

SHENZHEN HUAFA ELECTRONICS CO., LTD.
SEMI-ANNUAL REPORT 2004

Important Notice

The Board of Directors and its members of Shenzhen Huafa Electronics Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. Chairman of the Board of the Company Mr. Wu Dehua, General Manager Mr. Zhang Yongcheng, Deputy General Manager Mr. Hu Jianping and Manager of Financial Department Mr. Wang Yiqing hereby confirm that the financial report of the 2004 semi-annual report is true and complete.

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I. Company Profile

(I) Company information

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. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHENHUAFA-A, SHENHUAFA-B

Stock Code: 000020, 200020

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

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

Post Code: 518031

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

4. Legal Representative: Wu Dehua

5. Secretary of the Board of Directors: Hu Jianping

Securities Affairs Representative: Liu Yang

E-mail: sz000020@163.net

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

Tel: (86) 755-83352207

Fax: (86) 755-83323169

6. Newspapers for Disclosing the Information of the Company:

China Securities and Ta Kung Pao

Internet Website for Publishing the Semi-annual Report: <http://www.cninfo.com.cn>

The Place Where the Semi-annual Report is Prepared and Placed: 6/F, 411 Bldg., Huafa North Road, Futian District, Shenzhen

7. Other Relevant Information of the Company

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

Registered date: May 1992

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

Registration code of enterprise legal person's business license: 100296

Registration code of tax: 113260

(II) Major financial data and indexes

Unit: RMB

Items	Jan.-Jun. 2004	Jan.-Jun. 2003
Net profit	-1,930,937.40	-1,955,289.49
Net profit after deducting non-recurring gains and losses	-1,907,579.84	-2,668,375.05
Net cash flow arising from operating activities	15,965,219.36	11,965,915.87
Return on equity (%)	-0.70	-0.70
Earnings per share	-0.007	-0.007
Items	Jun. 30, 2004	Dec. 31, 2003
Current assets	181,154,698.08	185,728,813.32
Current liabilities	189,644,625.40	199,801,933.51

Total assets	464,292,277.00	476,380,522.51
Shareholders' equity (excluding minority interests)	274,647,651.60	276,578,589.00
Net assets per share	0.97	0.98
Net assets per share after adjustment	0.91	0.91

Note: 1. Item of deducting non-recurring gains and losses is net income/expenses of non-operating of RMB –23,357.56.

2. Explanation on difference between domestic and overseas statement: Shenzhen Huafa Electronics Co., Ltd. is a listed company of both A-share and B-share. There existed no difference in net profit of the Company as calculated according to Chinese Accounting Standards (CAS) and International Accounting Standards (IAS) and the relevant system respectively.

Supplementary Statement of Profit

Profit in the report period	Return on equity (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operation	1.190	1.186	0.012	0.012
Operating profit	-0.695	-0.692	-0.007	-0.007
Net profit	-0.703	-0.701	-0.007	-0.007
Net profit after deducting non-recurring gains and losses	-0.695	-0.692	-0.007	-0.007

II. Change in Share Capital and Particulars about Shares Held by Main Shareholders

(I) Particulars about change in share capital

There were no changes in total share capital and the structure caused by bonus share, transferring capital public reserve into share capital, additional issuance of new shares, convertible bond of the Company or others.

(II) By the end of the report period, the Company has totally 32,640 shareholders, including 20,978 shareholders of A-share and 11,662 shareholders of B-share.

(III) Ended Jun. 30, 2004, particulars about shares held by the top ten shareholders

No.	Shareholders' name	Increase or Decrease in this period (+/-)	Number of holding shares at period -end (share)	Proportion in total shares (%)	Type of share
	SHENZHEN SEG GROUP CO., LTD.	-	62,462,914	22.06	A share
	CHINA ZHENHUA ELECTRONICS GROUP CO. LTD.	-	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	-	3,674,410	1.30	B share
	BOHAI SECURITIES CO., LTD.	+2,481,293	2,481,293	0.88	A share
	BANK OF CHINA – JIASHI GROWTH INCOME SECURITIES INVESTMENT FUND	+2,354,162	2,354,162	0.83	A share

	YIN GANG	+215,000	935,145	0.33	B share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	+100,000	648,262	0.23	B share
	CHINA MERCHANTS COMMUNICATION SECURITIES CO., LTD.	+520,000	520,000	0.18	B share

[Note 1] The top two shareholders as listed above are the legal person shareholders of the Company with holding unlisted shares.

[Note 2] 15,920,610 legal person's share (A-share) of the Company held by Shenzhen SEG Group Co., Ltd. was frozen.

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

(IV) The top ten shareholders holding circulation share of the Company

No.	Shareholders' name	Holding shares at the period -end (share)	Proportion in total shares capital (%)	Type of 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	3,674,410	1.30	B-share
	BOHAI SECURITIES CO., LTD.	2,481,293	0.88	B-share
	BANK OF CHINA – JIASHI GROWTH INCOME SECURITIES INVESTMENT FUND	2,354,162	0.83	B-share
	YIN GANG	935,145	0.33	B-share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	648,262	0.23	B-share
	CHINA MERCHANTS COMMUNICATION SECURITIES CO., LTD.	520,000	0.18	B-share
	REN YONG RAN	478,400	0.17	B-share
	WANG FU CHANG	475,000	0.17	B-share

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

(V) The holding shareholder of the Company remained unchanged during the report period.

III. Particulars about Directors, Supervisors and Senior Executives

(I) There was no change in shares held by directors, supervisors or senior executives of the Company in the report period.

(II) Particulars about the engaging and dismissal of directors, supervisors and senior executives in the report period

In the report period, Mr. Wang Chu resigned from the post of Director of the Company due to work change. The 2003 Annual Shareholders' General Meeting elected Mr. He Xiaoming as Independent Director of the Company dated May 26, 2004.

IV. Discussion and Analysis of the Management

(I) Analysis to the operating results and financial position

1. The product structure of circuit boards has been improved by a certain extent in the

first half of the year and the proportion of multi-layer boards increased somewhat. However, due to such reasons as rise of prices of main raw materials and copperplate etc., the whole profitability capability of circuit boards has not been enhanced obviously.

2. The orders of color TVs were not enough in the first half of the year and the process of OEM continued to be in losses.

3. The production and sales of plastic injection hardware was good in the first half of the year and sales profit increased by a relatively great margin over the same period of last year. However, the productive scale was still relatively small.

4. The property lease business and income was relatively stable.

Unit: RMB

Items	Jan.-Jun. 2004	Jan.-Jun. 2003	Increase/decrease (+, -)
Income from main operations	52,203,699.29	35,934,357.06	45.28%
Profit from main operations	3,269,322.38	1,103,425.21	196.29%
Profit from other operations	8,030,822.62	9,575,997.68	-16.14%
Net profit	-1,930,937.40	-1,955,289.49	1.25%
Net increase in cash and cash equivalents	1,798,463.38	5,441,905.96	-66.95%

Including:

(1) Income from main operations and profit from main operations increased by 45.28% and 196.29% respectively over the same period of the last year, which was due to such reasons that the production and sales volume of circuit boards increased by a relatively great margin in the first half of the year; losses from OEM process of color TVs decreased and sales profit of plastic injection hardware increased etc..

(2) Net increase in cash and cash equivalents decreased by 66.95% over the same period of last year, which was due to loan refund in the first half of the year.

Items	Jun. 30, 2004	Dec. 31, 2003	Increase/decrease (+, -)
Total assets	464,292,277.00	476,380,522.51	-2.54%
Shareholders' equity	274,647,651.60	276,578,589.00	-0.70%

(II) Operation in the report period

1. The scope and operation of the main operations

The main operations of the Company were production and sales of such products as printing circuit boards and plastic injection hardware etc. and OEM process of color TVs. The Company realized income from main operations and profit from main operations amounting to RMB 52.2037 million and RMB 3.2693 million respectively in the first half year of 2004.

Classified according to products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the same period of last year (%)	Increase/decrease of cost of main operations over the same period of last year (%)	Increase/decrease of gross profit ratio over the same period of last year (%)
Color TVs	466.08	536.92	-15.20	-46.44	-43.56	-5.88
Circuit boards	4,172.16	3,895.93	6.62	81.92	80.94	0.50
Plastic injection hardware	582.11	460.57	20.88	35.45	21.65	8.97
Among: related transaction	0	0				
Rule of pricing of related transactions			Inapplicable			
Explanation of need and duration			Inapplicable			

2. The composing of profit, main business and its structure, earning abilities of main business in the report period have no significant change.

3. Scope and operation of other businesses

In the report period, other operating business having significant influence on net profit of the Company is rent of property. In the first half of the year, the lease business of property was relatively stable and the Company realized income from property lease and management fee amounting to RMB 16.4243 million and profit from lease business amounting to RMB 8.0492 million.

4. Problems and difficulties from operation

Firstly, price of the raw material, namely circuit boards, increased; secondly, the production orders of color TVs were not enough.

Aiming at the said problems, on one hand, the Company reinforced the sales so as to gain more excellent orders as much as possible and further adjust the product structure; on the other hand, the Company strengthened the internal management, well controlled the cost and further enhanced the product quality so as to reduce the manufacture cost of products to gain a certain profit from products.

(III) In the report period, the Company had no raised proceeds and projects invested with the raised proceeds.

(IV) Achievements estimate

Since price of the raw material, namely circuit boards, continued to increase, it was rather hard for the Company to get profitability in the 3rd quarter, thus it was expected that the Company would be still in losses during January to September 2004.

V. Significant Events

(I) In the report period, strictly according to such regulations as Rules on

Administration of Listed Companies and Guide Opinion on Establishing Independent Director System in Listed Companies etc. promulgated by CSRC, the Company standardized the operation and further improved its legal person administration structure. On May 26, 2004, the Company held Annual Shareholders' General Meeting 2003 and elected Mr. He Xiaoming as independent director, thus the number of independent directors of the Company has reached over one third of members in the Board of Directors.

(II) The Company did not conduct profit distribution and capitalization of reserve into share capital or did not issue new shares.

(III) In the report period, the Company had no significant lawsuits and arbitrations.

(IV) In the report period, the Company had no significant purchase, sale and disposal of assets.

(V) In the report period, the Company had no related transactions.

(VI) In the report period, the Company had no material contacts and material guarantees, or had no any entrusted financing.

(VII) The Company and the shareholders holding over 5% shares had no commitment in the report period.

(VIII) The financial report of the Company was not audited.

(IX) In the report period, the Company and its Board of Directors and members were not checked, punished administratively and criticized by circulars by CSRC and condemned publicly by stock exchange. The directors and relevant members in the Management of the Company were not implemented forcibly by the law.

(X) The controlling shareholder and its subsidiaries of the Company did not occupy the capital of the Company.

(XI) Special explanation and independent opinion of independent directors on the Company's current and accumulative external guarantees, illegal guarantees and implementation of regulations in ZJF [2003] No. 56 Document:

According to the regulations in Circular on Standardizing Capital Current Between the Listed Company and its Related Party and External Guarantees of the Listed Company (hereinafter referred to as Circular) promulgated by ZJF [2003] No. 56 Document, we have conducted special inspection to the Company's accumulative and current external guarantees etc.. Now the following explanation and opinion is proclaimed:

The Company is able to implement the regulation related to external guarantees in the Circular strictly. The Articles of Association has made clear regulation on total amount, examination procedures and credit standard of guaranteed objects of external guarantees of the Company. In the report period, the Company had no external guarantees. Ended the end of the report period, the amount of accumulative external

guarantees of the Company was zero.

VI. Financial Report (non-audited)

(I) Accounting statements (attached)

(II) Notes of accounting statements (attached)

VII. Documents Available for Reference

1. Semi Annual Report carried with the signature of Chairman of the Board.
2. Accounting statements carried with the signatures and seals of Chairman of the Board, General Manager, Chief Accountants and Manager in Financial Department.
3. Original of all documents disclosed on China Securities News and Ta Kung Pao in the report period.
4. Articles of Association of the Company.

Note: This Report is prepared respectively both in Chinese and English versions. Should be there any difference in interpretations of these two versions, the Chinese version shall prevail.

Chairman of the Board: Wu Dehua
Board of the Directors of
Shenzhen Huafa Electronics Co., Ltd.
Aug. 4, 2004

Consolidated Income Statement
For the Six Months Ended 30th June 2004
(Expressed in RMB Thousand Yuan)

	Notes	Six months ended 30th June	
		2004	2003
		RMB'000	RMB'000
Revenue	3	68,628	53,595
Cost of sales		<u>(57,309)</u>	<u>(42,916)</u>
Gross profit		11,319	10,629
Other revenue		853	735
Selling and distribution costs		(1,701)	(1,308)
Administrative expenses		(8,069)	(8,887)
Other operating expenses		<u>(895)</u>	<u>(22)</u>
Profit from operations	4	1,507	1,197
Net finance costs	5	<u>(3,438)</u>	<u>(3,153)</u>
Net loss from ordinary activities before taxation		(1,931)	(1,956)
Income tax expenses	6	<u>-</u>	<u>-</u>
Loss attributable to shareholders		<u><u>(1,931)</u></u>	<u><u>(1,956)</u></u>
Loss per share – Basic	8	<u><u>(RMB0.0068)</u></u>	<u><u>(RMB0.0069)</u></u>

Consolidated Balance Sheet
As at 30th June 2004
(Expressed in RMB Thousand Yuan)

	Notes	At 30/6/2004 RMB'000	At 31/12/2003 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	282,328	290,183
Construction in progress	11	810	469
Other investment	12	-	-
Total non-current assets		283,138	290,652
Current assets			
Inventories	13	53,430	45,192
Bills receivable		504	4,042
Trade accounts receivable		52,624	63,870
Prepaid expenses and other current assets	14	25,528	25,355
Cash and cash equivalents	15	49,068	47,270
Total current assets		181,154	185,729
Total assets		464,292	476,381
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	283,161	283,161
Share premium	17	98,461	98,461
Property revaluation reserve	18	3,033	3,033
Surplus reserves	19	77,391	77,391
Accumulated losses		(187,398)	(185,467)
		274,648	276,579
Current liabilities			
Trade accounts payable		42,103	42,720
Accrued expenditures and other payables	20	22,541	23,082
Short-term bank borrowings	21	125,000	134,000
Total current liabilities		189,644	199,802
Total equity and liabilities		464,292	476,381

Consolidated Statement of Changes in Equity
For the Six Months Ended 30th June 2004
(Expressed in RMB Thousand Yuan)

	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 2003	283,161	98,461	-	77,391	(177,733)	281,280
Revaluation surplus	-	-	3,033	-	-	3,033
Loss attributable to shareholders	-	-	-	-	(1,956)	(1,956)
Balance at 30th June 2003 and 1st July 2003	283,161	98,461	3,033	77,391	(179,689)	282,357
Loss attributable to shareholders	-	-	-	-	(5,778)	(5,778)
Balance at 31st December 2003 and 1st January 2004	283,161	98,461	3,033	77,391	(185,467)	276,579
Loss attributable to shareholders	-	-	-	-	(1,931)	(1,931)
Balance at 30th June 2004	<u>283,161</u>	<u>98,461</u>	<u>3,033</u>	<u>77,391</u>	<u>(187,398)</u>	<u>274,648</u>

Consolidated Cash Flow Statement

For the Six Months Ended 30th June 2004

(Expressed in RMB Thousand Yuan)

	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before taxation	(1,931)	(1,956)
Adjustment:		
Bank interest income	(148)	(159)
Interest expenses	3,639	3,568
Depreciation	11,762	11,201
Gain on disposals of property, plant and equipment	-	(25)
Overage of property, plant and equipment	-	(33)
Increase in inventories	(8,238)	(8,442)
Decrease in trade and other receivables	13,529	12,925
Decrease in trade and other payables	(1,158)	(2,011)
Cash generated from operations	17,455	15,068
Interest paid	(3,639)	(3,568)
NET CASH FROM OPERATING ACTIVITIES	13,816	11,500
INVESTING ACTIVITIES		
Interest received	148	159
Purchase of property, plant and equipment	(2,570)	(2,287)
Increase in construction in progress	(596)	(3,970)
Proceeds from disposals of property, plant and equipment	-	40
NET CASH USED IN INVESTING ACTIVITIES	(3,018)	(6,058)
FINANCING ACTIVITIES		
New bank loans	55,800	89,800
Repayment of bank loans	(64,800)	(89,800)
NET CASH USED IN FINANCING ACTIVITIES	(9,000)	-
INCREASE IN CASH AND CASH EQUIVALENTS	1,798	5,442
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	47,270	45,874
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	49,068	51,316

Notes to the Financial Statements

For the Six Months Ended 30th June 2004

(Expressed in RMB Thousand Yuan)

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 reformed 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 30th June 2004 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. 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 period.

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) Foreign currency transactions (Continued)

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.

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%

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment (Continued)

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

3. REVENUE

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

	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Sales of electronic goods	52,204	35,934
Property investment	16,424	17,661
	<u>68,628</u>	<u>53,595</u>

4. PROFIT FROM OPERATIONS

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

	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Staff costs		
-Wages and salaries and welfare	9,175	9,582
-Contribution to retirement scheme	734	658
Depreciation on property, plant and equipment	11,762	8,749
Gain on disposals of property, plant and equipment	-	(25)
Overage of property, plant and equipment	-	(33)

5. NET FINANCE COSTS

	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Interest expenses	3,639	3,568
Interest income	(148)	(159)
Exchange gain, net	(88)	(275)
Bank charges	35	19
	<u>3,438</u>	<u>3,153</u>

6. INCOME TAX EXPENSES

The applicable PRC income tax rate for the Group is 15%. No provision of income tax has been made for in the financial statements as the Group did not have assessable profit for the period.

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

7. DIVIDENDS

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

8. LOSS PER SHARE

The loss per share for the six months ended 30th June 2004 is calculated based on the net loss attributable to shareholders of RMB 1,931,000 (Six months ended 30th June 2003: RMB 1,956,000) and the weighted average number of ordinary shares outstanding during the period of 283,161,227 shares (Six months ended 30th June 2003: 283,161,227 shares).

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.

9. 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 period was RMB734,000 (Six months ended 30th June 2003: RMB 658,000).

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.

10. 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 2004	110,322	149,953	112,893	27,281	6,200	406,649
Additions	1,081	-	301	2,471	75	3,928
Disposals	-	-	-	-	(212)	(212)
At 30th June 2004	<u>111,403</u>	<u>149,953</u>	<u>113,194</u>	<u>29,752</u>	<u>6,063</u>	<u>410,365</u>
ACCUMULATED DEPRECIATION						
At 1st January 2004	33,552	16,269	46,854	15,461	4,330	116,466
Charge for the year	3,984	1,956	4,049	1,523	250	11,762
Written back on disposals	-	-	-	-	(191)	(191)
At 30th June 2004	<u>37,536</u>	<u>18,225</u>	<u>50,903</u>	<u>16,984</u>	<u>4,389</u>	<u>128,037</u>
NET BOOK VALUE						
At 30th June 2004	<u>73,867</u>	<u>131,728</u>	<u>62,291</u>	<u>12,768</u>	<u>1,674</u>	<u>282,328</u>
At 31st December 2003	<u>76,770</u>	<u>133,684</u>	<u>66,039</u>	<u>11,820</u>	<u>1,870</u>	<u>290,183</u>

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the period, the additions include the Group's property, plant and equipment with cost approximately RMB277,000 ,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 30th June 2004, all the Group's investment properties with net book value of RMB73,867,000 were leasing under operating leases to independent third parties. The terms of leases are ranging from 3 to 11 years.

As at 30th June 2004, the Group's investment properties, land and buildings with aggregate net book value of approximately RMB124,914,500 (At 31st December 2003 : RMB184,730,000) were pledged to banks for the bank borrowings.

The gross rental income generated from the investment properties for the period was RMB16,424,000 (six months ended 30th June 2003: 17,661,000).

Direct operating expenses arising from the investment properties for the period amounted to RMB7,541,000 (six months ended 30th June 2003 : RMB5,819,000).

11. CONSTRUCTION IN PROGRESS

	RMB'000
Balance at 1st January 2004	469
Additions	618
Transfer to property, plant and equipment	(277)
Balance at 30th June 2004	<u>810</u>

12. OTHER INVESTMENT

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Cost	900	900
Less: Provision for impairment losses	<u>(900)</u>	<u>(900)</u>
	<u>-</u>	<u>-</u>

13. INVENTORIES

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Raw materials	12,723	10,708
Work-in-progress	7,956	10,290
Finished goods	<u>32,751</u>	<u>24,194</u>
	<u>53,430</u>	<u>45,192</u>

14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Prepaid expenses	98	1,083
Other current assets	<u>25,430</u>	<u>24,272</u>
	<u>25,528</u>	<u>25,355</u>

15. CASH AND BANK BALANCES

At the balance sheet date, cash and bank balances of RMB284,000 (At 31st December 2003: RMB283,000) were guarantee deposits used for the purposes of opening letter of credit.

16. SHARE CAPITAL

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	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	<u>101,996</u>	<u>101,996</u>
	<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.

17. SHARE PREMIUM

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	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.

18. PROPERTY REVALUATION RESERVE

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Revaluation surplus of investment property	<u>3,033</u>	<u>3,033</u>

19. SURPLUS RESERVES

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Statutory surplus reserve	20,949	20,949
Public welfare fund reserve	373	373
Discretionary surplus reserve	<u>56,069</u>	<u>56,069</u>
	<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.

20. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30/6/2004	At 31/12/2003
	RMB'000	RMB'000
Accrued expenses	3,006	3,512
Tax payable	1,032	1,969
Receipts in advance	11,828	10,648
Other payables	6,675	6,953
	<u>22,541</u>	<u>23,082</u>

21. BANK LOANS

	At 30/6/2004	At 31/12/2003
	RMB'000	RMB'000
Bank loans repayable within one year:		
Secured (note 10)	118,000	127,000
Guaranteed	7,000	7,000
	<u>125,000</u>	<u>134,000</u>

The annual interest rates of the bank loans are 5.31%. (Six months ended 30th June 2003 : 5.31% to 6.435%)

The guaranteed bank borrowings RMB4,200,000 and RMB2,800,000 (At 31st December 2003: 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.

22. 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 30th June 2004 and 31st December 2003.

(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 period, the sales of the five maximum customers are 40.31% of total revenue.

22. FINANCIAL INSTRUMENTS

(a) Credit risk - Continued

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

(b) Interest rate risk

The interest rate of the Group's borrowings are disclosed in note 21.

(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.

23. 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:

	<u>At 30/6/2004</u>	<u>At 31/12/2003</u>
	RMB'000	RMB'000
Less than one year	932	901
Between one and five years	7,725	10,621
Between five and ten years	<u>153,452</u>	<u>162,846</u>
	<u>162,108</u>	<u>174,368</u>

24. 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:

24. SEGMENTAL REPORT - Continued

I) For the period ended 30th June 2004/ as at 30th June 2004

a) Income statement

	Electronic goods RMB'000	Property investment RMB'000	Consolidated total RMB'000
REVENUE	52,204	16,424	68,628
RESULT			
Operating (loss)/profit of segment	(4,881)	8,049	3,168
Unallocated corporate expenses			(1,661)
Losses form operations			1,507
Net finance costs			(3,438)
Net profit for the period			(1,931)
OTHER INFORMATON			
Depreciation	7,482	3,984	11,466
Unallocated depreciation			296

b) Balance sheet

	Electronic goods RMB'000	Property investment RMB'000	Consolidated Total RMB'000
ASSETS			
Segment assets	363,699	98,035	461,734
Segment assets of discontinued operations			329
Unallocated corporate assets			2,229
Consolidated total assets			464,292
LIABILITIES			
Segment liabilities	188,917	567	189,484
Segment liabilities of discontinued operations			160
Consolidated total liabilities			189,644

24. SEGMENTAL REPORT (Continued)

II) For the six months ended 30th June 2003 / as at 30th June 2003

a) Income statement

	Electronic goods RMB'000	Property investment RMB'000	Consolidated Total RMB'000
REVENUE	35,934	17,661	53,595
RESULT			
Operating profit/(loss) of segment	(3,248)	6,686	3,438
Unallocated corporate expenses			(2,241)
Profit from operations			1,197
Finance costs			(3,153)
Net profit for the period			(1,956)
OTHER INFORMATION			
Depreciation	6,685	4,046	10,731
Unallocated depreciation			285

ii) Balance sheet

	Electronic goods RMB'000	Property investment RMB'000	Consolidated total RMB'000
ASSETS			
Segment assets	360,857	101,370	462,227
Segment assets of discontinued operations			333
Unallocated corporate assets			2,817
Consolidated total assets			465,377
LIABILITIES			
Segment liabilities	181,942	918	182,860
Segment liabilities of discontinued operations			160
Consolidated total liabilities			183,020

b) Geographical segment

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

25. 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, there are no differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.