

SHENZHEN HUAFA ELECTRONICS CO., LTD.

2003 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. Independent Director Zhou Daozhi and Director Wang Chu were absent from the Board meeting, and respectively entrusted Independent Director Zhao Junrong and Vice Chairman of the Board Feng Quanbao to exercised the voting right in writing.

Shenzhen Nanfang Min-He Certified Public Accountants and Ho and Ho & Company Certified Public Accountants audited the 2003 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 2003 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 HUAFA ELECTRONICS CO., LTD.
2. Legal Representative: Wu Dehua
3. Secretary of the Board of Directors: Hu Jianping
Authorized Representative in charge of Securities affairs: Liu Yang
Contact Address: 6/F, 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Tel: (86) 755-83352207
Fax: (86) 755-83323169
E-mail: sz000020@163.net
4. Registered Address: 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Office Address: 6/F, 411 Bldg., Huaafa 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 Hong Kong 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., Huaafa North Road, Futian District, Shenzhen
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock: SHENHUAFA A, SHENHUAFA 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., Huaafa 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: Shenzhen Nanfang-Minhe Certified Public Accountants
Address: 7/F 8/F, Electronic Building, 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

Items	Unit: In RMB Amount
Total Profit	-7,734,400.71
Net Profit	-7,734,400.71
Net profit after deducting non-recurring gains and losses	-7,005,272.25
Profit from core business	9,413,808.57

Profit from other business lines	16,678,514.98
Operating profit	-7,005,272.25
Investment income	--
Subsidy income	---
Net income/expenditure from non-operating	-729,128.46
Net cash flows arising from operating activities	4,775,883.27
Net increase in cash and cash equivalents	1,395,838.35

Note: Item of deducting non-recurring gains and losses is net income/expenditure from non-operating activities of RMB-729, 128.46

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	2003	2002		2001	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Income from core business	118,522,403	128,961,237	128,961,237	82,861,879	82,861,879
Net profit	-7,734,401	5,360,059	1,109,909	1,729,925	-2,497,757
Total assets	476,380,523	479,016,731	466,311,215	448,074,110	439,618,744
Shareholders' equity (excluding minority interests)	276,578,589	293,985,238	281,279,723	288,625,179	280,169,813
Earnings per share	-0.027	0.02	0.004	0.006	-0.009
Net assets per share	0.98	1.04	0.99	1.02	0.99
Net assets per share after adjustment	0.91	0.97	0.93	1.00	0.97
Net cash flows per share arising from operating activities	0.017	0.024	0.024	0.14	0.14
Return on equity	-2.80%	1.82%	0.39%	0.60%	-0.89%

(III) The Company's profit highlights 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	3.40	3.37
Operating profit	-2.53	-2.51
Net profit	-2.80	-2.77
Net profit after deducting non-recurring gains and losses	-2.53	-2.51

(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	-177,733,847	281,279,723
Increase in the report period	---	3,033,267	---	---	---	3,033,267
Decrease in the report period	---	---	---	---	7,734,401	7,734,401
Amount at the period-end	283,161,227	101,494,017	77,391,593	373,108	-185,468,248	276,578,589

Reason for Change:

The increase in capital public reserve was due to accepting denotation of fixed assets from external organization.

The decrease in undistributed profit was due to the operation loss this year.

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						0	124,925,828
Foreign legal person's shares								
Others								
2. Raised legal person's shares								
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	124,925,828						0	124,925,828
II. Listed shares								
1. RMB ordinary shares	56,239,563						0	56,239,563
2.Domestically listed foreign shares	101,995,836						0	101,995,836
3.Overseas listed foreign shares								
4.Other								
Total listed shares	158,235,399						0	158,235,399
III. Total shares	283,161,227						0	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 37,342 shareholders, including 25,573 shareholders of A-share and 11,769 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders ended Dec. 31, 2003

No.	Shareholders' name	Increase/Decrease in the report year (+/-)	Holding shares at the year- end (share)	Proportion in total shares (%)	Type
	Shenzhen SEG Group Co., Ltd.	---	62,462,914	22.06	A share
	China Zhenhua Electronics Industrial Co.	---	62,462,914	22.06	A share
	SEG (Hong Kong) Co., Ltd.	---	16,569,560	5.85	B share
	GOOD HOPE CORNET INVESTMENTS LTD	---	13,900,000	4.91	B share
	ADVANCE FUTURE GROUP LIMITED	-4,301,400	3,674,410	1.30	B share
	Yin Gang	+720,145	720,145	0.25	B share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	+548,262	548,262	0.19	B share
	Huang Min	+373,620	373,620	0.13	B share
	Zhuang Xinjian	+362,350	362,350	0.13	A share
	BEST RELIANCE INVESTMENTS LTD	+350,306	350,306	0.12	B 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] 22,939,800 A shares of legal person's share of the Company held by Shenzhen SEG Group Co., Ltd. was frozen by pledge, and 15,920,610 shares were frozen by justice.

[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 1,355.42 million

Business scope: Production and research of electronic products, electrical home appliances; undertake various electronic system project (Import and export business and exclusive dealings commodities were conducted according to the regulation); raise development funds and invest credit; development of technology and information service and maintenance; high-floor sightseeing, supporting food and drink, marketplace and exhibition of SEG Plaza.

Shenzhen Investment Holding Corporation is the First Principle Shareholder of Shenzhen SEG Group Co., Ltd., and holds 46.52% 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 Qingjie

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

5. The top ten shareholders holding circulating shares of the Company

No.	Shareholders' name	Holding shares at the year- end (share)	Proportion in total shares (%)	Type
	SEG (Hong Kong) Co., Ltd.	16,569,560	5.85	B share
	GOOD HOPE CORNET INVESTMENTS LTD	13,900,000	4.91	B share
	ADVANCE FUTURE GROUP LIMITED	3,674,410	1.30	B share
	Yin Gang	720,145	0.25	B share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	548,262	0.19	B share
	Huang Min	373,620	0.13	B share
	Zhuang Xinjian	362,350	0.13	A share
	BEST RELIANCE INVESTMENTS LTD	350,306	0.12	B share
	WONG, CHI HO	300,000	0.11	B share
	Ye Baicai	291,400	0.10	B share

The Company was unaware of whether there existed related relationship among top ten circulating shareholders.

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	Increase /Decrease	At the year-end
Wu Dehua	Male	58	Chairman of the Board	Apr. 2001-Present	0	0	0
Feng Quanbao	Male	58	Vice Chairman of the Board	Apr. 2001-Present	0	0	0
Zhang Yongcheng	Male	52	Director, General Manager	Apr. 2001-Present	0	0	0
Che Wenshen	Male	55	Director	Apr. 2001-Present	0	0	0
Wang Chu	Male	46	Director	Dec. 2001-Present	0	0	0
Zhou Daozhi	Male	53	Independent Director	Jun. 2002-Present	0	0	0
Zhao Junrong	Male	40	Independent Director	Jun. 2002-Present	0	0	0
Ye Daming	Male	59	Chairman of the Supervisory Committee	Apr. 2001-Present	30,433	0	30,433
Liu Jingju	Female	49	Supervisor	Apr. 2001-Present	0	0	0
Li Liangzhen	Male	39	Supervisor	Jun. 2002-Present	0	0	0
Cai Guiyong	Male	56	Deputy General Manager	Jun. 2001-Present	33,645	1,900	35,545

Hu Jianping	Male	42	Deputy General Manager, Chief Accountant, Secretary of Board of Directors	Apr. 2001-Apr. 2004	0	0	0
Sun Lei	Male	39	Deputy General Manager	Jun. 2001-Apr. 2004	0	0	0

[Note] 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 other Directors, supervisors and senior executives from the Company amounted to RMB1, 707,000. The total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB854, 000; the annual allowances of independent directors were 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 300,000 and one enjoys over RMB 300,000.

(III) There were no Directors, supervisors and senior executives leaving the office in the report year

(IV) About Employees

Ended Dec. 31, 2003, the Company had 1,622 employees. Among them, production personnel takes 84.4% of the total employees, salespersons takes 1.66% of the total employees, technicians takes 3.58% of the total employees, administrative personnel takes 10.36% of the total employees. Among non-production personnel, Bachelor degree or above takes 21.34% of total employees, persons graduated from 3-years

regular college take 17.79% of the total employees. Social insurance bore the pension for 74 retirees of the Company.

V. ADMINISTRATIVE STRUCTURE

(I) In the report period, strictly according to relevant normative documents such as Company Law, Securities Law and Administration Rule for Listed Companies, the Company further perfected relevant systems, improved the legal person administration structure of the Company and standardized the behaviours of the Company's operation and running.

In the report period, the Company amended Articles of Association of the Company on items of guarantee according to the require of the documents of CSRC and State-owned Assets Supervision and Administration Commission and meanwhile amended Detailed Rules for Work of General Manager; made normative "Letter of Authorization of Shareholder" and "Letter of Authorization of Shareholder", further standardized the procedures of the three committees, ensured the directors and supervisors of the Company to sufficiently execute authorities and protected the right and interest of the most shareholders; in the report period, the Company has occurred no related transaction and has not provided guarantee for the shareholders and associated parties; at present, the Board of Directors of the Company has approved the proposal on change of directors, the candidates of independent directors with accounting speciality has been confirmed and will be finished election in Annual Shareholders' General Meeting for 2003. According to the regulations of Rule for Stock's Listing and Implementation Rule for Information Disclosure, the Company will strictly implement the obligations and procedures of information disclosure and assure the information disclosure of the Company is true, accurate, complete and timely.

(II) Implementation of independent directors' duties of the Company

According to relevant regulations of Company Law, Administration Rules for Listed Company, Articles of Association of the Company and Independent Director System, Independent Director, Mr. Zhou Daozhi and Mr. Zhao Junrong performed their duties of Independent Director in a patient and responsible way, attended every meeting of the Board according to request and expressed professional opinion on the proposals of the meetings; examined the financial statement of the Company each month and mastered the operation status and financial situation of the Company in time; actively participated in the decision-making of the significant events of the Company, contributed stratagem and decision to the development of the Company in the professional view and meanwhile played a good role in the normative administration of the Company.

(III) Separation from the control shareholder in business, personal, assets, organizations and financing.

1. Separation in business: the Company has independent system of purchase, production and sale and the activities of the production and operation are completely separated from the controlling shareholder.
2. Separation in personnel: 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 controlling shareholders. Their salaries and allowances 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.

(IV) The Company is entering on establishing and perfecting the performance evaluation standard and inspiring system for the senior executives and the remuneration proposal was examined and approved by the Board of Directors.

VI. ABOUT THE SHAREHOLDERS' GENERAL MEETING

(I) Particulars about Annual Shareholders' General Meeting for 2002

1. Notification, convening, and holding of the meeting

The Company published the notice on holding Annual Shareholders' General Meeting for 2002 on China Securities and Ta Kung Pao dated Apr. 18, 2003. The meeting was held in the report hall of the Company in the morning of May 20, 2003. The shareholders, proxies of the shareholders, directors, supervisors and senior executives of the Company attending the meeting were 12 persons, holding and representing 155,459,466 shares, taking by 54.9% of the total amount of the Company's shares, including 2 shareholder's representative of B share, holding and representing 30,469,560 shares, taking by 10.76% of the total amount of the Company's shares.

2. Particulars about resolutions approved and disclosed

The following reports and resolutions were examined and approved in Annual Shareholders' General Meeting for 2002:

- (1) 2002 Work Report of the Board of Directors;
- (2) 2002 Work Report of the Supervisory Committee;
- (3) 2002 Financial Statement Report;
- (4) 2002 Profit Distribution Proposal;
- (5) 2003 Financial Budget;
- (6) Changed to engage Shenzhen Nanfang Minhe Certified Public Accountants as the civil auditor of the Company in 2003 and continued to engage Ho and Ho & Company as foreign auditor of the Company. The total remuneration of auditors in 2003 was RMB 300,000.00.

The resolutions of Annual Shareholders' General Meeting for 2002 were published on China Securities and Ta Kung Pao dated May 21, 2003.

(II) In the report period, the Company has not changed the directors and supervisors.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Discussion and analysis of financial report and significant events in the report period

1. According to the accounting policy approved by the resolution of the Board, the houses in the Company's fixed assets were formerly appropriated depreciation according to the estimated usable year-limit of 50 years. The partial house property of the Company bought in 1982 and 1985 obtained real estate certification in Nov. 1999 and at the beginning of 2003 and the usable year-limit stated in the real estate certification was 30 years. According to the usable year-limit stated in the real estate certification and as approved by the resolution with SHFDZ [2004] NO.4 of the 1st provisional Board of Directors of the Company in 2004 (the notice was published on China Securities and Ta Kung Pao dated Mar. 23, 2004), the Company changed the estimated usable year-limit of the above house property into 30 years and appropriated depreciation of net value of fixed assets on account by amortizing as beeline method within the left year-limit since the 2nd month after receiving the real estate certification. Because of the change of the above accounting assessment, the Company increased the accumulated depreciation amounting to RMB 4,903,800 in 2003 and correspondingly decreased profit; made backward adjustment and correspondingly decreased the retained earnings amounting to RMB 12,705,500 at the beginning of 2003.

2. At the end of this year, the amount of the inventory of the Company was RMB 81,892,300. The Company appropriated provision for inventory's depreciation caused by derogation, price-falling and other factors according to the regulars of provision calculation. The provision for price-falling appropriated this year was RMB 3,665,900.

3. At the beginning of 2003, Chinese color-TV enterprises encountered the anti-dumping case of the occident countries, which hampered the product export business of many color-TV manufacturers in the country and meanwhile because of the influence of SARS, the purchase ability of the civil market descended in a large range and it caused the large decrease of the orders of OEM customers of the Company; the dissension of patent right of DVD caused the large decrease of output of the civil DVD manufacturers and had large influence on the sale of the Double Sided PCB of the Company; the processing expense of color-TV and the sale price of PCB dropped consistently and it had a serious influence on the income from main business. Whereas the scurviness of the market environment, the Company made efforts to improve the technology level and earning ability, made the development of the products toward multi-structure and multi-field, cast off the simplex complexion of the products and customers, actively searched the market, descended cost and raised performances.

4. The property lease of the Company is mainly commercial use. "SARS" directly effected the normal operation of the renters, so the Company debated partial rent. Whereas so, the rent rate of the Company's property, the rent income of the whole year still created the highest level since renting and the actual received rent in the whole year was RMB 33.08 million.

(II) Operation of the Company 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 exact 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 year was 370,600 sq. m. and the sale income of the whole year was RMB 78,500,700, an increase of 1.56% compared with the same period of last year, the sale cost was RMB 70,082,200, an increase of 1.86% compared with the same period of last year and the Company realized sale profit of RMB 8,418,500, a decrease of 0.88% compared with the same period of last year.

Color TVs: The processing volume in the report period was 743,200 pieces and the processing income in the whole year was RMB 16,379,300, a decrease of 8.94% compared with the same period of last year, the processing cost was RMB 16,194,000, a drop of 3.56% compared with the same period of last year. The realized processing profit was RMB 185,300, a drop of 84.51% compared with the same period of last year. The external sale of color TVs in the report year had a increase in large range, the realized sale income was RMB 11,157,300 and the sale profit was RMB 501,700.

Exact plastic injection hardware: The production and sales volume in the report year was 19,481,400 tons and the sale income was RMB 11,753,800, an increase of 57.76% compared with the same period of last year. The sale cost was RMB 9,722,300, an increase of 54.36% compared with the same period of last year. The realized sale profit was RMB 2,031,500, an increase of 76.33% compared with the same period of last year.

(2) In the report period, the core business and its structure experienced no material change.

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 RMB 1 million. The total assets at the end of the report period was RMB 3,561,800 and the income from property management expense of the Company was RMB 2,295,600 with a net profit of RMB 25,700.

3. Major suppliers and customers

The total amount of purchase of the top five suppliers was RMB 46,685,500, taking 51.06% of the total amount of purchase.

The total amount of sales of the top five customers was RMB 70,127,600, taking 59.17% of the total amount of sales.

4. Difficulties and problems arising from the operation and solutions

At present, the main market of the Circuit Board products of the Company is seeing and hearing products; the Color TVs factory mainly depends on OEM processing and is deeply effected by the fluctuation of the market and can not meet the need of the enterprise development. The Company will strengthen the competition

ability by reforming the technology and crafts, improving product quality, dropping cost and extending market.

(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 2003	In 2002	Increase/decrease (%)
Total mount of assets	476,380,523	466,311,215	2.16
Shareholders' equity	276,578,589	281,279,723	-1.67
Profit from core business	9,413,809	8,686,621	8.37
Net profit	-7,734,401	1,109,909	---
Net increase of cash and cash equivalents	1,395,838	-7,739,784	---

(V) Business plan of the new report year

The Company will push in large step and concentrate on doing the following works in 2004:

1. Regulating the product structure of Circuit Board, extending product market, improving product quality, increasing the product competition ability and earning profits space;
2. Making the OEM production of color TVs and SMI greater and stronger by improving the production ability and dropping cost.
3. Stabilizing property income and supporting the Company's development continually.

(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 5th meeting of the 4th Board of Directors was held on Apr. 16, 2003, discussed and approved: Work Report of General Manager 2002; Annual Report 2002; the 1st Quarterly Report of 2003; established Work Report of the Board of Directors of 2002; Financial Settlement Report 2002; Profit Distribution Proposal for 2002; Financial Budget Report 2003; decided to engage Shenzhen Nanfang Minhe Certified Public Accountants as the civil auditor and Ho and Ho & Company Certified Public Accountants as foreign auditor and the annual remuneration amounted to RMB300,000.00; decided to hold Annual Shareholders' General Meeting 2002 on May 20, 2003.

2) The 6th meeting of the 4th Board of Directors was held on Aug. 26, 2003, discussed and approved: Work Report of General Manager in the First Half Year of 2003; Semiannual Report 2003; application of the new loan line amounting to RMB 50 million for the bank.

3) The 1st provisional meeting in 2003 was held on Oct. 27, 2003, examined and

approved the 3rd quarterly report of 2003.

4) The 1st provisional meeting in 2003 was held on Dec. 31, 2003, examined and approved proposal on amendment of Articles of Association of the Company on relevant items of guarantee; Work Rule for General Manager.

2. The Board of Directors implemented all resolutions of 2002 Shareholders' General Meeting.

(VII) The preplan of profit distribution and converting capital public reserve into share capital: no profit distribution and no transfer from capital public reserve into share capital for 2003.

(VIII) Special explanation of Shenzhen Nanfang Minhe Certified Public Accountants on the capital occupied by the controlling shareholder and other associated parties (attached)

(IX) Special explanation and independent opinion of independent directors on the accumulated and current guarantee for external parties and implementation of the regulation of [2003] NO.56 of CSRC:

According to the regulations of Notification of Problems on Standardizing Current Capital between Listed Companies and Related Parties and Guarantee for External Parties of Listed Companies with ZJF[2003] NO.56 (hereinafter referred to as the Notification), we made special check on the guarantee for external parties of the Company and expressed the following explanation and opinion:

As checked and examined, the Company could strictly implement the regulation on guarantee for external parties in the Notification and the Board of Directors made amendment proposal of Articles of Association of the Company on the total amount, procedure of examining and approving of guarantee for external parties and the credit standard of the guaranteed objects. In the report period, the Company has not occurred guarantee for external parties. By the end of report period, the accumulated guarantee for external parties of the Company is zero.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

(I) Work of the Supervisory Committee and holding of meetings

The Supervisory Committee of the Company patiently implemented the function of supervision according to Company Law and Articles of Association of the Company. In the report period, the Supervisory Committee held five meetings and attended every meeting of the Board of Directors of the Company as non-voting delegates.

1. The 6th provisional meeting of the 4th Supervisory Committee held on Apr. 8, 2003 examined and approved Auditor's Report 2003;

2. The 5th meeting of the 4th Supervisory Committee held on Apr. 16, 2003 examined and approved the proposal such as Work Report of the Supervisory Committee in 2003, Annual Report 2003 of the Company, Financial Settlement Report 2003 of the Company and Profit Distribution Proposal and the 1st Quarterly Report of 2003 of the Company and so on;

3. The 5th meeting of the 4th Supervisory Committee held on Aug. 26, 2003 examined and approved Semiannual Report 2003 and Summary and Proposal on New Pledged Loan Line of RMB 50 Million in 2003;

4. The 7th provisional meeting of the 4th Supervisory Committee held on Oct. 27, 2003 examined and approved the 3rd Quarterly Report of 2003;

5. The 8th provisional meeting of the 4th Supervisory Committee held on Dec. 31, 2003 examined and approved Work Rule for General Manager and Proposal on Amendment of Articles of Association of the Company.

(II) Independent opinions of the Supervisory Committee on relevant events in 2003

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

The Supervisory Committee believes that under the lead of the Board of Directors, the management team of the Company could operate strictly according to Company Law, Securities Law, Articles of Association of the Company and the relevant state laws and regulations and the decision-making procedure of the significant events such as the annual production and operation aim, consistent development measures and bank loan. The internal control was perfect step by step and the directors and managers of the Company have 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 the standard unqualified auditor's report issued by Shenzhen Nanfang Minhe Certified Public Accountants and Ho and Ho & Company Certified Public Accountants was objective and fair.

3. The use of the latest raised capital of the Company (Dec. 1997) has been finished implementation as planned. Among it, for the changed items of the originally planned commitment, the change procedures were legal.

4. In the report period, there was no purchase and sale of assets.

5. In the report period, there existed no related transaction and inside transaction activities and no behavior of damaging the interest of the shareholders and the Company.

IX. SIGNIFICATN 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

1. 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 22241.7 m² and lease term of 10 years. In the report period, the contract was implemented well and the rent income of the Company was stable.

2. The Company has no contract of guarantee for external parties implemented and not finished implementation in the report period.

3. The Company has not entrusted others to manage cash assets in the report period or lasting in the report period.

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

(IV) In the report period, the Company changed to engage Shenzhen Nanfang Minhe Certified Public Accountants as the civil auditor of the Company in 2003 and continued to engage Ho and Ho & Company Certified Public Accountants as foreign auditor of the Company. The total remuneration of the auditors in 2003 was RMB 300,000. At present, Shenzhen Nanfang Minhe Certified Public Accountants has provided audit service for the Company for one year and Ho and Ho & Company Certified Public Accountants has provided audit service for the Company for three years.

(VII) Shenzhen Securities Supervision Bureau made the circling examination for the Company from Nov. 3, 2003 to Nov. 7, 2003 and issued “Notification of Requiring Shenzhen Huafa Electrics Co., Ltd. to Rectify and Reform in Stated Term” with SZBFZ(2003) NO. 283. According to the Notification, the Company exclusively held the provisional meeting of the Board of Directors and the Supervisory Committee and the meeting unanimously believed that the circling check was very timely and it played an active guide role in improving the administration and standardizing level and urging the development of the Company. Aiming for the existed problems mentioned in the Notification, the Board of Directors patiently discussed one by one in a cautious attitude and made the operable proposal on rectifying and reforming and finished all items of rectifying and reforming before Annual Shareholders’ General Meeting 2003. Aiming for the problem found in the circling check and occurred in the previous years that the remuneration of the directors and supervisors was not authorized by the Shareholders’ General Meeting, Shenzhen Securities Supervision Bureau has publicly criticized partial relevant previous and current directors and secretary of the Board. The Board of Directors of the Company has corrected the problem in 2002.

The Proposal on Rectifying and Reforming of Circling Check in 2003, relevant public notice on resolutions of the Board of Directors and the Supervisory Committee were published on China Securities and Ta Kung Pao dated Mar. 23, 2004.

X. FINANCIAL REPORTS

- (I) Auditors’ Report (refer to enclosures)
- (II) Accounting Statements (refer to enclosures)
- (III) 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.

Chairman of the Board: Wu Dehua

**Board of Directors of
Shenzhen Huafa Electronics Co., Ltd.**
Apr.21, 2004

Special Explanation on Capital Occupied by the Controlling Shareholder and Other Related Parties of Shenzhen Huafa Electronics Co., Ltd.

To all shareholders of Shenzhen Huafa Electronics Co., Ltd.:

We have audited the accompanying balance sheet of Shenzhen Huafa Electronics Co., Ltd. as of Dec. 31, 2003 and the accompanying income statement and cash flow statement (hereinafter referred to as Accounting Statements) for the year then ended according to Independent Auditing Standards of Chinese CPA and have issued the unqualified auditors' report on Apr. 9, 2004.

According to the requirements in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Some Problems released by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission of the State Council, Shenzhen Huafa Electronics Co., Ltd. has prepared Summary Statement of Capital Occupancy between Shenzhen Huafa Electronics Co., Ltd. and its Controlling Shareholder and Other Related Parties in 2003 (hereinafter referred to as the Summary Statement) attached in the special explanation.

Preparing and disclosing the Summary Statement externally and ensuring its truthfulness, legality and completeness are the responsibility of Shenzhen Huafa Electronics Co., Ltd.. We have checked the materials carried in the Summary Statement with the accounting information rechecked and relevant contents in the financial report audited while auditing the financial report for 2003 of Shenzhen Huafa Electronics Co., Ltd. and have not found any variance in all material aspects. Except for implementing the auditing procedures related to related transactions carried out in the auditing of accounting statements for 2003 to Shenzhen Huafa Electronics Co., Ltd., we have not conducted extra auditing procedures on the materials carried in the Summary Statement.

In order to better understand the capital occupancy between Shenzhen Huafa Electronics Co., Ltd. and its controlling shareholder and other related parties, the Summary Statement of Capital Occupancy between Shenzhen Huafa Electronics Co., Ltd. and its Controlling Shareholder and Other Related Parties in 2003 should be read along with the accounting statements ever audited.

Appendix: Summary Statement of Capital Occupancy between Shenzhen Huafa Electronics Co., Ltd. and its Controlling Shareholder and Other Related Parties in 2003

Shenzhen Nanfang-Minhe
Certified Public Accountants
Shenzhen, China

Chinese CPA
Chinese CPA
Apr. 9, 2004

Huafa Electronics Co., Ltd.
and its Controlling Shareholder and Other Related Parties in 2003

Prepared by: Shenzhen Huafa Electronics Co., Ltd. (sealed)

Unit: RMB

Capital occupancy	Name of related parties	Associated relationship	Accounting subjects	Amount at year-beginning	Current increase	Current decrease	Balance at year-end	Repayment way	Type of capital occupancy	Note
Receivable from other related parties	Shenzhen SEG Group Co., Ltd.	Shareholder	Naught	Naught	Naught	Naught	Naught	-	-	
Receivable from other related parties	China Zhenhuo Electrics Group Co., Ltd.	Shareholder	Naught	Naught	Naught	Naught	Naught	-	-	
Total								-	-	

Legal representative: _____ Chief person in charge of accounting organizations: _____ Person in charge of accounting organizations: _____
Date: _____ Date: _____ Date: _____

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

	<u>NOTE</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Revenue	4	151,392	164,082
Cost of sales		<u>(125,374)</u>	<u>(134,475)</u>
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		<u>(750)</u>	<u>(497)</u>
(Loss)/Profit from operations	5	(972)	8,355
Net finance costs	6	<u>(6,762)</u>	<u>(7,245)</u>
Net (Loss)/ Profit from ordinary activities before taxation		(7,734)	1,110
Income tax expenses	7	<u>-</u>	<u>-</u>
(Loss)/profit attributable to shareholders		<u>(7,734)</u>	<u>1,110</u>
(Loss)/earnings per share – Basic	9	<u>(RMB0.027)</u>	<u>RMB0.004</u>

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2003

	<u>NOTE</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000 (Restated)
ASSETS			
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		<u>290,652</u>	<u>299,203</u>
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	<u>47,270</u>	<u>45,874</u>
Total current assets		<u>185,729</u>	<u>167,108</u>
Total assets		<u>476,381</u>	<u>466,311</u>
<u>EQUITY AND LIABILITIES</u>			
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		<u>(185,467)</u>	<u>(177,733)</u>
		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	<u>134,000</u>	<u>124,000</u>
Total current liabilities		<u>199,802</u>	<u>185,031</u>
Total equity and liabilities		<u>476,381</u>	<u>466,311</u>

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	<u>283,161</u>	<u>98,461</u>	<u>3,033</u>	<u>77,391</u>	<u>(185,467)</u>	<u>276,579</u>

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 :

<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

2. PRIOR PERIOD ADJUSTMENTS

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

	<u>Net profit of 2002 RMB'000</u>	<u>Shareholders' equity of 2002 RMB'000</u>	<u>Shareholders' equity of 2001 RMB'000</u>
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	<u>(4,250)</u>	<u>(12,705)</u>	<u>(8,455)</u>
As restated	<u>1,110</u>	<u>281,280</u>	<u>280,170</u>

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 or 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 different 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, plant 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 asset 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 RMB'000	2002 RMB'000
Continuing operations:		
Sales of electronic goods	118,522	128,961
Property investment	32,870	35,121
	<u>151,392</u>	<u>164,082</u>

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

6. NET FINANCE COSTS

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

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 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 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	<u>110,322</u>	<u>149,952</u>	<u>112,894</u>	<u>27,281</u>	<u>6,200</u>	<u>406,649</u>
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	<u>33,552</u>	<u>16,267</u>	<u>46,856</u>	<u>15,461</u>	<u>4,330</u>	<u>116,466</u>
NET BOOK VALUE						
At 31st December 2003	<u>76,770</u>	<u>133,685</u>	<u>66,038</u>	<u>11,820</u>	<u>1,870</u>	<u>290,183</u>
At 31st December 2002	<u>80,131</u>	<u>135,906</u>	<u>71,543</u>	<u>7,911</u>	<u>2,456</u>	<u>297,947</u>

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	<u>469</u>	<u>1,256</u>

13. OTHER INVESTMENT

	2003 RMB'000	2002 RMB'000
Cost	900	900
Less: impairment loss	<u>(900)</u>	<u>(900)</u>
	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 31ST DECEMBER 2003

14. INVENTORIES

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

15. PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

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 RMB'000	2002 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 2003 and 2002.

18. SHARE PREMIUM

	2003 RMB'000	2002 RMB'000
Share premium	<u>98,461</u>	<u>98,461</u>

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

20. SURPLUS RESERVES

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

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 RMB'000	2002 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
	<u>23,082</u>	<u>23,641</u>

22. BANK LOANS

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

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 lessor

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 RMB'000	2002 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
	<u>174,368</u>	<u>200,617</u>

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	Consolidated total
	Electronic goods	Property investment	Supermarket	
	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 from operations				(972)
Net finance costs				(6,762)
Net profit for the year				(7,734)
OTHER INFORMATION				
Depreciation	14,176	7,945	-	22,121
Unallocated depreciation				581
BALANCE SHEET				
	Continuing operations		Discontinuing operations	Consolidated Total
	Electronic goods	Property investment	Supermarket	
	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	Consolidated
	Electronic goods	Property investment	Supermarket	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 INFORMATION				
Depreciation	10,353	6,505	-	16,858
Unallocated depreciation				783
BALANCE SHEET				
	Continuing operations		Discontinuing Operations	Consolidated total
	Electronic goods	Property investment	Supermarket	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.