SHENZHEN HUAFA ELECTRONICS CO., LTD.
SUMMARY OF ANNUAL REPORT 2004
(Overseas Version)

§1. Important Notice

1.1 The Board of Directors 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. The summary of annual report 2004 is abstracted from the annual report; the investors are suggested to read the full text of annual report to understand more details.
1.2 No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.
1.3 All directors attended the Board meeting.
1.4 Shenzhen Nanfang Minhe Certified Public Accountants and Ho and Ho & Company Certified Public Accountants audited the 2004 financial report of the Company and issued the unqualified Auditors' Report respectively.
1.5 Chairman of the Board of the Company Mr. Wu Dehua, General Manager Mr. Hu Jianping and Head of Financial Department Mr. Wang Yiqing hereby confirm that the Financial Report of the Annual Report 2004 is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	ST HUAFA-A, ST HUAFA-B
Stock code	000020, 200020
Listed stock exchange	Shenzhen Stock Exchange
Registered address and office address	Registered address: 411 Bldg., Huafa North Road, Futian District, Shenzhen Office address: 411 Bldg., Huafa North Road, Futian District, Shenzhen
Postcode	Postcode of registered address: 518031 Postcode of office address: 518031
Internet web site of the Company	http://www.hwafa.com
E-mail of the Company	sz000020@163.net

2.2 Contact person and method

	Secretary of the Board of Directors	Representative in charge of Securities Affairs
Name	Hu Jianping	Liu Yang
Contact address	6th Floor, 411 Bldg., Huafa North Road, Futian District, Shenzhen	
Telephone	(86) 755-83352207	
Fax	(86) 755-83323169	
E-mail	sz000020@163.net	

§ 3. Summary of Accounting Data and Financial Indexes

3.1 Main Accounting Highlights

Unit: RMB'000

	2004	2003	Increase/decrease over last year （%）
Operating income	158,648	151,392	4.79%
Gross profit	11,780	26,018	-54.72%
Income from other operating	1,598	96	1,564.58%
Net cash arising from operating activities	6,215	822	656.08%
	At the end of 2004	**At the end of 2003**	**Increase/decrease over last year (%)**
Total assets	429,708	476,381	-9.80%
Shareholders' equity	232,237	276,579	-16.03%

3.2 Financial Indexes:

Unit: RMB

	2004	2003	Increase/decrease over last year (%)
Loss per share	-0.16	-0.03	-433.33%
Return on equity	-19.09%	-2.80%	-16.29%
Net cash per share arising from operating activities	0.02	0.003	566.67%
	At the end of 2004	**At the end of 2003**	**Increase/decrease over last year (%)**
Net assets per share	0.82	0.98	-16.33%

3.3 Difference of the CAS and IAS

√Applicable ☐Inapplicable

Unit: RMB'000

	CAS	IAS
Net profit	-44,342	-44,342
Explanation on difference	The Company is a listed company of both A-share and B-share. The Company's net profit as calculated according to CAS and IAS and relevant system was no difference.	

§ 4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

(Unit: share)

	Before the change	Increase/decrease of this time (+, -)	After the change

		Subtotal	
Ⅰ. Unlisted shares			
1. Promoters' shares	124,925,828	0	124,925,828
Including: State-owned shares	0	0	0
Domestic legal person's shares	124,925,828	0	124,925,828
Foreign legal person's shares	0	0	0
Other	0	0	0
2. Raised legal person's shares	0	0	0
3. Inner employees' shares	0	0	0
4. Preference shares or others	0	0	0
Total unlisted circulating 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. Foreign listed foreign shares	0	0	0
4. Others	0	0	0
Total listed circulating shares	158,235,399	0	158,235,399
Ⅲ. Total shares	283,161,227	0	283,161,227

The amount of shares offered by funds, inner employees' shares traded in the counter, shares offered by strategic investor and shares offered ordinary juridical person should be disclosed respectively

□Applicable √Inapplicable

4.2 Statement of shares held by the top ten shareholders and Statement of shares held by the top ten circulating shareholders

Total number of shareholders at the end of report year				28,089		
Particulars about shares held by the top ten shareholders						
Full name of Shareholders	**Increase / decrease in the report year (share)**	**Holding shares at the year-end (share)**	**Proportion (%)**	**Type of shares (Circulating/Non-circulating)**	**Number of share pledged/ frozen (share)**	**Nature of shareholders**
SHENZHEN SEG GROUP CO., LTD.	0	62,462,914	22.06%	Non-circulating	62,462,914	Other
CHINA ZHENHUA ELECTRONICS INDUSTRIAL CO.	0	62,462,914	22.06%	Non-circulating		Other
SEG (HONG KONG) CO., LTD.	0	16,569,560	5.85%	Circulating		Other
GOOD HOPE CORNET INVESTMENTS LTD	0	13,900,000	4.91%	Circulating		Other
ADVANCE FUTURE GROUP LIMITED	0	3,674,410	1.30%	Circulating		Other
YIN GANG	225,000	945,145	0.33%	Circulating		Other
BINGHUA LIU	876,013	876,013	0.31%	Circulating		Other
DBS VICKERS(HONG KONG) LTD A/C CLIENTS	100,000	648,262	0.23%	Circulating		Other

GUOTAI JUNAN SECURIES HONG KONG LIMITED	549,230	549,230	0.19%	Circulating		Other
CHINA MERCHANTS SECURITIES (HONG KONG) CO., LTD.	520,000	520,000	0.18%	Circulating		Other

Particulars about shares held by the top ten shareholders of circulation share		
Shareholders' name (full name)	**Number of circulation shares held at the year-end**	**Type (A-share, B-share, H-share and other)**
SEG (HONG KONG) CO., LTD.	16,569,560	B-share
GOOD HOPE CORNER INVESTMENTS LTD	13,900,000	B-share
ADVANCE FUTURE GROUP LIMITED	3,674,410	B-share
YIN GANG	945,145	B-share
BINGHUA LIU	876,013	B-share
DBS VICKERS(HONG KONG) LTD A/C CLIENTS	648,262	B-share
GUOTAI JUNAN SECURIES HONG KONG LIMITED	549,230	B-share
CHINA MERCHANTS SECURITIES (HONG KONG) CO., LTD.	520,000	B-share
MA JIN HUI	503,507	B-share
BOHAI SECURITIES CO., LTD.	486,099	A-share
Explanation on associated relationship among the top ten shareholders or consistent action	SEG (Hong Kong) Co., Ltd. is overseas wholly-owned subsidiary of Shenzhen SEG Group Co., Ltd.. The Company was unknown whether there exists associated relationship or belongs to consistent action person regulated by the Management Regulation of Information Disclosure on Change of Share Holding for Listed Companies among the other shareholders.	

4.3 Particulars about the controlling shareholders and actual controller of the Company

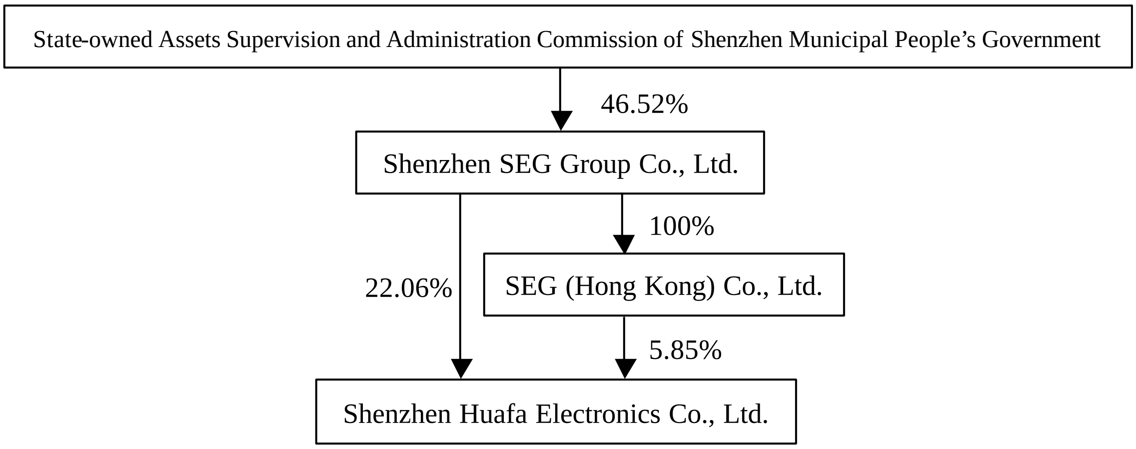
4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company

□Applicable √Inapplicable

4.3.2 Introduction to especial situation for the controlling shareholder and other actual controller

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 and electronic projects; undertake various electronic system project (Import and export business and exclusive commodities were conducted according to regulations); raise development funds and invest credit; technology development and information service and maintenance; high-floor sightseeing, supporting food and drink, marketplace and exhibition of SEG Plaza. State-owned Assets Supervision and Administration Commission of Shenzhen Municipal People's Government is the first largest shareholder of Shenzhen SEG Group Co., Ltd., who holds 46.52% equity of Shenzhen SEG Group Co., Ltd..

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



§5. Particulars About Directors, Supervisors and Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives

Name	Title	Sex	Age	Office term	Number of holding shares (share)	
					At the year-begin	At the year-end
Wu Dehua	Chairman of the Board	Male	59	Sep. 2004-Sep. 2007	0	0
Feng Quanbao	Vice Chairman of the Board	Male	59	Sep. 2004-Sep. 2007	0	0
Zhang Yongcheng	Director, General Manager	Male	53	Sep. 2004-Mar. 2005	0	0
Che Wenshen	Director	Male	56	Sep. 2004-Sep. 2007	0	0
Zhou Daozhi	Independent Director	Male	56	Sep. 2004-Sep. 2007	0	0
Zhao Junrong	Independent Director	Male	41	Sep. 2004-Sep. 2007	0	0
He Xiaoming	Independent Director	Male	34	Sep. 2004-Sep. 2007		
Ye Daming	Chairman of the Supervisory Committee	Male	59	Sep. 2004-Sep. 2007	30,433	30,433
Liu Jingju	Supervisor	Female	50	Sep. 2004-Sep. 2007	0	0
Li Liangzhen	Supervisor	Male	40	Sep. 2004-Sep. 2007	0	0
Hu Jianping	Deputy General Manager, Chief Accountant, Secretary of Board	Male	43	Sep. 2004-Mar. 2005	0	0
Cai Guiyong	Deputy General Manager	Male	57	Sep. 2004-Sep. 2007	35,545	35,545
Sun Lei	Deputy General Manager	Male	40	Sep. 2004-Sep. 2007	0	0

Note: Post balance sheet event

On Mar. 5, 2005, Mr. Zhang Yongcheng submitted a written application to resign from the posts of Director and General Manager of the Company to the Board of Directors due to his health. On Mar. 18, 2005, the 1st provisional meeting of the Board of Directors for 2005 accepted Zhang Yongcheng's resignation application, and engaged

Mr. Hu Jianping as General Manager of the Company, and nominated Hu Jianping as Director Candidate of the 5th Board of Directors, which was submitted to the 2004 Shareholders' General Meeting for election.

5.2 Particulars about directors and supervisors holding the post in Shareholding Company

√Applicable ☐Inapplicable

Name	Name of Shareholding Company	Title in Shareholding Company	Office term	Drawing the payment from the Shareholding Company (Yes / No)
Wu Dehua	China Zhenhua Electronics Group Co. Ltd. Shenzhen Electronics Co., Ltd.	General Manager	Apr. 2001 to now	Yes
Feng Quanbao	Shenzhen SEG Group Co., Ltd.	Deputy General Manager	Jun. 1992 to now	Yes
Che Wenshen	China Zhenhua Electronics Group Co., Ltd.	Chief Accountant	Aug. 2000 to now	Yes
Liu Jingju	Shenzhen SEG Group Co., Ltd.	Deputy Secretary	May 1997 to now	Yes

5.3 Particulars about the annual payment of directors, supervisors and senior executives

Total annual payment	RMB 1,799,700
Total annual payment of the top three directors drawing the highest payment	RMB 399,700
Total annual payment of the top three senior executives drawing the highest payment	RMB 873,300
Allowance of independent director per person/ year	RMB 36,000 per person/year
Other treatment of independent directors	No
Name of directors and supervisors receiving no payment or allowance from the Company	Wu Dehua, Feng Quanbao, Che Wenshen and Liu Jingju
Payment	Number of persons
Under RMB 50,000	3
RMB 200,000 ～ RMB 300,000	5
Over RMB 300,000	1

§6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

1. This year, the big increase in the price of raw materials directly resulted in the sharp increase in production cost of circuit boards, core business of the Company. In the report period, the sales cost level of circuit boards increased 38.92% over the same period of the previous year; the gross profit ratio decreased nearly dozen percents; the profitability of the core business of the Company remarkably declined.
2. This year, the property lease business went steadily, but the lease income decreased a bit and the lease profit decreased, mainly because directly effected by SARS, the

operation of the majority renters went down, and this year to support partial renters the Company debated partial rent adequately. 3. In this year, according to the accounting principles, accounting system and relevant resolutions of the Board, the Company appropriated provision for inventory's depreciation amounting to RMB 13,596,200 caused by derogation, price-falling and other factors, and impairment losses for fixed assets amounting to RMB 265,700, and bad debts reserve for accounts receivable amounting to RMB 8,374,500. The loss on inventory disposal of the Company was RMB 2,642,900 at the end of the year.

6.2 Statement of main operations classified according to products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to products	Income from main operations (RMB'0000)	Cost of main operations (RMB'0000)	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Manufacture of electronic products	12,924.59	12,778.30	1.13%	9.05%	17.16%	-6.85%
Including: related transaction	0.00	0.00				
Main operations classified according to products						
Circuit Board	9,809.96	9,735.59	0.76%	24.97%	38.92%	-9.96%
Color TV	1,697.35	1,914.78	-12.81%	-39.95%	-34.56%	-9.31%
Plastic injection hardware	1,417.28	1,127.93	20.42%	20.58%	16.01%	3.14%
Including: related transaction	0.00	0.00				
Pricing rules for related transactions	Naught					
Necessity and durative of related transactions	Naught					

Including: In the report period, the Company did not sell products or provide labor service to the controlling shareholder and its subsidiaries.

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Area	**Income from main operations**	**Increase/decrease in income from main operations over the last year (%)**

Domestic	11,163.07	13.33%
Overseas	1,761.52	-9.07%

The products sale of the Company's main operations is mainly in the South China.

6.4 Particulars about the customers of purchase and sales

Unit: RMB'0000

Total amount of purchase of the top five suppliers	3,080.45	Proportion in the total amount of purchase	38.47%
Total amount of sales of the top five sales customers	8,220.59	Proportion in the total amount of sales	63.60%

6.5 Operation of share-holding companies

□Applicable √Inapplicable

6.6 Explanation on reasons of material changes in main operations and its structure

□Applicable √Inapplicable

6.7 Explanation on reasons of material changes in profitability capability of main operations than that in the last year

√Applicable □Inapplicable

In 2004, the big increase in the price of raw materials directly resulted in the sharp increase in production cost of circuit boards, thus, the profitability capability of the Company's core operations observably declined.

6.8 Analysis to reasons of material changes in operating results and profit structure compared with the previous year

√Applicable □Inapplicable

Net profit decreased by 473.31% year-on-year, which was mainly due to the drop of profit from main operations by a large margin, decrease of the profit from properties lease and the reserve for assets appropriated.

Analysis to reasons of material changes in the whole financial position than that in the last year

□Applicable √Inapplicable

6.9 Explanation on the past, current and future important effects of the material changes in production and operation environment, macro-policies and regulations on the Company's financial position and operating results

□Applicable √Inapplicable

6.10 Completion of the profit estimation

□Applicable √Inapplicable

6.11 Completion of the business plan

□Applicable √Inapplicable

6.12 Application of the raised proceeds

□Applicable √Inapplicable

Particulars about the changed projects
☐Applicable √Inapplicable

6.13 Application of the proceeds not raised through shares offering
☐Applicable √Inapplicable

6.14 Explanation of the Board of Directors on the "Qualified Opinion" made by the Certified Public Accountants
☐Applicable √Inapplicable

6.15 Business plan as of the next year of the Board of Directors
√Applicable ☐Inapplicable

In 2005, the Company turned losses into profits with all efforts:
1. To promote production technology of circuit board and improve product qualities;
2. To solidify and keep enlarging output of plastic injection hardware;
3. To stop production and operation of TV sets;
4. To keep stabilizing property leasing business;
5. To strengthen operating management of the Company and implement all-around budget management.

Profit estimation of the new report year
☐Applicable √Inapplicable

6.16 The preplan on the profit distribution and capitalization of capital public reserve of the Board of Directors
√Applicable ☐Inapplicable

In 2004, the Company suffered losses and didn't distribute profit and convert capital public reserve into share capital for 2004.

The Company did not appropriate share distribution preplan though the Company achieved the profit in the report period
☐Applicable √Inapplicable

§7. Significant Events

7.1 Purchase of assets
☐Applicable √Inapplicable
7.2 Sales of assets
☐Applicable √Inapplicable
7.3 Important guarantee
☐Applicable √Inapplicable
7.4 Significant related transactions
7.4.1 Related purchase and sale
☐Applicable √Inapplicable
7.4.2 Current related credits and liabilities
☐Applicable √Inapplicable

7.5 Entrusted assets

□Applicable √Inapplicable

7.6 Implementation of commitment items

□Applicable √Inapplicable

7.7 Significant lawsuit and arbitration

□Applicable √Inapplicable

7.8 Particulars about the performance of obligations of Independent Directors

Particulars about the independent directors attending the Board

Name of Independent Directors	This year times of attending the Board meeting	Presence in person	Entrusted presence (times)	Absence (Times)	Notes
Zhou Daozhi	6	5	1	0	
Zhao Junrong	6	6	0	0	
He Xiaoming	4	4	0	0	

Particulars about the independent directors proposed different opinions about the relevant matters of the Company

□Applicable √Inapplicable

Other relevant information

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, Mr. Zhao Junrong and Mr. He Xiaoming performed their duties in a patient and responsible, prudential and diligent way, attended every meeting of the Board on time and expressed professional opinion on the proposals of the meetings; examined the financial statement of the Company each month and mastered the operation situation and financial status of the Company in time; expressed the independent opinion on change of directors, supervisors and senior executives, related transaction, external guarantee and other events, and played a positive functions in scientific decision-making of the Board and the standardization administration of the Company.

§8. Report of the Supervisory Committee

The Supervisory Committee believed, the Company operated by law, and financial situation, usage of raised proceeds, purchase and sale of assets transactions, and related transactions of the Company didn't exist problems.

§9. Financial Report

9.1 Auditors' opinion

Auditors' opinion: standard unqualified auditor's opinion

9.2 Financial statements

Consolidated balance sheet

As at 31st December 2004

(Amount expressed in thousands of RMB)

	2004	2003

	RMB'000	RMB'000
Assets		
Non-current assets		
Property, plant and equipment	273,095	290,183
Construction in progress	2,102	469
Other investments	-	-
Total non-current assets	275,197	290,652
Current assets		
Inventories	38,188	45,192
Bill receivables	3,010	4,042
Trade receivables	60,574	63,870
Prepaid expenses and other current assets	17,337	25,355
Cash and cash equivalents	35,402	47,270
Total current assets	154,511	185,729
Total assets	429,708	476,381
Equity and liabilities		
Capital and reserves		
Share capital	283,161	283,161
Share premium	98,461	98,461
Property revaluation reserve	3,033	3,033
Surplus reserves	77,391	77,391
Accumulated losses	(229,809)	(185,467)
	232,237	276,579
Current liabilities		
Trade payables	46,517	42,720
Accrued expenses and other current liabilities	25,954	23,082
Bank loans – repayable within one year	125,000	134,000
Total current liabilities	197,471	199,802
Total equity and liabilities	429,708	476,381

Consolidated income statement
For the year ended 31st December 2004
(Amount expressed in thousands of Renminbi ("RMB"))

	2004	2003
	RMB'000	RMB'000
Revenue	158,648	151,392
Cost of sales	(146,868)	(125,374)
Gross profit	11,780	26,018
Other operating income	1,598	96
Selling expenses	(3,871)	(3,335)
Administrative expenses	(43,936)	(23,001)
Other operating expenses	(2,707)	(750)

Loss from operations	(37,136)	(972)
Finance costs, net	(7,206)	(6,762)
Loss before taxation	(44,342)	(7,734)
Income taxation	-	-
Loss attributable to shareholders	(44,342)	(7,734)
Loss per share – basic	(RMB0.1566)	(RMB0.0273)

Consolidated cash flow statement
For the year ended 31st December 2004
(Amount expressed in thousands of RMB)

	2004	2003
	RMB'000	RMB'000
Operating activities		
Loss before taxation	(44,342)	(7,734)
Adjustments for:		
Bank interest income	(323)	(293)
Bank interest expenses	7,261	7,131
Depreciation on property, plant and equipment	24,003	22,702
Impairment loss on property, plant and equipment	266	-
Loss (gain) on disposal of property, plant and equipment	488	(10)
Construction in progress written off	104	19
Provision for doubtful receivables	8,375	584
Provision for obsolesce inventories	13,596	3,666
Operating cash flow before movements in working capital	9,428	26,065
Increase in inventories	(6,592)	(3,719)
Decrease (increase) in trade and other receivables	3,970	(19,164)
Increase in trade and other payables	6,670	4,771
Cash from operations	13,476	7,953
Bank interest paid	(7,261)	(7,131)
Net cash from operating activities	6,215	822
Investing activities		
Interest received	323	293
Acquisitions of property, plant and equipment	(5,593)	(2,985)
Increase in construction in progress	(4,090)	(6,779)
Proceeds from disposal of property, plant and equipment	277	45
Net cash used in investing activities	(9,083)	(9,426)
Financing activities		
New bank loans granted	130,000	172,000
Repayment of bank loans	(139,000)	(162,000)
Net cash (used in) from financing activities	(9,000)	10,000

(Decrease) increase in cash and cash equivalents	(11,868)	1,396
Cash and cash equivalents at beginning of year	47,270	45,874
Cash and cash equivalents at end of year, analysis as:		
Cash and bank balances	35,402	47,270

9.3 Explanation on changes of accounting policy, accounting estimation and settlement compared with the latest annual report

□Applicable √Inapplicable

9.4 Contents, correct amount, reason and its influence of significant accounting errors

□Applicable √Inapplicable

9.5 Explanation on change of consolidated scope compared with the latest annual report

□Applicable √Inapplicable

Board of Directors of
Shenzhen Huafa Electronics Co., Ltd.
Apr. 28, 2005