

SHENZHEN HUAFA ELECTRONICS CO., LTD.

2002 ANNUAL REPORT

Important Notes: Board of Directors of SHENZHEN HUAFA ELECTRONICS CO., LTD. (hereinafter referred to as the Company) and its directors hereby confirm 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 XXX was absent from the Board meeting due to certain reason.

Zhongtian Huazheng Certified Public Accountants and Ho and Ho & Company Certified Public Accountants audited the 2002 financial report of the Company and issued the standard unqualified Auditors' Report respectively.

Chairman of the Board of the Company Mr. Wu Dehua, General Manager Mr. Zhang Yongcheng, Deputy General Manager and concurrently Chief Accountant Mr. Hu Jianping and Head of Financial Department Mr. Wang Yiqing hereby confirm that the Financial Report of the Annual Report is true and complete.

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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@hwafa.com

Authorized Representative in charge of Securities affairs: Liu Yang

E-mail: lyang@hwafa.com

Contact Address: 6/F, 411 Bldg., Huafa North Road, Futian District, Shenzhen

Tel: (86) 755-83352207

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4. Registered Address: 411 Bldg., Huafa North Road, Futian District, Shenzhen

Office Address: 6/F, 411 Bldg., Huafa North Road, Futian District, Shenzhen

Post Code: 518031

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

5. Newspapers for Disclosing the Information of the Company:

China Securities and 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 North Road, Futian District, Shenzhen

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHENHUAFU A, SHENHUAFU B

Stock Code: 000020, 200020

7. Other Relevant Information of the Company

Initial registered date and place or changed registered date and place:

Registered date: May 1992

Registered place: 411 Bldg., Huafa North Road, Futian District, Shenzhen

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

Registered number of tax: 113260

Name and office address of Certified Public Accountants engaged by the Company:

Name: Zhongtian Huazheng (Shenzhen) Certified Public Accountants

Address: 16/F of Aihua Mansion, Shen Nan Middle Road, 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 accounting data as of the year 2002

Items	Unit: In RMB Amount
Total Profit	5,360,058.98

Net Profit	5,360,058.98
Net profit after deducting non-recurring gains and losses	4,250,974.43
Profit from core business	8,686,620.60
Profit from other business lines	23,721,306.01
Operating profit	4,250,974.43
Investment income	-
Subsidy income	-
Net income/expenditure from non-operating	1,109,084.55
Net cash flows arising from operating activities	6,855,825.25
Net increase in cash and cash equivalents	-7,739,783.88

Note: Item of deducting non-recurring gains and losses is net income/expenditure from non-operating activities of RMB 1,109,084.55.

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 no difference.

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

Unit: In RMB

Items	2002	2001		2000	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Income from core business	128,961,237	82,861,879	82,861,879	118,411,642	118,411,642
Net profit	5,360,059	3,045,898	1,729,925	2,928,449	2,092,799
Total assets	479,016,731	450,225,732	448,074,110	466,966,588	454,531,281
Shareholders' equity (excluding minority interests)	293,985,238	290,776,801	288,625,179	299,330,560	286,895,254
Earnings per share	0.02	0.01	0.006	0.01	0.007
Net assets per share	1.04	1.03	1.02	1.057	1.013
Net assets per share after adjustment	0.97	0.98	1.00	0.97	0.94
Net cash flows per share arising from operating activities	0.024	0.14	0.14	0.016	0.016
Return on equity	1.82%	1.05%	0.60%	0.98%	0.73%

(III) The Company's return on equity as of the year 2002 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 (%)	
	Fully diluted	Weighted average
Profit from core business	2.95	2.98

Operating profit	1.45	1.46
Net profit	1.82	1.85
Net profit after deducting non-recurring gains and losses	1.45	1.46

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

In RMB

Items	Share capital	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Undistributed profit	Total shareholders' equity
Amount at the period-begin	283,161,227	98,460,750	77,391,593	373,108	-170,388,391	288,625,179
Increase in the report period	—	—	—	—	5,360,059	5,360,059
Decrease in the report period	—	—	—	—	—	—
Amount at the period-end	283,161,227	98,460,750	77,391,593	373,108	-165,028,332	293,985,238

Reason for change: the Company realized the profit of RMB 5,360,059 as of the year 2002.

III. CHANGES IN CAPITAL SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about the changes in share capital

1. Statement of change in shares

Unit: Share

Items	Before the change	Increase/decrease of this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Subtotal	
I. Unlisted shares								
1. Promoters' shares								
Including:								
Domestic legal person's shares	124,925,828							124,925,828
Foreign legal person's shares	0							0
Others (Domestic legal person's transferred allotted shares)	0							0
2. Raised legal person's shares								
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	124,925,828							124,925,828
II. Listed shares								
1. RMB ordinary shares	56,239,563							56,239,563
2. Domestically listed foreign shares	101,995,836							101,995,836
Total listed shares	158,235,399							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. In the report period, the structure of shares remained unchanged.

3. There existed no inner employees' shares in the Company.

(III) About shareholders

1. Total number of shareholders at the end of report year

By the end of the report year, the Company had totally 29,053 shareholders, including 17,900 shareholders of A-share and 11,153 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders ended Dec. 31, 2002

No.	Shareholders' name	Increase/Decrease in the report year (+/-)	Holding shares at the year- end (share)	Proportion in 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.	—	16,569,560	5.85	B share
④	GOOD HOPE CORNET INVESTMENTS LTD	—	13,900,000	4.91	B share
⑤	ADVANCE FUTURE GROUP LIMITED	-2,524,190	7,975,810	2.82	B share
⑥	Shanghai Jiaying Real Estate Development Co., Ltd.	+2,060,081	2,060,081	0.73	A share
⑦	Qingdao Port Bureau Qiangang Company	-540,501	1,793,489	0.63	A share
⑧	Shanghai Huayi Group International Trade Co., Ltd.	+1,643,883	1,643,883	0.58	A share
⑨	Peng Huifen	+1,406,234	1,406,234	0.50	A share
⑩	Shanghai Jiade Properties & Resources Consultation Co., Ltd.	-1,025,100	1,362,572	0.48	A share

[Note 1] The top two shareholders as listed above are the legal person shareholders of the Company and shares held by them were unlisted shares.

[Note 2] 46,542,304 A shares of legal person's share of the Company held by Shenzhen SEG Group Co., Ltd. was pledged for loan.

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

3. The controlling shareholder of the Company

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

Legal representative: Sun Yulin

Date of foundation: Aug. 23, 1984

Registered capital: RMB 319.81 million

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

Shenzhen Investment Holding Corporation is the actual controller of Shenzhen SEG

Group Co., Ltd., and holds 100% equity of Shenzhen SEG Group Co., Ltd.

4. The legal person shareholders holding over 10% of the total shares

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

Legal representative: Chen Jieqing

Date of foundation: Oct. 1984

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

Registered capital: RMB 288.52 million

IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

(I) Directors, supervisors and senior executives

Name	Gender	Age	Title	Office term	Number of holding shares (share)	
					At the year-begin	At the year-end
Wu Dehua	Male	57	Chairman of the Board	Apr. 2001-Apr. 2004	0	0
Feng Quanbao	Male	57	Vice Chairman of the Board	Apr. 2001-Apr. 2004	0	0
Zhang Yongcheng	Male	51	Director, General Manager	Apr. 2001-Apr. 2004	0	0
Che Wenshen	Male	54	Director	Apr. 2001-Apr. 2004	0	0
Wang Chu	Male	45	Director	Dec. 2001-Apr. 2004	0	0
Zhou Daozhi	Male	52	Independent Director	Jun. 2002-Apr. 2004	0	0
Zhao Junrong	Male	39	Independent Director	Jun. 2002-Apr. 2004	0	0
Ye Daming	Male	58	Chairman of the Supervisory Committee	Apr. 2001-Apr. 2004	30,433	30,433
Liu Jingju	Female	48	Supervisor	Apr. 2001-Apr. 2004	0	0
Li Liangzhen	Male	38	Supervisor	Jun. 2002-Apr. 2004	0	0
Cai Guiyong	Male	55	Deputy General Manager	Jun. 2001-Apr. 2004	33,645	33,645
Hu Jianping	Male	41	Deputy General Manager, Chief Accountant, Secretary of Board of Directors	Apr. 2001-Apr. 2004	0	0
Sun Lei	Male	38	Deputy General Manager	Jun. 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 and supervisors holding the position in Shareholding Company

Name	Shareholding Company	Title	Office term
Wu Dehua	China Zhenhua Electronics Group Co. Shenzhen Electronics Co., Ltd.	General Manager	Apr, 2001 to now
Feng Quanbao	Shenzhen SEG Group Co., Ltd.	Deputy General Manager	Jun. 1992 to now
Che Wenshen	China Zhenhua Electronics Group Co.	Chief Accountant	Aug. 2000 to now

Wang Chu	Shenzhen SEG Group Co., Ltd.	Assistant Manager	Aug. 2001 to now
Liu Jingju	Shenzhen SEG Group Co., Ltd.	Deputy Secretary	May 1997 to now

(II) Particulars about the annual recompense

1. The decision processes of annual recompense held by directors, supervisors and senior executives

According to Articles of Association of the Company, shareholders' general meeting determined the annual recompense of directors and supervisors, and Board of Directors determined the annual recompense of the senior executives.

2. The annual recompense of directors, supervisors and senior executives

Chairman of the Board Mr. Wu Dehua, Vice Chairman of the Board Mr. Feng Quanbao, Director Mr. Che Wenshen and Wang Chu and Supervisor Ms. Liu Jingju received no pay from the Company; among them, Mr. Wu Dehua and Che Wenshen drew their recompense from China Zhenhua Electronics Group Co.; Mr. Feng Quanbao, Mr. Wang Chu and Ms. Liu Jingju drew their payment from Shenzhen SEG Group Co., Ltd..

The total annual recompense drew by Directors, supervisors and senior executives from the Company amounted to RMB 1,419,000. The total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 708,000; the annual allowances independent directors was RMB 36,000 respectively.

The range of annual salary held by directors, supervisors and senior executives are as follows: two enjoy the annual remuneration under RMB 50,000, five enjoy between RMB 200, 000 and RMB 250,000 and one enjoys over RMB 250,000.

(III) Directors, supervisors and senior executives leaving the office and the reason in the report year

1. Mr. Lin Wenjiu and Mr. Huang Junmin respectively resigned from the post of director of the Company due to work reason.

2. Ms. Li Wanping resigned from the post of supervisor of the Company due to retiring.

(IV) About Employees

Ended Dec. 31, 2002, the Company had 1,394 employees. Among them, production personnel takes 81.1% of the total employees, salespersons takes 2.9% of the total employees, technicians takes 2.7% of the total employees, administrative personnel takes 13.3% of the total employees. Among non-production personnel, Bachelor degree or above takes 20% of total employees, persons graduated from 3-years regular college take 16% of the total employees. The Company needs to bear the pensions of 121 retirees.

V. ADMINISTRATIVE STRUCTURE

Compared with the Administration Rules for Listed Company issued by China Securities Regulatory Commission, in the report period, the Company amended Articles of Association, amended and established a series of rules and systems to improve the legal person administration structure and standardize the Company's business operating behaviors. At present, the legal person administration structure of the Company is almost in conformity with the requirement of Administration Rules for Listed Company with details as follows:

1.Shareholders and Shareholders' General Meeting: The company amended Rules of Procedure of the Shareholders' General Meeting in the report period to ensure all shareholders could fully conduct their right. Calls and holding of shareholders' general meetings comply with legal procedures. Every Shareholders' General Meeting was witnessed by the present lawyer and expressed legal opinion. In the report period there occurred no related transactions in the Company and there existed no guarantees provided for the shareholder and related parties.

2.Control shareholder and public Company: The control shareholder has standardized behaviors, 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: In the report period, the Company amended Rules of Procedure of 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. In the report period, the Shareholders' General Meeting of the Company engaged Mr. Zhou Daozhi and Mr. Zhao Junrong as independent directors, established System of Independent Directors and submitted financial report of the Company to the independent directors every month.

4. Supervisors and the Supervisory Committee: In the report period, the Company amended Rules of Procedure of the Supervisory Committee. All supervisors could perform their duties, take responsible attitude to all shareholders, and supervise 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 has initially established the performance valuation criteria and encouragement for directors, supervisors and senior executives. The appointing and removing of senior executives conducted legal procedures according to Articles of Association and was

published. The proposal on their remuneration is decided by the Board of Directors.

6.Relevant Beneficiaries: The Company has been respecting the legal rights and interests of the banks and other creditors, staffs, 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.

(II) Implementation of Independent Directors' Duties of the Company

Independent directors, Mr. Zhou Daozhi and Mr. Zhao Junrong performed their duties according to relevant regulations of Company Law, Administration Rules for Listed Company, Articles of Association and System of Independent Directors, mastered timely the operation status and financial status of the Company, attended every meetings of the Board of Directors on time, expressed speciality opinions on the proposals of the meetings, participated in decision-making on significant events of the Company and performed good function on the normative administration of the Company.

(III) Separation from the Control Shareholder in Business, Personal, Assets, Organizations and Financing.

1.Separation in business: the production and operation activities of the Company are completely separated from the control shareholder. Although they all belong to the electric industry, the subdivision is different and there exists no mixed operation and completion in same industry.

2.Separation in personal: the management of labor, personal and salary of the Company was independent. The senior executives of the Company took no administrative posts in the companies of the control shareholders. Their salary and allowance were paid by the Company.

3.Separation in assets: the Company had complete and independent production system, auxiliary production system and auxiliary facilities, industry property right, trademark, non-patent technology and system of purchase and sale.

4.Separation in organization: the institutions and organizations of the Company operated independently and there existed no affiliation between the function departments of the Company and all shareholders' companies and their function departments.

5.Separation in financing: the Company established independent financing departments and system of accounting statement and has normative and independent system of financing management and bank account.

VI. ABOUT THE SHAREHOLDERS' GENERAL MEETING

(I) Particulars about the Shareholders' General Meeting of 2002

1. Notification, convening, and holding of the meeting

The Company published a public notice on holding the Shareholders' General Meeting of 2000 on Securities Times and Ta Kung Pao dated Mar.26, 2002, and the meeting was held in the Company's seminar hall in the morning of April 26, 2002 as

scheduled. Altogether 11 shareholders, shareholders' proxies, directors, supervisors and senior executives attended the meeting who held and represented 155,459,466 shares, taking 54.9% of the Company's total shares. Among of them, one was shareholder and shareholders' proxy of B share who held and represented 30,469,560 shares, taking 10.76% of the Company's total shares.

2. Particulars about resolutions approved and disclosed

Reports and proposals were examined and approved in the Shareholders' General Meeting of 2001 as follows:

- (1) 2001 Work Report of the Board of Directors;
- (2) 2001 Work Report of the Supervisory Committee;
- (3) 2001 Financial Statement Report;
- (4) 2001 Profit Distribution Proposal;
- (5) 2002 Financial Budget;
- (6) Reengaging Zhongtian Huazheng Certified Public Accountants and Ho and Ho & Company as Domestic and Overseas Auditor of the Company in 2002.

The resolutions of the Shareholders' General Meeting of 2001 were published on Securities Times and Ta Kung Pao dated April 27, 2002.

(II) Particulars about the Extraordinary Shareholders' General Meeting of 2002

1. Notification, convening, and holding of the meeting

The Company published a public notice on holding the Extraordinary Shareholders' General Meeting of 2002 on Securities Times and Ta Kung Pao dated May 29, 2002, and the meeting was held in the Company's seminar hall in the morning of June 29, 2002 as scheduled. Altogether 10 shareholders, shareholders' proxies, directors, supervisors and senior executives attended the meeting who held and represented 155,459,466 shares, taking 54.9% of the Company's total shares. Among of them, one was shareholder and shareholders' proxy of B share who held and represented 30,469,560 shares, taking 10.76% of the Company's total shares.

2. Particulars about resolutions approved and disclosed

Proposals were examined and approved in the Extraordinary Shareholders' General Meeting of 2002 as follows:

- (1) Proposal on Amendment of Articles of Association;
- (2) System of Independent Directors;
- (3) Rules of Procedure of the Shareholders' General Meeting;
- (4) Rules of Procedure of the Supervisory Committee;
- (5) Rules of Procedure of the Board of Directors;
- (6) Agreed Mr. Huang Junmin and Mr. Lin Wenjiu to resign the posts as independent directors of the Company and elect Mr. Zhou Daozhi and Mr. Zhao Junrong as independent directors of the Company;
- (7) Allowance standard of the Company's independent directors is RMB 36,000(including tax) per person per year.

The resolutions of the Extraordinary Shareholders' General Meeting of 2002 were published on Securities Times and Ta Kung Pao dated July 2, 2002.

3. Ansering Mr. Huang Junmin and Mr. Lin Wenjiu's require, they resigned the posts

as independent directors of the Company and Mr. Zhou Daozhi and Mr. Zhao Junrong were elected as independent directors of the Company.

4. Due to retirement, Ms. Li Waping resigned post as supervisors of the Company. Through democratic election of the staffs, Mr. Li Liangzhen was elected as supervisors of the 4th Supervisory Committee of the Company (staff representative).

VII. Report of the Board of Directors

(I) Discussion and analysis of financial report

In the financial report of the Company of the report period:

1. According to the notification of CK (2002) No. 18 document Answer on Relevant Questions of Implementing Enterprise Accounting System and Relevant Accounting Regulations of Ministry of Finance, commencing from Jan. 1, 2002, the Company changed the accounting policy as follows: the Company originally did not withdraw depreciation to fixed assets which have not been used or is not necessary for use and now changed to withdraw depreciation to the aforesaid assets. The aforesaid change of accounting policy impacted on the Company accumulatively amounting to RMB 2,151,600 and the Company adopted the retroactive adjustment method and adjusted the retained earnings at the year beginning and the amount at the year beginning of the relevant items, adjusted to reduce the net profit of 2001 amounting to RMB 1,316,000 and adjusted to reduce the retained earnings and undistributed profit at the beginning of 2001 amounting to RMB 835,700, which made the total amount of profit of the report period decrease by RMB 1,139,800. After the change of the aforesaid accounting policy, for the future the Company shall withdraw depreciation to all fixed assets.

2. At the end of the report period, the amount of inventory of the Company was RMB 78,173,700, RMB 33,034,700 was withdrew as reserve for price falling and the net value of inventory was RMB 45,139,000. The Company considered completely and withdrew the impairment loss of inventory due to the factors of damage, transformation and price falling etc.

3. In the report period, the Company transferred constructions in progress into fixed assets amounting to RMB 81,970,300, which was mainly because that PCB technical reform project had been finished formally and had been put into application, thus making the production capability of circuit board increase by a big margin and the product structure improve.

4. The income from core business of the report period increased by 55.63% compared with the previous year, which was mainly due to the increase of output of circuit board and increase of processing volume of color TVs.

5. In the report period, the reform and optimized adjustment of business of property lease of the Company had been accomplished basically and realized income of lease etc. amounting to RMB 35,120,700 and profit of RMB 24,840,700, an increase of 55.15% compared with the previous year. The business of property lease shall be the vigorous supplement of the core business and one of the stable origins of the profit of the Company in the future.

(II) Operation in the report period

1. Scope of core business and its operation

(1) Particulars about core business classified according to industries and products: the core business of the Company is production and sales of color TVs, printing and manufacturing the electronic products of circuit boards and plastic injection hardware etc. and the sales of products focuses on the area of South China.

Circuit Board: The production and sales volume in the report period was 417,100 sq. m., an increase of 32.47% compared with the previous year; the sales income of the whole year was RMB 77,293,900, an increase of 34.33% compared with the previous year and the profit realized was RMB 8,493,600, an decrease of 19.93% compared with the previous year.

Color TVs: The processing volume in the report period was 722,400 pieces, an increase of 84.05% compared with the previous year; the processing income of the whole year was RMB 17,988,300, an increase of 69% compared with the previous year. The Company turned losses into profits in the report period and realized a processing profit of RMB 1,196,300. The sales income of export color TVs of the report period was RMB 23,404,800.

Precision plastic injection hardware: The production and sales volume in the report period was 1,308.74 tons, an increase of 21.28% compared with the previous year; the sales income was RMB 7,450,600, an increase of 16.65% compared with the previous year and the profit realized was RMB 1,152,100, an increase of 444.21% compared with the previous year.

(2) In the report period, the core business and its structure experienced no material change. In terms of business of color TVs, on the one hand, the purchase order was increased and the production volume was raised; on the other hand, the Company strengthened the internal basic management and implemented effective cost control, which made the processing business of color TVs be turned losses into profits. The business of circuit board was still the main origin of the profit of the Company, but the sharp decrease of market price of circuit board resulted in the decline of the earnings by a big margin.

2. Operation and achievement of main holding and share-holding companies

Shenzhen Huafa Property Rent and Management Co., Ltd., whose 60% equity is held by the Company, is mainly engaged in the lease surrogate of property and property management of the Company with a registered capital of RMB1 million. The total assets at the end of the report period was RMB 15,660,800 and the income from property management expense of the Company was RMB 2,303,400 with a net profit of RMB 99,800.

3. Major suppliers and customers

The total amount of purchase of the top five suppliers was RMB 27,803,000, taking 35.74% of the total amount of purchase.

The total amount of sales of the top five customers was RMB 79,543,600, taking

61.68% of the total amount of sales.

4. Difficulties and problems arising from the operation and solutions

At present, the production technology of multi-layer circuit board is in the phase of development and the technology and quality is being gradually increased. At the same time, to reinforce the marketing and to gradually enhance the market share is the core emphasis of the work of the Company at present.

The market price of leading products declines year after year and partial products is in slight profit or is close to loss. The Company strives to reinforce the internal basic management, implements effective cost control and reduces the cost in order to offset the loss of falling price.

(III) The Company had no proceeds raised through share offering or investment projects in the report period

(IV) Financial status

Unit: in RMB

Item	In 2002	In 2001	Increase/decrease (%)
Total mount of assets	479,016,731	448,074,110	6.91
Shareholders' equity	293,985,238	288,625,179	1.86
Profit from core business	8,686,621	2,400,648	261.84
Net profit	5,360,059	1,729,925	209.84
Net increase of cash and cash equivalents	-7,739,784	-13,617,174	—

Reason of change:

1. The increase of profit from core business was mainly due to the increase of processing volume of color TVs in the report period and at the same time the implementation of effective cost control and decrease of cost.
2. The increase of net profit was due to the increase of profit from core business and increase o lease income of property.
3. The increase of shareholders' equity was due to the realization of profit.

(V) Business plan of the new report year

The business emphasis of the year of 2003 is: to enhance the OEM processing and production capability of color TVs, increase the production and technology level of multi-layer circuit board and quality of products and strengthen the internal management so as to enhance the income and reduce the expenditure and ensure the realization of operating objectives. To seek strategic cooperation partner timely so as to make the core business strong and large.

- ① To confirm the year of 2003 is the year for the Company to optimize resources and innovate the management. To enhance the management technology with the efficiency and speed as the target of renovation through innovation of system.
- ② To strengthen the budget management so as to ensure the realization of operating

objectives.

- ③ To strengthen the flow management and realize the value added of flow.
- ④ To reinforce the locale management and increase the comprehensive efficiency of equipments.
- ⑤ To adjust the financial structure, improve the assets and capital structure, reinforce the cost control and reduce all expenses.
- ⑥ To reinforce the effective running of international standard system of ISO9000 and ISO14000.
- ⑦ To implement staff reducing and efficiency enhancing, reduce the cost of human power and establish performance examination encouragement mechanism.
- ⑧ To start the marketing completely. To change the marketing concept, expand the market space, integrate the marketing resources and reduce the marketing cost.

(VI) Routine work of the Board of Directors

1. Meetings and resolutions of the Board of Directors in the report period

The 4th Board of Directors totally held five meetings in the report period and all the meetings were presided by Chairman of the Board Mr. Wu Dehua.

(1) The 3rd Meeting of the 4th Board of Directors held on March 22, 2002 discussed and approved: 2001 Work Report of General Manager, 2001 Annual Report, 2001 Financial Settlement Report, 2001 Profit Distribution Plan, 2002 Financial Budget Report, Renewal of Zhongtian Huazheng Certified Public Accountants and Ho And Ho & Company as 2002 Domestic and Overseas Auditors of the Company and Decision of Holding 2001 Shareholders' General Meeting on April 26, 2002.

(2) The Extraordinary Meeting held on April 26, 2002 examined and approved the 1st Quarter Report of 2002.

(3) The Extraordinary Meeting held on May 28, 2002 approved Proposal of Amendment of Articles of Association, Independent Director System, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of the Board of Directors, Agreement of Mr. Lin Wenjiu and Mr. Huang Junmin's Resignation from the Post of Directors, Nomination of Mr. Zhou Daozhi and Mr. Zhao Junrong as Candidates of Independent Director and Confirmation of Allowance Standard of Independent Director as RMB 16,000 per person per year (tax included).

(4) The 4th Meeting of the 4th Board of Directors held on Aug. 14, 2002 discussed and approved: Work Report of General Meeting of the First Half Year of 2002 and 2001 Semi-annual Report.

(5) The Extraordinary Meeting held on Oct. 25, 2002 examined and approved The 3rd Quarter Report of 2002.

2. The Board of Directors implemented all resolutions of 2001 Shareholders' General Meeting.

(VII) The preplan of profit distribution and converting capital public reserve into share capital: The net profit realized in 2002 was RMB 5,360,058.98, all of which was used to offset the loss of the previous year. The Company would neither distribute

profit nor convert public reserve into share capital in the report period. Since the accumulated loss of the previous year had not been offset completely, it was estimated not to distribute profit either in 2003.

(VIII) In 2003, the domestic newspaper for information disclosure was changed to China Securities.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

(I) Work of the Supervisory Committee

In the report period, according to Company Law, Articles of Association and relevant laws and regulations, the Supervisory Committee took responsible attitudes to all shareholders, performed patiently the supervision function of the Supervisory Committee, mastered the operation status and financial status of the Company through attending and participating in every meeting of the Board of Directors, the Shareholders' General Meeting and important meetings on production and operation as non-voting delegates, the Supervisory Committee, inspected and supervised over aperiodically the operation according to laws and financing and urged the normative operation of the Company.

In the report period, the Supervisory Committee of the Company totally held 5 meetings, which examined the following items:

- 1.The 3rd meeting of the 4th Supervisory Committee was held on Mar.22, 2002, which examined and approved 2001 Annual Report and its Summary and 2001 Work Report of the Supervisory Committee and so on.
- 2.The extraordinary meeting of the Supervisory Committee was held on Apr.26, 2002, which examined and approved the 1st Quarter Report of the Company of 2002.
- 3.The extraordinary meeting of the Supervisory Committee was held on May 27, 2002, which examined and approved Rules of Procedure of the Supervisory Committee and agreed Ms. Li Wanping resigned post as supervisors of the Company.
- 4.The extraordinary meeting of the Supervisory Committee was held on May 28, 2002, which examined and approved Amendment of Articles of Association and other proposals.
5. The 4th meeting of the 4th Supervisory Committee was held on Aug.14, 2002, which examined and approved Work Report of General Manager of the 1st Half Year of 2002 and Report of the 1st Half Year of 2002.

(II) Independent opinions of the Supervisory Committee on relevant events in 2002

1. Particulars about the Company's operation according to law

The Supervisory Committee believed that in the report period, the Company could operate according to Company Law, Articles of Association and relevant national laws and regulations, the Board of Directors implemented patiently every duty authorized by Company Law and Articles of Association, carried out comprehensively every resolution of the Shareholders' General Meeting and the procedures of decision-making of the significant problems including annual production and operation aim and consistent development measures were legal. All members of the management team of the Company carried out patiently the

resolutions of the Board of Directors in a responsible way, further consummated every internal control systems such as Personal, Financing and Material and implemented excellently the operation aims of 2002. The directors and managers of the Company has no actions of breaking national laws and regulations and Articles of Association and harmful for the interest of the Company.

2. Financial inspection

The Supervisory Committee inspected and checked the financial status and operation result of the Company and believed that 2002 Financial Report of the Company could reflect objectively and truly the financial status and operation result of the Company. The Auditor's Report issued by Zhongtian Huazheng Certified Public Accountants and Ho and Ho & Company was objective and fair.

3. According to the Supervisory Committee, the Company changed the originally promised investment project of color monitor production lines with the latest raised capital (dated December of 1997) to extension project of multi-layer circuit board production lines due to market change, of which the procedures of changing and decision-making were in line with the law. In the report period, the project has been put into production and taken effect initially.

4. In the report period, the trading price of purchase and sale of assets of the Company was reasonable. No inside trading has been found as well as indication of damage of shareholders' rights and interests and runoff of the Company's assets.

IX. SIGNIFICANT EVENTS

(I) There was no material lawsuit or arbitration in the report year.

(II) There were no events of purchase and sales of assets, merger and consolidation.

(III) There was no related transaction.

(IV) Material contracts and implementation

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 with the total area of 22241.7m² and lease term of 10 years. In the report period, the contract was implemented well and brought steady lease income for the Company.

(V) The Company and the shareholders holding over 5% shares of the Company has no commitment events in the report period.

(VI) In the report period, the Company engaged Zhongtian Huazheng Certified Public Accountants and Ho and Ho & Company as Domestic and Overseas Auditor of the Company. The annual remuneration of Certified Public Accountants was RMB 300,000. So far, the aforesaid Certified Public Accountants has provided auditing service for the Company for consistent two years.

(VII) The Company, the Board of Directors and its members 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.

X. FINANCIAL REPORTS

1. Auditors' Report (refer to enclosures)

2. Accounting Statements (refer to enclosures)
3. Notes of Accounting Statements (refer to enclosures)

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 Certified Public Accountant as well as personal signatures and seals of certified public accountants.
3. Originals of all documents and manuscripts of public notice publicly disclosed on Securities Times and 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.**
Apr.18, 2003

SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 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 24, which have been prepared in accordance with International Financial Reporting Standards. The preparation of these financial statements is 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 2002 and of the profit and cash flows for the year then ended and have been prepared in accordance with International Financial Reporting Standards.

Ho and Ho & Company
Certified Public Accountants

Hong Kong

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31ST DECEMBER 2002

	<u>NOTE</u>	<u>2002</u> RMB'000	<u>2001</u> RMB'000
Revenue	5	164,082	106,621
Cost of sales		<u>(130,555)</u>	<u>(88,385)</u>
Gross profit		33,527	18,236
Other revenue		486	6,454
Selling and distribution costs		(1,841)	(2,226)
Administrative expenses		(19,070)	(14,495)
Other operating expenses		<u>(497)</u>	<u>(1,647)</u>
Profit from operations	7	12,605	6,322
Bank interest income		361	1,415
Finance costs	8	<u>(7,606)</u>	<u>(7,164)</u>
Net profit for the year		<u>5,360</u>	<u>573</u>
Earnings per share	12	<u>RMB0.019</u>	<u>RMB0.002</u>

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2002

	<u>NOTE</u>	<u>2002</u> RMB'000	<u>2001</u> RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	310,652	226,265
Construction in progress	14	1,256	68,586
Other investment	15	-	-
		<u>311,908</u>	<u>294,851</u>
Current assets			
Inventories	16	45,139	46,715
Trade and other receivables		73,631	51,271
Deposits and prepayments		2,464	545
Cash and bank balances	17	<u>45,874</u>	<u>53,614</u>
		<u>167,108</u>	<u>152,145</u>
Total assets		<u>479,016</u>	<u>446,996</u>
<u>EQUITY AND LIABILITIES</u>			
Capital and reserves			
Share capital	18	283,161	283,161
Reserves	19	<u>10,824</u>	<u>5,464</u>
		<u>293,985</u>	<u>288,625</u>
Current liabilities			
Trade and other payables		48,892	33,631
Receipt-in-advance		12,139	8,740
Bank loans	20	<u>124,000</u>	<u>116,000</u>
		<u>185,031</u>	<u>158,371</u>
Total equity and liabilities		<u>479,016</u>	<u>446,996</u>

The financial statements on pages 2 to 24 were approved by the Board of Directors and authorised
for issue on and signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2002

	Share capital	Reserves			Total
		Capital reserve	Surplus reserve	Accumulate d losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January 2001					
- As previously stated	283,161	98,461	77,391	(170,126)	288,887
- Prior year adjustment (note 3)	-	-	-	(835)	(835)
- As restated	283,161	98,461	77,391	(170,961)	288,052
Net profit for the year					
- As previously stated	-	-	-	1,889	1,889
- Prior year adjustment (note 3)	-	-	-	(1,316)	(1,316)
- As restated	-	-	-	573	573
Balance at 31st December 2001 and 1st January 2002	283,161	98,461	77,391	(170,388)	288,625
Net profit for the year	-	-	-	5,360	5,360
Balance at 31st December 2002	283,161	98,461	77,391	(165,028)	293,985

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2002

	2002	2001
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Net profit for the year	5,360	573
Adjustment:		
Bank interest income	(361)	(1,415)
Interest expenses	7,540	7,317
Write-off of pre-operating expenses	-	1,157
Depreciation	13,391	9,498
(Gain)/loss on disposals of property, plant and equipment	(156)	109
Elimination of construction-in-progress	17	-
Impairment loss on other investments	-	900
Decrease in inventories	1,576	17,257
(Increase)/decrease in trade and other receivables	(34,648)	12,414
(Increase)/decrease in deposits and prepayments	(1,919)	2,746
Increase/(decrease) in trade and other payables	15,261	(15,728)
Increase in receipt-in-advance	3,399	1,542
	<u>9,460</u>	<u>36,370</u>
Cash generated from operations	9,460	36,370
Interest paid	<u>(7,540)</u>	<u>(7,319)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>1,920</u>	<u>29,053</u>
INVESTING ACTIVITIES		
Interest received	361	1,415
Purchase of property, plant and equipment	(3,950)	(703)
Increase in construction in progress	(14,657)	(57,788)
Proceeds from disposals of property, plant and equipment	<u>586</u>	<u>3,956</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(17,660)</u>	<u>(53,120)</u>

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2002

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
NET CASH USED IN INVESTING ACTIVITIES	<u>(17,660)</u>	<u>(53,120)</u>
FINANCING ACTIVITIES		
New bank loans	124,000	116,000
Repayment of bank loans	<u>(116,000)</u>	<u>(105,550)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>8,000</u>	<u>10,450</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(7,740)	(13,617)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>53,614</u>	<u>67,231</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>45,874</u>	<u>53,614</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

1. CORPORATE INFORMATION

Shenzhen Huafa Electronics Co., LTD (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 holding company of the company is Shenzhen Group Ltd.(the “SEG Group”), a state-owned enterprise registered in the PRC.

The Company and its subsidiary (together referred to as the “Group”) are principally engaged in the manufacture and sales of electronic products and property investment.

2. PRESENTATION OF FINANCIAL STATEMENTS

- (a) The financial statements are presented in Renminbi (RMB), the currency in which the majority of the Group’s transactions are denominated.
- (b) The group maintains its accounting records and prepares its statutory Financial statements in accordance with the accounting principles and the relevant Financial regulations applicable to Foreign investment enterprises in the PRC.
- (c) The financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRS”). The accounting policies and basis adopted to the preparation of the statutory financial statements differ in certain respects from IAS. The differences arising from the restatement of the results of operations and the net assets for compliance with IFRS are adjusted in financial statements but will not be taken up in the accounting records of the Group.

3. CHANGE OF ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENT

In the current year, the Group changed the accounting policy on depreciation on property, plant and equipment. The new policy requires those property, plant and equipment, which has purchased but not yet used or which have been temporarily retired, to be depreciated on the same basis as other assets in use. In previous years, no depreciation charge has been provided for these assets. The new policy has been applied retrospectively. In the opinion of the Group’s management, the adoption of the new policy can reflect the value of the Group’s assets more effectively. The adoption of the new policy resulted in the decrease in accumulated profits as at 1st January 2001 by RMB835,000 and in profit for 2001 by RMB1,316,000.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

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.

On acquisition, the assets and liabilities of the relevant subsidiaries 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 recognized.

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 recognized when goods are delivered and title has passed.

Rental income is recognized on straight-line basis during the rental period.

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

(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.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(c) Taxation - continued

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 recognized for all taxable temporary differences and deferred tax assets are recognized 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 recognized if the temporary difference arises from goodwill (or negative goodwill) or 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.

Deferred tax liabilities are recognized 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 in the period when the asset is realized 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) 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 on exchange are included in net profit or loss for the year.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Foreign currencies - continued

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 recognized as income or as expenses in the period in which the operation is disposed of.

(e) 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 recognized 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.

(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 capitalized 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 recognized 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:-

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Property, plant and equipment - continued

(ii) Other property, plant and equipment - continued

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

(f) 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 capitalized in accordance with the Group's accounting policy. Costs on completed construction works are transferred to the appropriate asset category. Costs incurred on construction in progress are recognized as an expense immediately when the work is terminated.

No depreciation is provided on construction in progress until it is completed and put into commercial operation.

(g) Other investments

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

(h) 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(i) 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 recognized as an expense immediately.

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.

(j) Financial instruments

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

(i) Trade and other receivables

Trade and other receivables are stated at their nominal value 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

4. SIGNIFICANT ACCOUNTING POLICIES - continued

(j) Financial instruments - continued

(iii) Trade and other payables

Trade and other payables are stated at their nominal value.

(k) Provisions

Provisions are recognized 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

(l) 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.

(m) 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.

(n) 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

5. REVENUE

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

	2002	2001
	RMB'000	RMB'000
Continuing operations:		
Sales of electronic goods	128,961	80,403
Property investment	35,121	23,759
	164,082	104,162
Discontinuing operations:		
Operation of supermarket	-	2,459
	164,082	106,621

6. SEGMENTAL REPORT

(a) Business segments

For management purposes, the Group is currently organized into two operating divisions—electronic goods and property investment . These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Electronic goods - manufacture and sales of electronic products

Property investment - leasing of property

In prior years, the Group was also engaged in the operation of supermarket. That operation was discontinued in March 2001.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

6. SEGMENTAL REPORT - continued

(a) Business segment - continued

Segment information about these businesses is presented below:

For the year ended 31st December 2002

	<u>Continuing operations</u>		<u>Discontinuing operations</u>	<u>Consolidated total</u>
	<u>Electronic goods</u>	<u>Property investment</u>	<u>Supermarket</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
REVENUE	<u>128,961</u>	<u>35,121</u>	<u>-</u>	<u>164,082</u>
RESULT				
Operating (loss) /profit of segment	(6,143)	23,922	-	17,779
Unallocated corporate expenses				(5,174)
Profit from operations				12,605
Bank interest income				361
Finance costs				(7,606)
Net profit for the year				<u>5,360</u>
OTHER INFORMATION				
Depreciation	10,353	2,255	-	12,608
Unallocated depreciation				783

Balance sheet as at 31st December 2002

	<u>Continuing operations</u>		<u>Discontinuing operations</u>	<u>Consolidated total</u>
	<u>Electronic goods</u>	<u>Property investment</u>	<u>Supermarket</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
ASSETS				
Segment assets	353,297	115,980	333	469,610
Unallocated corporate assets				9,406
Consolidated total assets				<u>479,016</u>
LIABILITIES				
Segment liabilities	183,440	1,431	160	185,031
Unallocated corporate liabilities				-
Consolidated total liabilities				<u>185,031</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

6. SEGMENTAL REPORT - continued

(a) Business segment - continued

For the year ended 31st 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) of segment	1,031	16,308	(2,609)	14,730
Unallocated corporate expenses				(8,408)
Profit from operations				6,322
Bank interest income				1,415
Finance costs				(7,164)
Net profit for the year				573
OTHER INFORMATION				
Depreciation and write-off of pre-operating expenses	6,730	3,514	411	10,655

Balance sheet as at 31st December 2001

	Continuing operations		Discontinuing operations	Consolidated total
	Electronic goods	Property investment	Supermarket	
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	335,200	104,807	333	440,340
Unallocated corporate assets				6,656
Consolidated total assets				446,996
LIABILITIES				
Segment liabilities	157,083	1,128	160	158,371
Unallocated corporate liabilities				-
Consolidated total liabilities				158,371

(b) Geographical segments

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

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2002	2001
	RMB'000	RMB'000
Retirement benefit costs	1,257	1,073
Depreciation on property, plant and equipment	13,391	9,498
Write-off of pre-operating expenses	-	1,157
Impairment loss on other investments	-	900
Staff costs	31,987	18,187
(Gain)/ loss on disposals of property, plant and equipment	<u>(156)</u>	<u>109</u>

8. FINANCE COSTS

	2002	2001
	RMB'000	RMB'000
Interest expenses	7,540	7,317
Bank charges	30	12
Exchange loss/ (gain)	<u>36</u>	<u>(165)</u>
	<u>7,606</u>	<u>7,164</u>

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 date of discontinuance, which have been included in the consolidated financial statements, were as follows:

	2001
	RMB'000
Revenue	2,459
Cost of sales	<u>(2,148)</u>
Gross profit	311
Other revenue	257
Selling and distribution costs	(315)
Administrative expenses	(2,689)
Other operating expenses	<u>(173)</u>
Loss from operations	<u>(2,609)</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

10. TAXATION

PRC income tax should be provided at 15% on the estimated assessable profit of the Group. It 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>2002</u>	<u>2001</u> (As Restated)
Profit for the year	<u>RMB5,360,000</u>	<u>RMB573,000</u>
Weighted average number 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 ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

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 2002	95,488	141,847	40,709	10,585	6,121	294,750
Additions	13,122	210	765	648	1,493	16,238
Transferred from construction in progress	48	26,884	49,986	5,052	-	81,970
Disposals	-	-	(408)	-	(1,414)	(1,822)
At 31st December 2002	<u>108,658</u>	<u>168,941</u>	<u>91,052</u>	<u>16,285</u>	<u>6,200</u>	<u>391,136</u>
ACCUMULATED DEPRECIATION						
At 1st January 2002 (As restated)	12,926	16,075	29,414	6,538	3,532	68,485
Charge for the year	2,235	3,342	5,328	1,913	573	13,391
Write back on disposals	-	-	(367)	-	(1,025)	(1,392)
At 31st December 2002	<u>15,161</u>	<u>19,417</u>	<u>34,375</u>	<u>8,451</u>	<u>3,080</u>	<u>80,484</u>
NET BOOK VALUE						
At 31st December 2002	<u>93,497</u>	<u>149,524</u>	<u>56,677</u>	<u>7,834</u>	<u>3,120</u>	<u>310,652</u>
At 31st December 2001	<u>82,562</u>	<u>125,772</u>	<u>11,295</u>	<u>4,047</u>	<u>2,589</u>	<u>226,265</u>

At the balance sheet date, the Group's investment properties and land and buildings with net book value of approximately RMB130,346,000 (2001 : RMB136,516,000) were pledged to banks for the bank borrowings.

The gross rental income generated from the investment properties for the year was RMB35,121,000 (2001: RMB23,759,000) Direct operating expenses arising from the investment properties for the year amounted to RMB 8,844,000 (2001 : RMB3,173,000).

14. CONSTRUCTION IN PROGRESS

	2002 RMB'000	2001 RMB'000
Balance at 1st January	68,586	11,291
Additions	14,657	57,788
Transfer to property, plant and equipment	(81,970)	(493)
Other transfer	(17)	-
	<u>1,256</u>	<u>68,586</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

15. OTHER INVESTMENT

	2002	2001
	RMB'000	RMB'000
Cost	900	900
Less: impairment loss	(900)	(900)
	<u>-</u>	<u>-</u>

16. INVENTORIES

	2002	2001
	RMB'000	RMB'000
Raw materials	11,077	11,258
Work-in-progress	11,278	11,672
Finished goods	22,784	23,785
	<u>45,139</u>	<u>46,715</u>

The inventories were carried at net realisable value.

17. CASH AND BANK BALANCES

At the balance sheet date, cash and bank balances of RMB918,000 (2001: RMB8,339,000) were guarantee deposits used for the purposes of opening letter of credit.

18. SHARE CAPITAL

	2002	2001
	RMB'000	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' rights.

There was no movements in the Company's shares in both 2002 and 2001.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

19. RESERVES

	2002 RMB'000	2001 RMB'000
Capital reserve	98,461	98,461
Surplus reserve	77,391	77,391
Accumulated losses	(165,028)	(170,388)
	<u>10,824</u>	<u>5,464</u>

Capital reserve

According to relevant PRC regulations, capital reserve can only be utilised to increase share capital and to absorb losses. The amount for absorbing losses is restricted to the share premium, cash donation, in the capital reserve.

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

	2002 RMB'000	2001 RMB'000
Bank loans repayable within one year:		
Secured	117,000	109,000
Unsecured	7,000	7,000
	<u>124,000</u>	<u>116,000</u>

The annual interest rates of the bank loans are ranged from 5.31% to 6.435% (2001: 6.14% to 6.44%)

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 ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

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 which is based on the borrowing rates currently available for bank loans with similar terms and maturity.

(iv) Trade and other payables

Trade and other payables are of short-term in nature, their fair value approximates their carrying value.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

22. DETAILS OF A SUBSIDIARY

Particulars of the Company's subsidiary as at 31st December 2002 are as follows :

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

23. 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.

The total cost charged to income of RMB1,257,000 (2001: RMB1,073,000) represents contributions payable to these plans by the group at rates specified in the rules of the plans.

24. MAJOR NON-CASH TRANSACTION

In respect of the additions of property, plant and equipment during the year, an amount of approximately HK\$12,288,000 was satisfied by a debtor to offset the amount due to the Group.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2002

25. 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	
	2002	2001	2002	2001
	RMB'000	RMB'000 (As restated)	RMB'000	RMB'000 (As restated)
As reported in the financial statements audited by the PRC auditors	5,360	1,730	293,985	288,625
IAS adjustment :-				
Re-alignment for adjustment on write- off of pre-operating expenses	-	(1,157)	-	-
As restated based on IAS	<u>5,360</u>	<u>573</u>	<u>293,985</u>	<u>288,625</u>

26. COMPARATIVE FIGURES

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