the Company realized the profit as of the report year.

III. PARTICULARS ABOUT THE CHANGES IN CAPITAL SHARES AND SHAREHOLDERS

(I) Particulars about the changes in share capital:

1. Statement of change in shares
- 2.

Unit: Share

Items	Before the change	Increase/decrease of this time (+, -)						After the change
		Share Allotment	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub- total	
I. Unlisted Shares								

1. Promoters' shares								
Including: Domestic juristic person's shares	124,925,828							124,925,828
Foreign juristic person's shares	62,462,914					-62,462,914	-62,462,914	0
Others (Domestic juristic person's transferred-allotment shares)	6,394,438					-6,394,438	-6,394,438	0
2. Raised juristic person's shares								
3. Employees' shares								
4. Preference shares or others								
Total Unlisted shares	193,783,180					-68,857,352	-68,857,352	124,925,828
II. Listed Shares								
1. RMB ordinary shares	49,845,125					+6,394,438	+6,394,438	56,239,563
2.Domestically listed foreign shares	39,532,922					+62,462,914	+62,462,914	101,995,836
Total Listed shares	89,378,047					+68,857,352	+68,857,352	158,235,399
III. Total shares	283,161,227							283,161,227

(II) Issuance and listing of shares

1. Over the past three years ended the report year, the Company issued neither new shares nor derived securities.

2. Explanation of the changes in the structure of the shares in the report year:

On Jan. 5, 2001, 6,394,438 domestic juristic person's transferred-allotment shares of the Company were listed in Shenzhen Stock Exchange.

After approving by CSRC, 62,462,914 unlisted foreign shares of the Company were transferred shares in circulation dated May 29, 2001. (For details, please refer to the public notice published on Securities Times and Ta Kung Pao dated June 8, 2001.)

(III) About shareholders

1. Total of shareholders as of the report year

By the end of the report year, the Company had totally 15,409 shareholders, including 6,164 shareholders of A-share and 9,245 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders ended Dec. 31, 2000

No.	Shareholders' name	Increase or Decrease (+/-)	Number of holding shares at end of the year (share)	Proportion in the total shares (%)	Type
①	Shenzhen SEG Group Co., Ltd.	—	62,462,914	22.06	A share
②	China Zhenhua Electronics Industrial Co.	—	62,462,914	22.06	A share
③	SEG (Hong Kong) Co., Ltd.	-14,487,400	16,569,560	5.85	B share
④	GOOD HOPE CORNET INVESTMENTS LTD	+13,900,000	13,900,000	4.91	B share
⑤	SUPER PACIFIC GROUP LIMITED	+11,800,000	11,800,000	4.17	B share
⑥	ADVANCE FUTURE GROUP LIMITED	+10,500,000	10,500,000	3.71	B share

⑦	JAPAN VALUE GROUP LIMITED	+7,500,000	7,500,000	2.65	B share
⑧	Shanghai Jiade Properties & Resources Consultation Co., Ltd.	+2,387,672	2,387,672	0.84	A share
⑨	Qingdao Port Bureau Qiangang Company	+2,333,990	2,333,990	0.82	A share
⑩	Jiayuguan Dayou Enterprise Company	+2,323,459	2,323,459	0.82	A share

[Note 1] The top two shareholders as listed above are the juristic shareholders of the Company and shares held by them have not been listed for circulation.

[Note 2] The 46,542,304 juristic person's A-share of the Company held by Shenzhen SEG Group Co., Ltd. have been pledged for loan.

[Note 3] SEG (Hong Kong) Co., Ltd. is overseas wholly-owned subsidiary of Shenzhen SEG Group Co., Ltd..

3. The control shareholder of the Company

Name of the control shareholder: Shenzhen SEG Group Co., Ltd.

Date of foundation: Aug. 23, 1984

Legal representative: Li Yueju

Business scope: Production and research of electronic products, electrical home appliances, electronic toys and electronics chemical; undertake various electronic system project. Raise development funds and invest credit; development of technology, information service and maintenance.

Registration capital: RMB 319.81 million

Shenzhen Investment Management Co., Ltd. is the actual control shareholder of Shenzhen SEG Group Co., Ltd., and holds 100% share equity of Shenzhen SEG Group Co., Ltd.

4. Brief introduction to the shareholders holding over 10% of the total shares

Name of the control shareholder: China Zhenhua Electronics Industrial Co.

Date of foundation: Oct. 1984

Legal representative: Chen Jieqing

Business scope: electronic information products, electronic products and machine products and consultation of technology and trading.

Registration capital: RMB 288.52 million

IV. PARTICULARS ABOUT DIRECTOR, SUPERVISOR, SENIOR EXECUTIVE AND STAFF

1. Directors, supervisors and senior executives

Name	Gender	Age	Title	Office term	Number of holding shares (share)	
					Amount at beginning of the report period	Amount at end of the report period
Wu Dehua	Male	56	Chairman of the Board	Apr. 2001-Apr. 2004	0	0
Feng Quanbao	Male	56	Vice Chairman of the Board	Apr. 2001-Apr. 2004	0	0
Zhang Yongcheng	Male	50	Director, General Manager	Apr. 2001-Apr. 2004	0	0

Che Wenshen	Male	53	Director	Apr. 2001-Apr. 2004	0	0
Lin Wenjiu	Male	58	Director	Apr. 2001-Apr. 2004	0	0
Wang Chu	Male	44	Director	Dec. 2001-Apr. 2004	0	0
Huang Junmin	Male	50	Director	Apr. 2001-Apr. 2004	0	0
Ye Daming	Male	57	Chairman of the Supervisory Committee	Apr. 2001-Apr. 2004	30,433	30,433
Liu Jingju	Female	47	Supervisor	Apr. 2001-Apr. 2004	0	0
Li Waping	Female	47	Supervisor	Apr. 2001-Apr. 2004	0	0
Cai Guiyong	Male	54	Deputy General Manager	June 2001-Apr. 2004	33,645	33,645
Hu Jianping	Male	40	Deputy General Manager, Chief Accountant, Secretary of Board of Directors	Apr. 2001-Apr. 2004	0	0
Sun Lei	Male	37	Deputy General Manager	June 2001-Apr. 2004	0	0

[Note 1] During the report year, there was no change in shares held by directors, supervisors and senior executives.

[Note 2] Particulars about directors or supervisors holding the position in Shareholding Company

Name	Company's name	Title
Wu Dehua	China Zhenhua Electronics Group Co. Shenzhen Electronics Co., Ltd.	General Manager
Feng Quanbao	Shenzhen SEG Group Co., Ltd.	Deputy General Manager
Che Wenshen	China Zhenhua Electronics Group Co.	Chief Accountant
Lin Wenjiu	Luk's Industrial (Hong Kong) Co., Ltd.	Manager
Wang Chu	Shenzhen SEG Group Co., Ltd.	Assistant of General Manager
Huang Junmin	China Huarong Assets Management Co. Shenzhen Office	Deputy General Manager
Liu Jingju	Shenzhen SEG Group Co., Ltd.	Deputy Secretary

(II) Particulars about the annual salary

1. The decision processes and the basis of annual salary held by directors, supervisors and senior executives

The Company implemented the position wage system for directors, supervisors and senior executives received from the Company. In accordance with Articles of Association of the Company, Shareholders' General Meeting determined the annual salary of directors and supervisors; and Board of Directors determined the annual salary of the senior executives.

2. Directors, supervisors and senior executives received their annual salary from the Company and amount to RMB 766,000. One person received his annual salary from the Company and amount to RMB 150,000. The total amount of the top three senior executives was RMB 419,000.

Wu Dehua, Feng Quanbao, Ju Wenshen, Lin Wenjiu, Wang Chu, Huang Junmin and Liu Jingju received no pay from the Company, and they received their annual salary from Shareholding Company. The annual salary of the rest are as follows: one person enjoys his annual salary RMB 100,000, four persons enjoy RMB 100, 000 to RMB 140,000 and one

person enjoys under RMB 140,000.

(III) Particulars about changes in directors, supervisors and senior executives

The 4th Board of Directors and the 4th Supervisory Committee were elected in 2000 Shareholders' General Meeting dated April 6, 2001, Mr. Wu Dehua was elected as the Chairman of the Board, Mr. Feng Quanbao was elected as the Vice Chairman of the Board; Mr. Ye Daming was elected as the Chairman of the Supervisory committee. The 4th Board of Directors elected Mr. Zhang Yongcheng as General Manager of the Company, and elected Mr. Cai Guiyong, Mr. Hu Jianping and Mr. Sun Lei as Deputy General Manager of the Company respectively; meanwhile, Mr. Hu Jianping else took the position of the Chief Accountant and the Secretary of Board of Directors.

Approved by Extraordinary Shareholders' General Manager dated Dec. 18, 2001, Mr. Huang Jujiao resigned the post of director of the Company due to work transfer and Mr. Wang Chu took over the post of director.

(4) About staff

By the end of Dec. 31, 2001, the Company has 1381 staff, production member takes 90% of the total staff, salesperson takes 1.5% of the total staff, technicians takes 2.8% of the total staff, financial personnel takes 1.1% and administrative personnel takes 4.6% of the total staff. Bachelor's degree or above takes 2.4% of total staff, persons graduated from 3-years regular college takes 3.3% of the total staff, persons graduated from high school and technical school takes 88% and persons graduated from junior school takes 6.2%. The Company has 101 retirees.

V. ADMINISTRATIVE STRUCTURE

Pursuant to the Administration Rules for Listed Company issued by China Securities Regulatory Commission, the Company continuously improves the legal person administration system and standardizes the Company's business operating behaviors in the following terms:

1. Shareholders and Shareholders' General Meeting: The company is able to ensure all shareholders could fully conduct their rights. Calls and holding of shareholders' general meetings comply with legal procedures, and shareholders' interests are guaranteed. Interrelated tradings were conducted in line with principles of commerce while on the basis of market prices, no guarantee was provided to shareholders and their related parties.
2. Control shareholder and public Company: The control shareholder behaviors in a standardized way, never interferes with the Company's decision-making directly or indirectly, or ever damages the Company's and the shareholders' rights and interests. Nomination of directors and supervisors is strictly in accordance with laws, regulations and provisions and procedures prescribed in the Company's Articles of Association. The Company is absolutely independent in business, personnel, assets, finance, and organization from its control shareholder. The Company holds independent and complete business and has independent operating capability. The Board of Directors, the Supervisory Committee and the internal organizations are able to perform their respective functions independently.

3. **Directors and the Board of Directors:** The Company elects directors strictly according to the regulations in its Articles of Association in the manner of openness, fairness, equitability and independence. The Company implements its responsibilities loyally, honestly and reliably and diligently. The formation of the Board of Directors is in conformity with laws and regulations, and personnel are highly qualified. The Company has established Rules of Procedures of the Board of Directors and implements them strictly. The Company hasn't established the system of independent directors during the report year, but is now positively revising relative rules, selecting candidates of independent directors and perfecting the system of independent directors according to the Guide Opinions on Establishing System of Independent Directors for Listed Companies.
4. **Supervisors and the Supervisory Committee:** The Supervisory Committee has established the Rules of Procedures of the Supervisory Committee, seriously performed its duties, taken responsible attitude to all shareholders, and supervised financial affairs, performance of the Company's directors, managers and other senior executives in terms of compliance with the laws, regulations.
5. **Performance Valuation, Encouragement and Binding Mechanism:** The Company is positively improving the performance valuation criteria and encouragement and binding mechanism for directors, supervisors and executives. The engagement and removal of executives comply with legal procedures with announcements made already. The Board of Directors approved the salary plan of executives whose duties were clarified in the Articles of Association.
6. **Relevant Beneficiaries:** The Company has been respecting the legal rights and interests of the banks and other creditors, staff, consumers, suppliers and other parties of related interests, provided them with necessary information and actively cooperated with them to promote development.
7. **Information Disclosure and Transparency:** The Company discloses information promptly on the designated newspaper and website in a way of truthfulness, accuracy and completeness according to the relevant laws and regulations.

VI. ABOUT THE SHAREHOLDERS' GENERAL MEETING

I. Particulars about the Shareholders' General Meeting of 2001

1. Notification, convening, and holding of the meeting

The Company made a public notice on holding the Shareholders' General Meeting of 2000 on Securities Times and Hongkong Ta Kung Pao dated March 3, 2001, and the meeting was held in the Company's seminar hall in the morning of April 6, 2001 as scheduled. Altogether 17 persons of shareholders, shareholders' proxies, directors, supervisors and senior executives attended the meeting who held and represented 187,539,903 shares, taking 66.23% in the Company's total shares. Among the 17 people, two were shareholder and shareholders' proxy of B share who held and represented 62,462,914 shares, taking 22.06% of the Company's total shares.

2. Particulars about resolution passed and disclosed

Reports and proposals were reviewed and passed in the Shareholders' General Meeting of 2000 as follows:

- (1) Work Report of the Board of Directors of 2000;

- (2) Work Report of the Supervisory Committee of 2000;
 - (3) Financial Report of Actual Budget in 2000;
 - (4) Profit Distribution Plan of 2000: neither to distribute profits nor transfer capital public reserve funds to share capitals. Since the deficits accumulated in the previous years haven't been made up yet, the Company supposed it wouldn't distribute profits of 2001.
 - (5) Financial Budget of 2001;
 - (6) The Plan of Extending Production Lines of Multi-layer Circuit Boards;
 - (7) Re-engaging Zhong Tian Qin Accounting Firm (originally known as Zhong Tian Accounting Firm) and Hao Hua International Accounting Firm (Shenzhen · China) as the Company's auditors in 2001;
 - (8) Election of the 4th Board of Directors which comprised directors, namely, Wu Dehua, Feng Quanbao, Zhang Yongcheng, Che Wenshen, Lin Wenjiu, Huang Jujiao, Huang Junmin;
 - (9) Election of the 4th Supervisory Committee which comprised 3 supervisors, namely, Ye Daming, Liu Jingju, Li Wanping (employees' representative).
- The resolutions of the Shareholders' General Meeting of 2000 were published on Securities Times and Hongkong Da Kung Pao on April 7, 2001.

II. Particulars about the Extraordinary Shareholders' General Meeting of 2001

1. Notification, convening and holding of the meeting

The Company made a public notice on holding the Extraordinary Shareholders' General Meeting of 2001 on Securities Times and Hongkong Ta Kung Pao dated November 15, 2001, and the meeting was held in the Company's seminar hall in the morning of December 18, 2001 as scheduled. Altogether 10 persons of shareholders, shareholders' proxies, directors, supervisors and senior executives attended the meeting, holding and representing 155,656,266 shares, which was 54.97% in the Company's total shares. Among the 10 people, one was shareholder and shareholders' proxy of B share, holding and representing 30,666,360 shares, which was 10.82% of the Company's total shares.

2. Resolutions passed and particular about the disclosure of resolutions

- a) Mr. Wang Chu replaced Mr. Huang Jujiao as director of the Company;
- b) Dismissed Zhong Tian Qin Accounting Firm and Hao Hua International Accounting Firm (Shenzhen · China), re-engaged Zhong Tian Hua Zheng Accounting Firm and He Xilin Accounting Firm as the Company's auditors in 2001, and authorized the Board of Directors to make resolution about auditors' pay.
- c) Authorized the Board of Directors to determine the Company's assets mortgage for bank loans. And according to the Articles of Association, total amount of bank loans should be no more than 60% of the Company's net assets.
- d) Changed the purpose of raised funds: the purpose of funds raised through share allocation in 1997 originally for investment of color monitor production lines was changed to extend multi-layer circuit board production lines.

The resolutions of the Extraordinary Shareholders' General Meeting of 2001 were published on Securities Times and Hongkong Ta Kung Pao on December 19, 2001.

3. Mr. Wang Chu replaced Mr. Huang Jujiao as the Company's director due to work change.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Operation in the report period

1. The Company is principally engaged in the production and sales of electronic products including color TV, printed circuit board and shot hardware. In 2001, the Company realized an income of RMB 82,861,800 and a profit of RMB 2,400,600 from main business lines, including: RMB 16,277,400 income and RMB -8,659,500 profit from the sales of color TV; RMB 57,541,400 income and RMB 10,608,100 profit from the sales of printed circuit board; RMB 6,387,100 income and RMB 211,700 profit from the sales of shot hardware,

2. Operation and achievements of associated companies

Shenzhen Huafa Property Rent and Management Co., Ltd., controlled subsidiary of the Company, is principally engaged in the letting and management of the Company's property. In the year 2001, it successfully attracted two customers: "Wanjia Department" and "Wanshang" and complete the restructure of property letting. By the end of 2001, rent rate of the Company's property reached 87%, an increase of 29% over that at year beginning.

3. Major supplier and customer

The calculated purchase amount to the top five suppliers accounts for 75% of the Company's total purchase amount.

The calculated sales amount to the top five customers accounts for 44.28% of the Company's total sales amount.

4. Problems and difficulties occurred in the operation and the counter-measures

After years of stagnations in development and with falling competitiveness in main business lines, administrative group of the Company carried out substantial reform in the significant year of 2001, details as follows:

(1) The Company implemented two innovation projects: expanding the production lines of multi-layer printed circuit board and restructuring the property rent mode.

Effectively and successfully, the Company completed its expanding project for production lines of multi-layer printed circuit board with high-qualified rate, 99% for single-layer board and 97% for multi-layer board. Meanwhile, the Company enthusiastically promoted its market towards eastern China and Fujian districts.

It is decisively resolved to shut the Hairun Plaza in bad operation and rent Huafa Building in whole to two large customer Wanjia Department and Wanshang.

(2) Based on the actual situation, the Company boldly innovates and resets the development prospect with the guiding principal as "United Cooperation and Maximized Profit" and operation target as "high competitiveness and high efficiency fostered in five years".

(3) The Company simplified and rationalized its staff structure.

(4) The Company promoted the TPM management, reforming the image of the plants and the offices.

(5) The Company adopted the budget management and cost control systems.

(II) Investment

1. Application of proceeds raised from share allotment in Dec. 1997 and the results

In: RMB '000

Committed investment projects	Total investment	Actual investment projects	Actual investment	Project progress
Removal and renovation	30,000	Removal and renovation of	35,540	Completed

of PCB factory		PCB factory		in 1998
Color monitor production line	136,000	Expansion of multi-layer printed circuit board production line	About 70,000	Completed

2. Cause, procedure, disclosure and achievement of the change in investment project

(1) Cause of the change: After the proceeds raised for the share allotment were ready, competition in the color monitor industry was very intensive and profit rate of the industry was consistently falling, due to rapid increase in color monitor manufactories home and abroad; while market demand for multi-layer circuit board was continually increasing due to high-speed development in mobile communication, notebook PC, pickup camera, video recorder and internet technology, etc. Under such environment, the Company decided to change its proceeds application in the project of expansion of multi-layer printed circuit board production line with a view to utilizing the proceeds more effectively and improving the competitiveness of its product printed circuit board.

(2) Procedure of the change: the change was approved in the Provisional Meeting of the 4th Board of Directors and 2001 Extraordinary Shareholders' General Meeting on June 21, 2001 and Dec. 18, 2001 respectively.

(3) Disclosure of the change: Notice on Changing Application of Proceeds was published on Securities Times and Ta Kung Pao dated June 22, 2001 and Notice on Approval of Shareholders' General Meeting was published on the same newspapers dated Dec. 19, 2001.

(4) The project of expanding multi-layer printed circuit board production line has been completed and gone into trial production on Sep. 28, 2001, and went into formal operation since 2002.

3. The Company invested in no project with non-raised proceeds.

(III) Financial Highlights

Item	2001	2000	Increase/decrease of Change (%)
Total assets	450,225,732	455,366,931	-1.13
Long-term liabilities	--	--	--
Shareholders' equity	290,776,801	287,730,904	1.06
Income from main business lines	2,400,648	4,276,616	-43.86
Net profit	3,045,898	2,928,449	4.01

Cause of the changes:

1. Increase in shareholders' equity was mainly due to profit as of the year.
2. Decrease in come from main business lines was mainly due to falling price of printed circuit board and color TV processing.

(IV) Operation Prospect

1. To continue the expansion of circuit board production, realize positive operation achievement and profit.
2. To improve the property rent and management level and upgrade the service quality, so to assure the target rental income.
3. To adjust the production and operation structure of color TV and maximize the usage rate of the resources.
4. To explore cooperation and improve the products mix.

To accomplish above prospect, the Company will attach great emphasis on following works:

① Setting the year 2002 as operation and management innovation year with detailed innovation strategy, business flow and advanced standards; ② Improving workshop management and utilization of equipment based on TPM system; encouraging the staff to “improve, create and innovate” for best products quality and efficiency; ③ Reinforcing budget and cost management with establishment of budget system and implementation of thorough budget control; rationally distributing and operating capital, reducing the cost and improving the efficiency; ④ Carrying out the quality control system effectively with overall coverage and strictly implementation of ISO 9001 Quality Standard and ISO 14000 Environmental Protection Standard; ⑤ Restructuring the human resources, simplifying personnel, improving efficiency and lessening cost; ⑥ Reinforcing the analysis, control and valuation systems, cementing the analysis on production and operation, regulating the circulation of personnel, materials and funds, establishing rapid respond system with high efficiency; ⑦ Updating the marketing theory with broad engagement, gradually establish a new marketing network; ⑧ Implementing technical innovation, searching technical cooperation and upgrading production technique; ⑨ Reinforcing the construction of enterprise culture and making the career-oriented environment.

(V) Routine Work of the Board of Directors

1. Board meetings and resolutions

The Board of Directors of the Company held totally five meeting in the report period:

(1) Chairman of the Board Li Yueju presided over the 7th Meeting of the 3rd Board of Directors dated Feb. 28, 2001, in which following resolutions were adopted: 2001 Work Report of the General Manager; 2000 Annual Report; 2000 Financial Settlement Report; 2000 Profit Distribution Preplan; 2001 Operation Prospect and Financial Budget; 2001 Reengagement of Zhongtianqin Certified Public Accountants and Horwath International Certified Public Accountants (Shenzhen, China) as the Company’s auditors; Plan on Expanding Multi-layer Circuit Board Production Line; nomination of Wu Dehua, Feng Quanbao, Zhang Yongcheng, Che Wenshen, Lin Wenjiu, Huang Jujiao and Huang Junmin as candidate for the 4th Board of Directors; decision on convening 2000 Shareholders’ General Meeting on April 6, 2001.

(2) The 1st Meeting of the 4th Board of Directors was held on April 6, 2001, in which following resolutions were adopted: election of Mr. Wu Dehua and Mr. Feng Quanbao as Chairman and Vice-chairman of the 4th Board; engagement of Mr. Zhang Yongcheng as general manager of the Company; and engagement of Mr. Hu Jianping as the secretary of the 4th Board.

(3) The provisional Meeting of the 4th Board of Directors of the Company was held on June 21, 2001, in which following resolutions were adopted: Change of Proceeds Application to the Project of Expansion of Multi-layer Printed Circuit Board Production Line; engagement of Mr. Can Guiyong, Mr. Hu Jianping and Mr. Sunlei as deputy general manager; engagement of Mr. Hu Jianping as general accountant.

(4) Chairman of the Board Wu Dehua presided over the 2nd Meeting of the 4th Board of Directors dated July 28, 2001, in which following resolutions were adopted: 2001 Interim Work Report of the General Manager; 2001 Interim Report and the summary; 2001 Interim Profit Distribution Preplan; Supplementary Regulations to “Regulations on Allotment of

Provisions for Assets Depreciation and the offsetting”.

(5) Chairman of the Board Wu Dehua presided over the Provisional Meeting of the 4th Board of Directors dated Nov. 14, 2001, in which following resolutions were adopted: director post transfer from Mr. Huang Jujiao to Mr. Wang Chu due to work adjustment; engagement of Zhongtianhua Certified Public Accountants and HO and HO & COMPANY as domestic and overseas auditors for 2001; Proposal Applied to the Shareholders’ General Meeting for Entrustment on the Board of Directors with the Issue of Assets Mortgage; Self-correction Report of the Operation in Accordance with Law; decision on convening 2001 Extraordinary Shareholders’ General Meeting on Dec. 18, 2001.

2. The Board of Directors of the Company has implemented all resolutions adopted in Shareholders’ General Meeting.

(VI) Profit Distribution and Capital Public Reserve Transferring into Share Capital Preplan: the Company realized a net profit of RMB 3,045,897.71 in 2001, all of which was used to offset the deficits as of the previous year. So the Company decided to conduct neither profit distribution nor capital public reserve transferring into share capital. Since the deficits accumulated as of the previous year was not offset, no profit distribution was estimated for the year 2002.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

Pursuant to laws and regulations in the Company Law, the Securities Law and duties and rights in the Articles of Association, in 2001, the Company’s Supervisory Committee has seriously implemented its supervisory function, safeguarded the rights and interests of all shareholders and independently conducted following work in the report year:

I. Particulars about daily work of the Supervisory Committee:

The Supervisory Committee held 3 sessions in 2001 that reviewed items as follows:

1. The 3rd Session of the 3rd Supervisory Committee was held on February 28, 2001 that reviewed and passed the Company’s Annual Report of 2000 with its summary and the Report of Supervisory Committee of 2000.
2. The 1st Session of the 4th Supervisory Committee was held on June 21, 2001 that reviewed and passed the opinion on change of purpose of raised funds concluded in the Provision Session of the 4th Board of Directors dated June 21, 2001.
3. The 2nd Session of the 4th Supervisory Committee was held on July 28, 2001 that reviewed and passed the Interim Report of 2001, Work Report of General Manager in the 1st half year of 2001 and other proposals.

II. Independent opinions from the Supervisory Committee on relevant events in 2001:

1. Particulars about the Company’s operating according to law:

According to the Supervisory Committee, the Board of Directors has strictly implemented the resolutions made by the Shareholders’ General Meeting, and the significant decision-making procedures of the Company are in compliance with the law; The Company has established and gradually improved the internal management and control system in terms of personnel, finance and properties; The directors and managers haven’t violated laws, regulations and the Articles of Association while performing duties or damaged the Company’s interests.

2. According to the Supervisory Committee, the Company changed the originally promised investment project of color monitor production lines with funds raised last time (dated December of 1997) to extension project of multi-layer circuit board production lines due to market change, of which the procedures of decision-making, changing and implementation

were in line with the law and the principle of steadiness.

3. Interrelated tradings in 2001 were fair. No inside trading has been found as well as indication of damage of shareholders' rights and interests and runoff of the Company's assets.

4. Financial inspection

Zhong Tian Hua Zheng Accounting Firm and He Xilin Accounting Firm audited the Company's financial report of 2001, and issued a non-reservation audit report. The Supervisory Committee believed the audit report reflected the Company's financial condition and business results truthfully and objectively.

IX. SIGNIFICATN EVENTS

1. There was no material lawsuit or arbitration in the report year.

2. There were no events of purchase and sales of assets, merger and consolidation.

3. There were no material interrelated transactions.

4. Material contracts and particulars about implementation

(1) In May 9, 2001, the Company was granted RMB30 million of two-year credit loan by Shenzhen Commercial Bank Shennan Sub-branch with its own property - 2nd and 3rd floor of Hua Fa Mansion - as pledge.

(2) In the report year, the Company signed the Building Lease Contract of 1st to 4th floor of Hua Fa Mansion with Shenzhen Wan Shang Friendship Department Store Ltd and Wan Jia Department Store Ltd for establishing Wan Jia Department Store etc, which the total area was 22241.7m² and lease term 10 years.

5. The Company and shareholders who hold shares over 5% did not make promises in the report year.

6. Dismissed Zhong Tian Qin Accounting Firm and Hao Hua International Accounting Firm (Shenzhen · China) and engaged Zhong Tian Hua Zheng Accounting Firm and He Xilin Accounting Firm as the Company's domestic and international auditors in 2001. The Company paid RMB360000 to the accounting firms in the report year.

7. The Company, the Board of Directors and its directors have neither been checked and given administrative punishment or circular notices of criticism by the China Securities Regulatory Commission nor been condemned publicly by the Stock Exchange.

8. In the report year, two large shareholders Hong Kong Lu Shi Industrial Co., Ltd and Sai Ge (Hong Kong) Co., Ltd cut down the Company's B shares they held, details of which please refer to the Public Notices on the Company's Significant Events published on Securities Times and Hong Kong Ta Kung Pao dated December 4, December 8, December 26, 2001.

X. FINANCIAL REPORTS

1. Auditors' Report (attached hereafter)

2. Accounting Statements (attached hereafter)

3. Notes of Accounting Statements (attached hereafter)

XI. CONTENTS OF REFERENCE DOCUMENTS

1. Financial statements carried with the personal signatures and seals of legal representative, chief accountant, accounting supervisors.

2. Original of Auditors' Report carried with the seal of the accounting firm as well as personal signatures and seals of certified public accountants.

3. Originals of all documents and public notice publicly disclosed on Securities Times and Hong Kong Ta Kung Pao in the report year.
4. Original of the summary of annual report disclosed outside China Mainland.

Note: This report is written in both Chinese and English. Should there be any difference in interpretation of the two versions, the Chinese version shall prevail.

**Board of Directors of
Shenzhen Huafa Electronics Co., Ltd.
March 26, 2002**

REPORT OF THE AUDITORS

To the Holders of B Shares of
Shenzhen Huafa Electronics Co., Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 2 to 22, which have been prepared in accordance with International Accounting Standards. The preparation of these financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2001 and of the profit and cash flows for the year then ended and have been prepared in accordance with International Accounting Standards.

Ho and Ho & Company
Certified Public Accountants

Hong Kong
22nd March 2002

SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2001

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31ST DECEMBER 2001

	<u>NOTES</u>	<u>2001</u> RMB'000	<u>2000</u> RMB'000
Revenue	5	106,621	141,027
Cost of sales		<u>(88,385)</u>	<u>(116,888)</u>
Gross profit		18,236	24,139
Other revenue		6,454	2,888
Selling and distribution costs		(2,226)	(5,962)
Administrative expenses		(13,179)	(12,440)
Other operating expenses		<u>(1,647)</u>	<u>(1,077)</u>
Profit from operations	7	7,638	7,548
Bank interest income		1,415	2,894
Finance costs	8	<u>(7,164)</u>	<u>(7,564)</u>
Profit before minority interests		1,889	2,878
Minority interests		<u>-</u>	<u>50</u>
Net profit for the year		<u>1,889</u>	<u>2,928</u>
Earnings per share	12	<u>RMB0.007</u>	<u>RMB0.01</u>

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2001

	NOTES	2001 RMB'000	2000 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	228,416	239,467
Construction in progress	14	68,586	11,291
Pre-operating expenses		-	1,157
Other investment		-	900
		<u>297,002</u>	<u>252,815</u>
Current assets			
Inventories	15	46,715	63,972
Amount due from a related company	16	5,471	17,625
Trade and other receivables		45,800	46,060
Deposits and prepayments		545	3,291
Cash and bank balances	17	<u>53,614</u>	<u>67,231</u>
		<u>152,145</u>	<u>198,179</u>
Total assets		<u><u>449,149</u></u>	<u><u>450,994</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	283,161	283,161
Reserves	19	<u>7,615</u>	<u>5,726</u>
		<u>288,214</u>	<u>288,887</u>
Current liabilities			
Trade and other payables		33,631	49,359
Receipt-in-advance		8,740	7,198
Bank loans	20	<u>116,000</u>	<u>105,550</u>
		<u>158,371</u>	<u>162,107</u>
Total equity and liabilities		<u><u>449,147</u></u>	<u><u>450,994</u></u>

The financial statements on pages 2 to 22 were approved by the Board of Directors and authorised for issue on 22nd March 2002 and signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2001

	Share capital RMB'00 0	Reserves				Total RMB'00 0
		Capital reserve RMB'000	Surplus reserve RMB'000	Accumulate d losses RMB'000	Reserve sub-total RMB'00 0	
Balance at 1st January 2000						
As previously stated	283,161	98,461	77,681	(162,611)	13,531	296,692
Prior year adjustment (note 22)	-	-	-	(10,443)	(10,443)	(10,443)
As restated	283,161	98,461	77,681	(173,054)	3,088	286,249
Loss not recognised in income statement						
Staff welfare expenditure	-	-	(290)	-	(290)	(290)
Net profit for the year	-	-	-	2,928	2,928	2,928
Balance at 31 st December 2000 and 1 st January 2001	283,161	98,461	77,391	(170,126)	5,726	288,887
Net profit for the year	-	-	-	1,889	1,889	1,889
Balance at 31st December 2001	<u>283,161</u>	<u>98,461</u>	<u>77,391</u>	<u>(168,237)</u>	<u>7,615</u>	<u>290,776</u>

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2001

	<u>NOTES</u>	<u>2001</u> RMB'000	<u>2000</u> RMB'000
OPERATING ACTIVITIES			
Cash generated from operations	23	36,370	5,710
Interest paid		<u>(7,317)</u>	<u>(7,104)</u>
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		<u>29,053</u>	<u>(1,394)</u>
INVESTING ACTIVITIES			
Interest received		1,415	2,894
Purchase of property, plant and equipment		(703)	(3,859)
Increase in construction in progress		(57,788)	(1,397)
Proceeds from disposals of property, plant and equipment		<u>3,956</u>	<u>26</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(53,120)</u>	<u>(2,336)</u>
FINANCING ACTIVITIES			
Increase in bank loans		116,000	105,550
Repayment of bank loans		<u>(105,550)</u>	<u>(99,000)</u>
NET CASH FROM FINANCING ACTIVITIES		<u>10,450</u>	<u>6,550</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>(13,617)</u>	<u>2,820</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>67,231</u>	<u>64,411</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>53,614</u>	<u>67,231</u>

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 8 December 1981 and was approved and reform into a sino-foreign joint stock limited company on 3rd December 1991. The Company's shares were listed and have been traded on the Shenzhen Stock Exchange since 28th April 1992.

The Company and its subsidiary are principally engaged in the manufacture and sales of electronic products, property investment and provision of property management services.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Accounting Standards (the "IAS").

The financial statements are presented in Renminbi (RMB) since that is the currency in which the majority of the Group's transactions are denominated.

3. ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

During the year, the Group has adopted the following IAS for the first time:

IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property

Revisions to a number of other IAS also took effect in 2001. The adoption of the new IAS and the revisions concerned matters of detailed application and have no effect on amounts reported for the current or prior accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below :-

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company ("its subsidiaries") made up to 31st December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(a) Basis of consolidation - continued

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

(b) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income is recognised on straight-line basis over the respective lease terms.

Interest income is accrued on a time basis, by reference to the outstanding principal and at the applicable interest rate.

(c) Taxation

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(c) Taxation - continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(d) Operating leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases. Rental expenses under operating lease is recognised on a straight-line basis over the lease term.

(e) Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising from exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(f) Property, plant and equipment

(i) Investment property

Investment property, which is land and buildings held to earn rentals and/or for capital appreciation. Investment properties are initially recognised at cost. Cost represents the cash and cash equivalents paid for acquisition or construction of the assets. After initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(f) Property, plant and equipment - continued

(ii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Depreciation is calculated to write off the cost of investment properties and other property, plant and equipment on a straight line basis over their estimated useful lives which are as follows:-

Leasehold land	Over the lease terms
Buildings	20-50 years
Machinery and equipment	5-10 years
Motor vehicles	5 years
Furniture and fixtures	5 years

(g) Construction in progress

Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost.

Cost comprises direct cost, attributable overheads and borrowing costs capitalised in accordance with the Group's accounting policy.

No depreciation is provided on construction in progress prior to their completion upon which they will be reclassified into the appropriate categories of property, plant and equipment and depreciation will be provided.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(h) Other investments

Other investments are stated at cost less any accumulated impairment loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(j) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at the revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(k) Financial instruments - continued

(i) Trade and other receivables

Trade and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

(ii) Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(iii) Trade and other payables

Trade and other payables are stated at cost.

(l) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Provision for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring which has been notified to affected parties

(m) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(n) Retirement benefit costs

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Scheme undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(o) Cash equivalents

Cash equivalents represent short-term, highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

5. REVENUE

An analysis of the Group's revenue is as follows:

	2001 RMB'000	2000 RMB'000
Continuing operations:		
Sales of electronic goods	80,403	105,605
Property investment	23,759	22,615
	104,162	128,220
Discontinuing operations:		
Operation of supermarket	2,459	12,807
	<u>106,621</u>	<u>141,027</u>

6. SEGMENTAL REPORT

(a) Business segment

For management purposes, the Group organised into three operating divisions—electronic goods, property investment and supermarket. These divisions are the basis on which the Group reports its primary business segment.

Electronic goods	- manufacture and sales of electronic products
Property investment	- leasing of property and providing property management services
Supermarket	- operating of supermarket

YEAR ENDED 31ST DECEMBER 2001

6. SEGMENTAL REPORT - continued

(a) Business segment - continued

2001	Year ended 31 st December 2001			
	Continuing operations		Discontinuing operations	Consolidated total
	Electronic goods	Property investment	Supermarket	
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	80,403	23,759	2,459	106,621
RESULT				
Operating profit/(loss) segment	2,347	16,308	(2,609)	16,046
Unallocated corporate expenses				(8,408)
Profit from operations				7,638
Bank interest income				1,415
Finance costs				(7,164)
Profit before minority interests				1,889
Minority interests				-
Net profit for the year				1,889
OTHER INFORMATION				
Depreciation and write-off of pre-operating expenses	5,414	3,514	411	9,339
	As at 31 st December 2001			
	Continuing operations		Discontinuing operations	Consolidated total
	Electronic goods	Property investment	Supermarket	
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	343,911	98,247	333	442,491
Unallocated corporate assets				6,656
Consolidated total assets				449,147
LIABILITIES				
Segment liabilities	157,083	1,128	160	158,371
Unallocated corporate liabilities				-
Consolidated total liabilities				158,371

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

6. SEGMENTAL REPORT - continued

(a) Business segment - continued

2000	Year ended 31 st December 2001			
	Continuing operations		Discontinuing operations	Consolidated total
	Electronic goods	Property investment	Supermarket	
	2001	2001	2001	
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	105,605	22,615	12,807	141,027
RESULT				
Operating (loss) /profit segment	(336)	14,369	(250)	(13,783)
Unallocated corporate expenses				6,235
Profit from operations				7,548
Bank interest income				2,894
Finance costs				(7,564)
Profit before minority interests				2,878
Minority interests				50
Net profit for the year				2,928
OTHER INFORMATION				
Depreciation and write-off of pre-operating expenses	5,700	3,110	538	9,348
	As at 31 st December 2001			
	Continuing operations		Discontinuing operations	Consolidated total
	Electronic goods	Property investment	Supermarket	
	2001	2001	2001	
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	337,913	95,451	8,949	442,313
Unallocated corporate assets				8,681
Consolidated total assets				450,994
LIABILITIES				
Segment liabilities	150,080	3,425	4,602	162,107
Unallocated corporate liabilities				-
				162,107

(b) Geographical segments

Over 90% of the Group's operations and markets are located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2001 RMB'000	2000 RMB'000
Depreciation on property, plant and equipment	8,182	8,971
Write-off of pre-operating expenses	1,157	377
Loss on disposals of property, plant and equipment	1,091	15
Impairment loss on other investments	900	-
Staff costs	18,187	21,185

8. FINANCE COSTS

	2001 RMB'000	2000 RMB'000
Interest expenses	7,317	7,104
Bank charges	12	68
Exchange (gain)/loss	(165)	392
	7,164	7,564

9. DISCONTINUING OPERATIONS

In March 2001, the Group resolved to cease the business operation of the supermarket. The decision was effected in order to generate cash flow for the expansion of the Group's other businesses.

The operating results of the supermarket for the period from 1st January 2001 to March 2001, which have been included in the consolidated financial statements, were as follows:

	2001 RMB'000	2000 RMB'000
Revenue	2,459	12,807
Cost of salet	(2,148)	(11,131)
Gross profit	311	1,676
Other revenue	257	210
Selling and distribution costs	(315)	(1,339)
Administrative expenses	(2,689)	(797)
Other operating expenses	(173)	-
Loss from operations	(2,609)	(250)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

9. DISCONTINUING OPERATIONS - continued

During the year, the operation of supermarket caused the Group's net operating cash outflows, of RMB40,900 (2000 : RMB125,000).

10. TAXATION

PRC income tax has not been provided for in the financial statements as the Group has tax losses brought forward to offset the assessable profit for the year.

Deferred taxation has not provided for in the financial statements as in the opinion of directors, the effect of temporary timing differences is immaterial.

11. DIVIDENDS

The Board of Directors has not recommend the payment of a final dividend for the year.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:-

	<u>2001</u>	<u>2000</u>
Profit for the year	<u>RMB1,889,000</u>	<u>RMB2,928,000</u>
Weighted average of shares in issue	<u>283,161,227</u>	<u>283,161,227</u>

As the Company does not have any shares in issue with dilutive effect, no diluted earnings per share is presented.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Investment Properties RMB'000	Land and buildings RMB'000	Machinery and equipment RMB'000	Furniture and Fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
						0
COST						
At 1st January 2001	-	227,599	48,585	19,405	5,748	301,337
Reclassification	95,488	(85,883)	(5,985)	(3,620)	-	-
Additions	-	-	18	170	515	703
Transferred from construction in progress	-	131	93	269	-	493
Disposals	-	-	(2,002)	(5,639)	(142)	(7,783)
At 31st December 2001	<u>95,488</u>	<u>141,847</u>	<u>40,709</u>	<u>10,585</u>	<u>6,121</u>	<u>294,750</u>
ACCUMULATED DEPRECIATION						
At 1st January 2001	-	21,771	28,659	8,157	3,283	61,870
Reclassification	10,184	(8,631)	(847)	(706)	-	-
Charge for the year	2,742	2,935	1,966	253	286	8,182
Written back on disposals	-	-	(364)	(3,317)	(37)	(3,718)
At 31st December 2001	<u>12,926</u>	<u>16,075</u>	<u>29,414</u>	<u>4,387</u>	<u>3,532</u>	<u>66,334</u>
NET BOOK VALUE						
At 31st December 2001	<u>82,562</u>	<u>125,772</u>	<u>11,295</u>	<u>6,198</u>	<u>2,589</u>	<u>228,416</u>
At 31st December 2000	<u>-</u>	<u>205,828</u>	<u>19,926</u>	<u>11,248</u>	<u>2,465</u>	<u>239,467</u>

At the balance sheet date, the Group's investment properties, land and buildings with net book value of approximately RMB136,516,000 (2000 : RMB45,253,000) were pledged to banks for the bank borrowings.

The gross rental income generated from the investment properties for the year was RMB23,759,000 (2000 : RMB22,615,000) Direct operating expenses arising from the investment properties for the year amounted to RMB3,173,000 (2000 : RMB2,753,000).

14. CONSTRUCTION IN PROGRESS

	2001 RMB'000	2000 RMB'000
Balance at 1st January	11,291	10,305
Additions	57,788	1,397
Transfer to property, plant and equipment	(493)	(411)
Balance at 31st December	<u>68,586</u>	<u>11,291</u>

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

15. INVENTORIES

	2001 RMB'000	2000 RMB'000
Raw materials	11,258	17,624
Work-in-progress	11,672	16,024
Finished goods	23,785	30,324
	<u>46,715</u>	<u>63,972</u>

The inventories were carried at net realisable value.

16. AMOUNT DUE FROM A RELATED COMPANY

	2001 RMB'000	2000 RMB'000
Luk's Industrial Ltd	<u>5,471</u>	<u>17,625</u>

Luk's Industrial Ltd is a shareholder of the Company.

17. CASH AND BANK BALANCES

At the balance sheet date, cash and bank balances of RMB8,339,000 (2000: RMB182,000) were guarantee deposits used for the purposes of opening letter of credit.

18. SHARE CAPITAL

	2001 RMB'000	2000 RMB'000
Registered, issued and fully paid share capital:		
181,165,391 "A" shares of RMB1.00 per share	181,165	181,165
101,995,836 "B" shares of RMB1.00 per share	101,996	101,996
	<u>283,161</u>	<u>283,161</u>

'A' share and "B" share rank pari passu in terms of shareholders' right.

There was no movements in the Company's shares in both 2001 and 2000.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

19. RESERVES

	2001 RMB'000	2000 RMB'000
Capital reserve	98,461	98,461
Surplus reserve	77,391	77,391
Accumulated losses	(168,237)	(170,126)
	<u>7,615</u>	<u>5,726</u>

Capital reserve

According to relevant PRC regulations, capital reserve can only be utilised to increase share capital.

Surplus reserves

Surplus reserve includes surplus fund and welfare fund.

According to the relevant PRC regulations, surplus fund can be used to absorb losses and to issue bonus shares to shareholders according to their shareholding. Other than absorbing losses, any other usage should not result in the fund balance falling below 25% of the registered capital.

Welfare fund can only be utilised for the purposes of employee welfare facilities.

20. BANK LOANS

	2001 RMB'000	2000 RMB'000
Bank loans repayable within one year:		
Secured	109,000	77,800
Unsecured	7,000	27,750
	<u>116,000</u>	<u>105,550</u>

The annual interest rates of the bank loans are ranged from 6.14% to 6.44% (2000: 5.85% to 7.02%)

21. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and bank balances, trade and other receivables and amount due from a related company. Financial liabilities of the Group include bank loans, trade and other payables. The Group exposes to credit and interest rate risk arising from the normal course of the Group business.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

21. FINANCIAL INSTRUMENTS - continued

(a) Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

(b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the Group are disclosed in note 20.

(c) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values at balance sheet date.

(i) Cash and bank balances

Cash and bank cash balances represent cash and short-term deposit in the bank. The carrying amount of these assets approximates their fair value.

(ii) Trade and other receivables and amount due from a related company

An allowance has been made for estimated irrecoverable amounts of the trade and other receivables, and amount due from a related company by reference to past default experience. The Directors consider that the carrying amount of these assets approximates their fair value.

(iii) Bank loans

The carrying amount of bank loans approximates its fair value based on the borrowing rates current available for bank loans with similar terms and maturity.

22. PRIOR YEAR ADJUSTMENT

The stock provision was found under-provided for the year of 1999 by RMB10,443,000. A prior year adjustment was made to correct such fundamental error, accordingly, the inventories were reduced by RMB10,443,000 and the accumulated losses at 1st January 2000 were increased by RMB10,443,000.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

23. CASH GENERATED FROM OPERATIONS

	2001 RMB'000	2000 RMB'000
Net profit for the year	1,889	2,928
Adjustment:		
Minority interest	-	(50)
Bank interest income	(1,415)	(2,894)
Interest expenses	7,317	7,104
Write-off of pre-operating expenses	1,157	377
Depreciation	8,182	8,971
Loss on disposals of property, plant and equipment	109	15
Impairment loss on other investments	900	-
Decrease in inventories	17,257	10,477
Decrease/(increase) in amount due from a related company	12,154	(211)
Decrease in trade and other receivables	260	3,530
Decrease/(increase) in deposits and prepayments	2,746	(3,147)
Decrease in trade and other payables	(15,728)	(21,256)
Increase/(decrease) in receipt-in-advance	1,542	(134)
Cash generated from operations	<u>36,370</u>	<u>5,710</u>

24. RELATED PARTY TRANSACTIONS

- (a) During the year, the Company entered into the following significant transactions with Luk's Industrial Limited which is the shareholder of the company :-

	2001 RMB'000	2000 RMB'000
Sales of goods	1,382	937
Purchases of goods	<u>276</u>	<u>451</u>

- (b) Directors' remuneration

During the year, the remuneration paid to directors is as follows :-

	2001 RMB'000	2000 RMB'000
Salaries	150	150
Discretionary bonuses	-	-
Benefits in kind	-	-
	<u>150</u>	<u>150</u>

25. DETAILS OF A SUBSIDIARY

Particulars of the Company's subsidiary as at 31st December 2001 are as follows :-

Name of subsidiary	Place of incorporation and operation	Proportion of equity interest	Principal activities
Shenzhen Huafa Property Tenancy Management Co., Ltd.	PRC	60%	Property leasing and management

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2001

26. CAPITAL COMMITMENT

At the balance sheet date, the Group has capital commitments for the acquisition of property, plant and equipment amounting to RMB14,533,000 (2000: Nil).

27. RETIREMENT BENEFIT PLANS

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefit scheme is to make the specified contributions.

28. IMPACT OF THE IAS ADJUSTMENT ON THE NET PROFIT FOR THE YEAR AND NET ASSETS

	Net profit for the year		Net assets as at 31st December	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the financial statements audited by the PRC auditors	3,046	2,298	290,776	299,330
Prior year adjustment on inventory provision made by the PRC auditors	-	-	-	(10,443)
Prior year adjustment on write-off of pre-operating expenses made by the PRC auditors	-	-	-	(1,157)
As reported in the financial statements restated by the PRC auditors	3,046	2,928	290,776	287,730
IAS adjustment :- Re-alignment for adjustment on write- off of pre-operating expenses	(1,157)	-	-	1,157
As restated based on IAS	1,889	2,928	290,776	288,887

29. COMPARATIVE FIGURES

Certain comparative figures had been reclassified with conform to the presentation of the financial statements during the year.