SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2003

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REPORT OF THE AUDITORS

To the Shareholders 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 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 2003 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
21th April 2004

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31ST DECEMBER 2003

	NOTE	2003 RMB'000	2002 RMB'000
Revenue	4	151,392	164,082
Cost of sales		(125,374)	(134,475)
Gross profit		26,018	29,607
Other revenue		96	486
Selling and distribution costs		(3,335)	(1,841)
Administrative expenses		(23,001)	(19,400)
Other operating expenses		(750)	(497)
(Loss)/Profit from operations	5	(972)	8,355
Net finance costs	6	(6,762)	(7,245)
Net (Loss)/ Profit from ordinary activities before taxation		(7,734)	1,110
Income tax expenses	7	-	-
(Loss)/profit attributable to shareholders		(7,734)	1,110
(Loss)/earnings per share – Basic	9	(RMB0.027)	RMB0.004

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2003

	NOTE	2003	2002
		RMB'000	RMB'000
ASSETS			(Restated)
Non-current assets			
Property, plant and equipment	11	290,183	297,947
Construction in progress	12	469	1,256
Other investment	13	-	-
Total non-current assets		290,652	299,203
Current assets			
Inventories	14	45,192	45,139
Bills receivable		4,042	-
Trade accounts receivable		63,870	51,810
Prepaid expenses and other current assets	15	25,355	24,285
Cash and cash equivalents	16	47,270	45,874
Total current assets		185,729	167,108
Total assets		476,381	466,311
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	283,161	283,161
Share premium	18	98,461	98,461
Property revaluation reserve	19	3,033	-
Surplus reserves	20	77,391	77,391
Accumulated losses		(185,467)	(177,733)
		276,579	281,280
Current liabilities			
Trade accounts payable		42,720	37,390
Accrued expenditures and other payables	21	23,082	23,641
Short-term bank borrowings	22	134,000	124,000
Total current liabilities		199,802	185,031
Total equity and liabilities		476,381	466,311

The financial statements on pages 2 to 22 were approved by the Board of Directors and authorised for issue on 21th April 2004 and signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2003

	Share capital	Share premium	Property revaluation reserve	Surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January 2002						
- As previous reported	283,161	98,461	-	77,391	(170,388)	288,625
- Prior period adjustment(note 2)	-	-	-	-	(8,455)	(8,455)
- As restated	283,161	98,461		77,391	(178,843)	280,170
Profit attributable to shareholders						
- As previous reported	-	-	-	-	5,360	5,360
- Prior period adjustment(note 2)	-	-	-	-	(4,250)	(4,250)
- As restated	-	-	-	-	1,110	1,110
Balance at 31st December 2002 and 1st January 2003	283,161	98,461	-	77,391	(177,733)	281,280
Revaluation surplus	-	-	3,033	-	-	3,033
Loss attributable to shareholders	-	-	-	-	(7,734)	(7,734)
Balance at 31st December 2003	283,161	98,461	3,033	77,391	(185,467)	276,579

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2003

	2003	2002
	RMB'000	RMB'000
OPERATING ACTIVITIES		
(Loss)/profit before taxation	(7,734)	1,110
Adjustment:		
Bank interest income	(293)	(361)
Interest expenses	7,131	7,540
Depreciation	22,702	17,641
Gain on disposals of property, plant and equipment	(10)	(156)
Written off construction-in-progress	19	17
(Increase)/decrease in inventories	(53)	1,576
Increase in trade and other receivables	(18,580)	(36,567)
Increase in trade and other payables	4,771	18,660
Cash generated from operations	7,953	9,460
Interest paid	(7,131)	(7,540)
NET CASH FROM OPERATING ACTIVITIES	822	1,920
INVESTING ACTIVITIES		
Interest received	293	361
Purchase of property, plant and equipment	(2,985)	(3,950)
Increase in construction in progress	(6,779)	(14,657)
Proceeds from disposals of property, plant and equipment	45	586
NET CASH USED IN INVESTING ACTIVITIES	(9,426)	(17,660)
FINANCING ACTIVITIES		
New bank loans	172,000	124,000
Repayment of bank loans	(162,000)	(116,000)
NET CASH FROM FINANCING ACTIVITIES	10,000	8,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,396	(7,740)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,874	53,614
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	47,270	45,874

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

1. GENERAL 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 SEG 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.

Particulars of the Company's subsidiary as at 31st December 2003 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

2. PRIOR PERIOD ADJUSTMENTS

During this period, the Group has made the following adjustments to correct the accounting errors of previous years.

	Net profit of 2002	Shareholders' equity of 2002	Shareholders' equity of 2001
	RMB'000	RMB'000	RMB'000
As previous reported	5,360	293,985	288,625
Adjustment:			
i) Under provision of deprecation because the useful life of the properties was erroneously estimated	(4,250)	(12,705)	(8,455)
As restated	1,110	281,280	280,170

3. PRINCIPAL ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

a) Statement of compliance (Continued)

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

The Group maintains its accounting records and prepares its statutory financial statements in accordance with the accounting principles in the PRC, PRC Accounting Standards and the Accounting System ("Statutory Financial Statements").

The accounting policies and basis adopted to the preparation of the Statutory Financial Statements differ in certain respects from IFRS. 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.

b) Basis of preparation

The consolidated financial statements have been prepared in Renminbi ("RMB"), the currency in which the majority of the Group's transactions are denominated.

Except for certain financial instruments which are stated at their fair value, the financial statements have been prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The principal accounting policies adopted in this report are set out below:

c) Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to the profit from ordinary activities after taxation. All significant inter-company balances, transactions, and any unrealized gains arising from intercompany transactions are eliminated on consolidation.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) Foreign currency transactions

Transactions in foreign currencies are translated to RMB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are re-translated to RMB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at historical cost are translated to RMB at the foreign exchange rate ruling at the date of the transaction.

The results of foreign enterprises are translated into RMB at the average exchange rates for the year; balance sheet items are translated into RMB at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit of loss on disposal.

(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) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs.

Where an item of property, plant and equipment comprises major components having difference useful lives, they are accounted for as separate items of property, plant and equipment.

iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment, including inspection and overhead expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plan and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment (Continued)

iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:-

	Years	Depreciation rates per annum
Leasehold land	Over the lease terms	
Buildings	20-50 years	4.5%-1.8%
Machinery and equipment	5-10 years	18%-9%
Furniture and fixtures	5 years	5%
Motor vehicles	5 years	5%

v) Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.

f) Construction in progress

Construction in progress represents properties under construction and is stated in the balance sheet at cost less impairment losses. Cost comprises direct cost of construction as well as interest charges and foreign exchange differences on related borrowing funds to the extent that they are regarded as an adjustment to interest charges during the period of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

g) Other investments

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

h) Impairment

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

h) Impairment (Continued)

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of inventories is calculated based on the weighted average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

j) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalent in the cash flow statement.

l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

m) Trade and other payables

Trade and other payables are stated at their cost.

n) Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

o) Revenue

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

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

p) Expenses

i) Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

Interest expenses are recognized in the income statement using the effective interest rate method.

ii) Borrowing costs
Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

q) Retirement benefits

The Group participates in retirement schemes operated by local authorities and the annual cost of providing retirement benefits is charged to the income statement according to the contribution determined by the relevant schemes.

r) Income tax expenses

PRC Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment of tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asst can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. REVENUE

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

	2003	2002
	RMB'000	RMB'000
Continuing operations:		
Sales of electronic goods	118,522	128,961
Property investment	32,870	35,121
	151,392	164,082

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

5. (LOSS)/PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2003	2002
	RMB'000	RMB'000
Staff costs		
-Wages and salaries and welfare	29,623	31,987
-Contribution to retirement scheme	1,323	1,257
	30,946	33,244
Depreciation on property, plant and equipment	22,702	17,641
Gain on disposals of property, plant and equipment	(10)	(156)

6. NET FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest expenses	7,131	7,540
Interest income	(293)	(361)
Exchange (gain)/loss	(125)	36
Bank charges	49	30
	6,762	7,245

7. INCOME TAX EXPENSES

PRC income tax should be provided at 15% on the estimated assessable profit of the Group. However, provision of income tax has not been made for in the financial statements as the Group did not have 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.

8. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend for the year.

9. (LOSS)/EARNINGS PER SHARE

The (loss)/earnings per share for the year ended 31st December is calculated based on the net loss attributable to shareholders of RMB 7,734,000 (2002: net profit of RMB 1,110,000) and the weighted average number of ordinary shares outstanding during the year of 283,161,227 shares (2002: 283,161,227 shares).

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

9. (LOSS)/EARNINGS PER SHARE (Continued)

The amount of diluted (loss)/earning per share is not presented as there were no dilutive potential ordinary shares in expositing during the years presented.

10. RETIREMENT BENEFIT PLANS

The Group participates in various defined contribution retirement plans organized by the government of Shenzhen for its staff. The Group is required to make contributions to the retirement plan at certain rates of the salaries, bonus and certain allowances of its staff. The Group has no other material obligations for the payment of pension benefits associated with these plans beyond the annual contribution described above. The Group's contribution for the year was RMB 1,323,000 (2002: RMB 1,257,000).

The Company's contribution to the defined contribution plans administered by the PRC government is recognized as an expense in the income statement as incurred.

11. PROPERTY, PLANT AND EQUIPMENT

	Investment properties	Land and buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1st January 2003 (As restated)	105,738	148,305	110,794	20,808	6,200	391,845
Additions	1,551	1,647	2,250	6,492	-	11,940
Revaluation surplus	3,033	-	-	-	-	3,033
Disposals	-	-	(150)	(19)	-	(169)
At 31st December 2003	110,322	149,952	112,894	27,281	6,200	406,649
ACCUMULATED DEPRECIATION						
At 1st January 2003 (As restated)	25,607	12,399	39,251	12,897	3,744	93,898
Charge for the year	7,945	3,868	7,739	2,564	586	22,702
Write back on disposals	-	-	(134)	-	-	(134)
At 31st December 2003	33,552	16,267	46,856	15,461	4,330	116,466
NET BOOK VALUE						
At 31st December 2003	76,770	133,685	66,038	11,820	1,870	290,183
At 31st December 2002	80,131	135,906	71,543	7,911	2,456	297,947

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, the additions include the Group's property, plant and equipment with cost approximately RMB7,547,000 ,which were transferred from construction in progress.

All of the buildings owned by the Group are located in the PRC under medium lease (lease periods of 20 years or more but less than 50 years).

As at 31st December 2003, all the Group's investment properties with net book value of RMB76,770,000 (2002: RMB80,131,000) were leasing under operating leases to independent third parties. The terms of leases are ranging from 3 to 11 years.

At the balance sheet date, the Group's investment properties, land and buildings with aggregate net book value of approximately RMB184,730,000 (2002 : RMB194,490,000) were pledged to banks for the bank borrowings.

The gross rental income generated from the investment properties for the year was RMB32,870,000 (2002: RMB35,121,000).

Direct operating expenses arising from the investment properties for the year amounted to RMB12,487,000 (2002 : RMB12,764,000).

12. CONSTRUCTION IN PROGRESS

	2003 RMB'000	2002 RMB'000
Balance at 1st January	1,256	68,586
Additions	6,779	14,657
Transfer to property, plant and equipment	(7,547)	(81,970)
Other transfer	(19)	(17)
Balance at 31st December	469	1,256

13. OTHER INVESTMENT

	2003 RMB'000	2002 RMB'000
Cost	900	900
Less: impairment loss	(900)	(900)
	-	-

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

14. INVENTORIES

	2003	2002
	RMB'000	RMB'000
Raw materials	10,708	11,077
Work-in-progress	10,290	11,278
Finished goods	24,194	22,784
	45,192	45,139

15. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	2003	2002
	RMB'000	RMB'000
Prepaid expenses	1,083	1,424
Other current assets	24,272	22,861
	25,355	24,285

16. CASH AND BANK BALANCES

At the balance sheet date, cash and bank balances of RMB283,000 (2002: RMB918,000) were guarantee deposits used for the purposes of opening letter of credit.

17. SHARE CAPITAL

	2003	2002
	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
	283,161	283,161

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

There was no movements in the Company's shares in both 2003 and 2002.

18. SHARE PREMIUM

	2003	2002
	RMB'000	RMB'000
Share premium	98,461	98,461

In accordance with the articles of association, the share premium may be utilized to offset prior years' losses or for the issuance of bonus shares.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

19. PROPERTY REVALUATION RESERVE

	2003	2002
	RMB'000	RMB'000
Revaluation surplus of investment property	3,033	-

20. SURPLUS RESERVES

	2003	2002
	RMB'000	RMB'000
Statutory surplus reserve	20,949	20,949
Public welfare fund reserve	373	373
Discretionary surplus reserve	56,069	56,069
	77,391	77,391

a) Statutory surplus reserve

According to the Company's Articles of Association, the Company and its subsidiaries are required to transfer 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into shares capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

b) Public welfare fund reserve

According to the Company's Articles of Association, the Company and its subsidiaries is required to transfer a certain percentage (from 5% to 10%) of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

c) Discretionary surplus reserve

Discretionary surplus reserve fund is appropriated after the appropriation of statutory surplus reserve and statutory public welfare reserve at the resolution of the Board of Directors and the discretion of the general shareholders' meeting. Its usage is similar to that of stationary surplus reserve.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

21. ACCRUED EXPENSES AND OTHER PAYABLES

	2003	2002
	RMB'000	RMB'000
Accrued expenses	3,512	3,394
Tax payable	1,969	1,459
Receipts in advance	10,648	12,139
Other payables	6,953	6,649
	23,082	23,641

22. BANK LOANS

	2003	2002
	RMB'000	RMB'000
Bank loans repayable within one year:		
Secured	127,000	117,000
Guaranteed	7,000	7,000
	134,000	124,000

The annual interest rates of the bank loans are ranged from 5.31% to 5.841% (2002: 5.31% to 6.435%)

The guaranteed bank borrowings RMB4,200,000 and RMB2,800,000 (2002: RMB4,200,000 and RMB2,800,000) are guaranteed by SEG Group and China Zhenghua Electronics Ltd., Group, which are the shareholders of the company.

23. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bill receivable, and trade and other receivables. Financial liabilities of the Group include bank loans, bill receivable, and trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31st December 2003 and 2002.

(a) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables and other current assets, except for prepayment and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade account receivable relate to sales of third parties operating in the electronics industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. During the year, the sales of the five maximum customers are 59.17% of total revenue.

No other financial assets carry a significant exposure to credit risk.

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

23. FINANCIAL INSTRUMENTS - continued

(b) Interest rate risk

The interest rate of the Group's borrowings are disclosed in note 22.

(c) Foreign currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1st January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into Hong Kong Dollars [United States dollar] or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form with suppliers' invoice, shipping documents and signed contracts.

(d) Fair value

The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and / or estimation methodologies may have a material effect on the estimated fair value amounts.

Investments in unlisted equity securities have no quoted market process in the PRC. Accordingly, a reasonable estimate of the fair value could not be made without incurring excessive costs.

The fair values of other financial instrument approximate their carrying amounts due to the nature or short-term maturity of these instruments.

24. OPERATING COMMITMENTS

As a leasor

The Group's investment properties were leased to independent third parties from 1st April 1999 for periods of 3 years or more but less than 11 years. Non-cancelable operating lease rental receivable is as follows:

	2003	2002
	RMB'000	RMB'000
Less than one year	901	1,728
Between one and five years	10,621	17,253
Between five and ten years	162,846	181,636
	174,368	200,617

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

25. 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.

Segment information about these businesses is presented below:

For the year ended 31st December 2003 / As at 31/12/2003

	Continuing operations		Discontinuing operations	
	Electronic goods	Property investment	Supermarket	Consolidated total
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	118,522	32,870	-	151,392
RESULT				
Operating (loss)/profit of segment	(13,599)	16,608	-	3,009
Unallocated corporate expenses				(3,981)
Losses form operations				(972)
Net finance costs				(6,762)
Net profit for the year				(7,734)
OTHER INFORMATON				
Depreciation	14,176	7,945	-	22,121
Unallocated depreciation				581

BALANCE SHEET

	Continuing operations		Discontinuing operations	
	Electronic goods	Property investment	Supermarket	Consolidated Total
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	363,376	110,147	333	473,856
Unallocated corporate assets				2,525
Consolidated total assets				476,381
LIABILITIES				
Segment liabilities	199,008	634	160	199,802
Unallocated corporate liabilities				
Consolidated total liabilities				199,802

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

25. SEGMENTAL REPORT (Continued)

(a) Business segment (Continued)

For the year ended 31st December 2002 / As at 31/12/2002

	Continuing operations		Discontinuing operations	
	Electronic goods	Property investment	Supermarket	Consolidated Total
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	128,961	35,121	-	164,082
RESULT				
Operating profit/(loss) of segment	(6,143)	19,672	-	13,529
Unallocated corporate expenses				(5,174)
Profit from operations				8,335
Finance costs				(7,245)
Net profit for the year				1,110
OTHER INFORMATON				
Depreciation	10,353	6,505	-	16,858
Unallocated depreciation				783

BALANCE SHEET

	Continuing operations		Discontinuing Operations	
	Electronic goods	Property investment	Supermarket	Consolidated total
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	353,297	103,275	333	456,905
Unallocated corporate assets				9,406
Consolidated total assets				466,311
LIABILITIES				
Segment liabilities	183,440	1,431	160	185,031
Unallocated corporate liabilities				-
Consolidated total liabilities				185,031

(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 2003

26. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial captions and the accounting for the items described below, there are no differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.