SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2004

HO AND HO & COMPANY

CERTIFIED PUBLIC ACCOUNTNATS

HONG KONG

SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2004

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REPORT OF THE AUDITORS

To the Shareholders of

Shenzhen Huafa Electronics Co., Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Shenzhen Huafa Electronics Co., Limited (the "Company") and its subsidiaries (the "Group") as of 31st December 2004 and the related statements of income, cash flows and statement of changes in equity for the year then ended. These financial statements are the responsibility of the Company'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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2004 and of the results 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
26th April 2005

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

	Note	2004	2003
		RMB'000	RMB'000
Revenue	3	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	4	(37,136)	(972)
Finance costs, net	5	(7,206)	(6,762)
Loss before taxation		(44,342)	(7,734)
Income taxation	6	-	-
Loss attributable to shareholders		(44,342)	(7,734)
Loss per share – basic	8	(RMB0.1566)	(RMB0.0273)

Consolidated balance sheet
As at 31st December 2004
(Amount expressed in thousands of RMB)

	Note	2004	2003
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	10	273,095	290,183
Construction in progress	11	2,102	469
Other investments	12	-	-
Total non-current assets		275,197	290,652
Current assets			
Inventories	13	38,188	45,192
Bill receivables		3,010	4,042
Trade receivables		60,574	63,870
Prepaid expenses and other current assets	14	17,337	25,355
Cash and cash equivalents	15	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	16	283,161	283,161
Share premium	17	98,461	98,461
Property revaluation reserve		3,033	3,033
Surplus reserves	18	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	19	25,954	23,082
Bank loans – repayable within one year	20	125,000	134,000
Total current liabilities		197,471	199,802
Total equity and liabilities		429,708	476,381

The financial statements on pages 2 to 21 were approved by the Board of Directors and authorised for issue on 20th April 2005 and signed on its behalf by:

Wu Dehua
Director

Feng Quanbao
Director

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

	Share capital	Share premium	Property revaluation reserve	Surplus reserves	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2003	283,161	98,461	-	77,391	(177,733)	281,280
Property revaluation surplus	-	-	3,033	-	-	3,033
Loss attributable to shareholders	-	-	-	-	(7,734)	(7,734)
At 1st January 2004	283,161	98,461	3,033	77,391	(185,467)	276,579
Loss attributable to shareholders	-	-	-	-	(44,342)	(44,342)
At 31st December 2004	283,161	98,461	3,033	77,391	(229,809)	232,237

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

Notes to the financial statements
For the year ended 31st December 2004
(Amount expressed in thousands of RMB)

1. General information

Shenzhen Huafa Electronics Co., LTD (the "Company") was established in the People's Republic of China (the "PRC") on 8th 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 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 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.

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 inter-company 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.

(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.

2. Principal accounting policies (continued)

(e) Property, plant and equipment (continued)

ii) Other 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 labor and an appropriate proportion of production overheads and borrowing costs.

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

iii) Subsequent expenditure

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

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 after taking into accounts 5% residue value. The estimated useful lives are as follows:-

	Years	Depreciation rates per annum
Leasehold land	Over the lease terms	
Buildings	20-50 years	1.90%-4.75%
Machinery and equipment	5-10years	9.50%-19.00%
Furniture and fixtures	5 years	19.00%
Motor vehicles	5 years	19.00%

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.

2. Principal accounting policies (continued)

f) Construction in progress

Construction in progress represents properties under construction and is stated in the balance sheet at cost less impairment losses.

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.

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.

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.

2. Principal accounting policies (continued)

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.

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) 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.

2. Principal accounting policies (continued)

q) Retirement benefits

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

r) Income tax expenses

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

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

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

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

3. Revenue

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

	2004	2003
	RMB'000	RMB'000
Sales of electronic goods	129,246	118,522
Property investment	29,402	32,870
	158,648	151,392

4. Loss from operations

Loss from operations is arrived at after charging (crediting):

	2004	2003
	RMB'000	RMB'000
Staff costs		
-Wages and salaries and welfare	31,009	29,623
-Contribution to retirement scheme	1,388	1,323
	32,397	30,946
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

5. Finance costs, net

	2004	2003
	RMB'000	RMB'000
Bank interest expenses	7,261	7,131
Bank interest income	(323)	(293)
Exchange loss (gain)	172	(125)
Others	96	49
	7,206	6,762

6. Income tax expenses

The applicable PRC income tax rate for the group was 15%. 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 differences is immaterial.

7. Dividends

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

8. Loss per share

The loss per share for the year ended 31st December is calculated based on the net loss attributable to shareholders of RMB 44,342,000 (2003: RMB 7,734,000) and the weighted average number of ordinary shares outstanding during the year of 283,161,227 shares (2003: 283,161,227 shares).

The amount of diluted loss 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 year was RMB 1,388,000 (2003: RMB 1,323,000).

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	149,952	112,894	27,281	6,200	406,649
Additions	1,114	1,899	610	4,248	75	7,946
Disposals			(1,192)	(130)	(2,275)	(3,597)
At 31st December 2004	111,436	151,851	112,312	31,399	4,000	410,998
Accumulated depreciation						
At 1st January 2004	33,552	16,267	46,856	14,753	4,330	115,758
Charge for the year	8,351	3,634	8,122	3,441	455	24,003
Written back on disposal	-	-	(1,073)	(117)	(1,642)	(2,832)
At 31st December 2004	41,903	19,901	53,905	18,077	3,143	136,929
Accumulated impairment losses						
At 1st January 2004	-	-	-	708	-	708
Additions	-	-	-	266	-	266
At 31st December 2004	-	-	-	974	-	974
Net book value						
At 31st December 2004	69,533	131,950	58,407	12,348	857	273,095
At 31st December 2003	76,770	133,685	66,038	11,820	1,870	290,183

a) 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).

b) During the year, the additions include the Group's property, plant and equipment with cost approximately RMB2,353,000, which were transferred from construction in progress.

c) As at 31st December 2004, all the Group's investment properties with net book value of RMB69,533,000 (2003: RMB76,770,000) were leasing under operating leases to independent third parties. The terms of leases are ranging from 3 to 11 years.

d) At the balance sheet date, the Group's investment properties, land and buildings with aggregate net book value of approximately RMB184,730,000 (2003 : RMB137,990,000) were pledged to banks for the bank borrowings.

e) The gross rental income generated from the investment properties for the year was RMB29,410,000 (2003: RMB32,870,000).

f) Direct operating expenses arising from the investment properties for the year amounted to RMB17,184,000 (2003 : RMB12,487,000).

11. Construction in progress

	2004	2003
	RMB'000	RMB'000
At 1st January	469	1,256
Additions	4,090	6,779
Transfer to property, plant and equipment	(2,353)	(7,547)
Written off	(104)	(19)
At 31st December 2004	2,102	469

12. Other investments

	2004	2003
	RMB'000	RMB'000
Unlisted PRC shares, at cost	900	900
Less: Provision for impairment losses	(900)	(900)
	-	-

13. Inventories

	2004	2003
	RMB'000	RMB'000
Raw materials	7,938	10,708
Work in progress	4,282	10,290
Finished goods	25,968	24,194
	38,188	45,192

Inventories stated at net realisable value are as follows:

	2004	2003
	RMB'000	RMB'000
Raw materials	1,476	1,336
Work in progress	3,067	5,216
Finished goods	23,367	18,855
	27,910	25,407

14. Prepaid expenses and other current assets

	2004	2003
	RMB'000	RMB'000
Prepaid expenses	475	1,083
Other receivables	16,862	24,272
	17,337	25,355

15. Cash and bank balances

At the balance sheet date, cash and bank balances of HK$107,000 (equivalent to approximately RMB113,000 (2003: HK$266,000, equivalent to RMB283,000) were guarantee deposits used for the purposes of opening letter of credit.

16. Share capital

	2004	2003
	RMB'000	RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each		
Listed shares:		
56,239,563 "A" shares	56,240	56,240
101,995,836 "B"shares	101,996	101,996
	158,236	158,236
Unlisted shares:		
Owned by legal person		
124,925,828 "A" shares	124,925	124,925
	283,161	283,161

There was no movement in the Company's shares in both 2004 and 2003.

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

17. Share premium

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. Surplus reserves

	2004	2003
	RMB'000	RMB'000
Statutory surplus reserve	20,949	20,949
Public welfare fund reserve	373	373
Discretionary surplus reserve	56,069	56,069
	77,391	77,391

a) Statutory surplus reserve

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

18. Surplus reserves (continued)

a) Statutory surplus reserve (continued)

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.

19. Accrued expenses and other current liabilities

	2004	2003
	RMB'000	RMB'000
Accrued expenses	6,370	3,512
Prepaid income tax	(121)	(121)
Other tax payables	2,657	2,090
Received in advance	10,381	10,648
Other payables	6,667	6,953
	25,954	23,082

20. Short-term bank loans

	2004	2003
	RMB'000	RMB'000
Secured (note 10d)	118,000	127,000
Guaranteed (b)	7,000	7,000
	125,000	134,000

a) The annual interest rates of the bank loans are ranged from 5.31% to 6.138% (2003: 5.31% to 5.841%).

b) The guaranteed bank loans of RMB4,200,000 and RMB2,800,000 (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 (2003:nil).

21. 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 2004 and 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 year, the sales of the five largest customers contributed 63.60% to the total revenue.

(b) Interest rate risk

The interest rate of the Group's borrowings are disclosed in note 20.

(c) Foreign exchange risk

The Company has no significant foreign exchange risk due to limited foreign currency transactions.

21. Financial instruments (continued)

(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.

22. Operating leases commitment

The Group as 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:

	2004	2003
	RMB'000	RMB'000
Within one year	31,229	24,577
In two and five years	110,910	85,922
After five years	64,432	72,390
	206,571	182,889

23. Related party transactions

SEG Group and China Zhenghua Electronics Ltd., Group, the shareholders of the Company provided guarantees for the Company's bank loan RMB4,200,000 and RMB2,800,000 (2003: RMB4,200,000 and RMB2,800,000). During the year, the Company paid the bank loans guarantee fee of RMB34,000 to SEG Group.

24. Segment information

(a) Business segments

For management purposes, the Group is currently organized into two operating divisions and based on which the Group's primary segment information are reported.

Principal activities are as follows:

Electronic goods - manufacture and sales of electronic products

Property investment - leasing of property

Segment information about these businesses is presented below:

For the year ended 31st December 2004/ as at 31st December 2004

	Electronic goods	Property investment	Total
	RMB'000	RMB'000	RMB'000
i) Income statement			
Revenue	129,246	29,402	158,648
Operating results			
Operating (loss) profit of segment	(44,410)	10,317	(34,093)
Unallocated expenses			(3,043)
Loss from operations			(37,136)
Finance costs, net			(7,206)
Loss attributable to shareholders			(44,342)
ii) Balance sheet			
Assets			
Segment assets	333,928	93,759	427,687
Unallocated assets			2,021
Total assets			429,708
Liabilities			
Segment liabilities	196,802	510	197,312
Unallocated liabilities			160
Total liabilities			197,472
iii) Other information			
Depreciation and impairment losses	15,918	8,351	24,269

24. Segment information

(a) Business segments (continued)

For the year ended 31st December 2003/ as at 31st December 2003

	Electronic goods	Property investment	Total
	RMB'000	RMB'000	RMB'000
i) Income statement			
Revenue	118,522	32,870	151,392
Operating results			
Operating (loss) profit of segment	(13,599)	16,608	3,009
Unallocated expenses			(3,981)
Loss from operations			(972)
Finance costs, net			(6,762)
Loss attributable to shareholders			(7,734)
ii) Balance sheet			
Assets			
Segment assets	363,376	110,147	473,523
Unallocated assets			2,858
Total assets			476,381
Liabilities			
Segment liabilities	199,008	634	199,642
Unallocated liabilities			160
Total liabilities			199,802
iii) Other information			
Depreciation and impairment losses	14,757	7,945	22,702

(b) Geographical segment

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

25. Difference between statutory financial statements and IFRS financial statements

Other than the differences in the classifications of certain financial captions, there are no differences between the Group's statutory financial statements and IFRS financial statements.