

SHENZHEN HUAFU ELECTRONICS CO., LTD.

ANNUAL REPORT 2004

Stock Code: 000020, 200020

Short Form of the Stock: ST Huafa A, ST Huafa B

Public Notice No.: 2005-08

Important Notice: Board of Directors of SHENZHEN HUAFA ELECTRONICS CO., LTD. (hereinafter referred to as the Company) and its directors hereby confirm that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

Shenzhen Nanfang Min-He Certified Public Accountants and Ho and Ho & Company Certified Public Accountants audited the 2004 financial report of the Company and issued the standard unqualified Auditors' Report respectively.

Chairman of the Board of the Company Mr. Wu Dehua, General Manager Mr. Hu Jianping and Head of Financial Department Mr. Wang Yiqing hereby confirm that the Financial Report of Annual Report 2004 is true and complete.

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I. COMPANY PROFILE

1. Name of the Company
In Chinese: 深圳华发电子股份有限公司
In English: SHENZHEN HUAFA ELECTRONICS CO., LTD.
2. Legal Representative: Wu Dehua
3. Secretary of the Board of Directors: Hu Jianping
Securities Affairs Representative: Liu Yang
Contact Address: 6/F, 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Tel: (86) 755-83352207
Fax: (86) 755-83323169
E-mail: sz000020@163.net
4. Registered Address: 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Office Address: 6/F, 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Post Code: 518031
Company's Internet Web Site: <http://www.hwafa.com>
5. Newspapers for Disclosing the Information of the Company:
China Securities and Hong Kong Ta Kung Pao
Internet Web Site for Publishing the Annual Report: <http://www.cninfo.com.cn>
The Place Where the Annual Report is Prepared and Placed: 6/F, 411 Bldg., Huaafa North Road, Futian District, Shenzhen
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock: ST HUAFA A, ST HUAFA B
Stock Code: 000020, 200020
7. Other Relevant Information of the Company
Initial registered date and place or changed registered date and place:
Registered date: May 1992
Registered place: 411 Bldg., Huaafa North Road, Futian District, Shenzhen
Registered number of enterprise legal person's business license: 100296
Registered number of tax: 440304618830372
Name and office address of Certified Public Accountants engaged by the Company:
Name: Shenzhen Nanfang-Minhe Certified Public Accountants
Address: 7/F and 8/F, Electronic Building, No. 2072, Shen Nan Middle Road, Shenzhen
Name: HO and HO & Company Certified Public Accountants
Address: No. 2-12 Queen West Avenue, Hong Kong

II. FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

(I) Major accounting data as of the year 2004

Items	Amount (RMB)
Total profit	-44,341,967.47
Net profit	-44,341,967.47
Net profit after deducting non-recurring gains and losses	-40,930,832.66
Profit from main operations	1,403,679.16
Other operating profit	10,034,903.48
Operating profit	-43,573,750.47
Investment income	0
Subsidy income	0
Net non-operating income/expenses	-768,217.00
Net cash flow arising from operating activities	10,814,886.82
Net increase/decrease of cash and cash equivalents	-11,867,861.96

Note: Item of deducting non-recurring gains and losses:

Items	Amount (RMB)
Non-operating income	45,242.47
Non-operating expenses	-813,459.47
Current assets – loss on disposal	-2,642,917.81
Total	-3,411,134.81

Note: Shenzhen Huafa Electronics Co., Ltd. (hereinafter referred to as the Company) is a listed company of both A-share and B-share. There was no difference in the Company's net profit as calculated according to the relevant system of Chinese Accounting Standards (CAS) and International Accounting Standards (IAS).

(II) Major accounting data and financial indexes over the past three years ended by the report year

Unit: RMB

Items	2004	2003	2002
Income from main operations	129,245,944.71	118,522,402.81	128,961,236.66
Net profit	-44,341,967.47	-7,734,400.71	1,109,909.25
Total assets	429,708,402.01	476,380,522.51	466,311,215.31
Shareholders' equity (excluding minority interest)	232,236,621.53	276,578,589.00	281,279,722.71
Earnings per share	-0.16	-0.03	0.004
Net assets per share	0.82	0.98	0.99
Net assets per share after adjustment	0.77	0.91	0.93
Net cash flow per share arising from operating activities	0.04	0.02	0.024
Return on equity (%)	-19.09%	-2.80%	0.39%

(III) The Company's profit highlights as calculated in accordant with Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by China Securities Regulatory Commission:

Profit in the report period	Return on equity (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	0.60%	0.55%	0.0050	0.0050
Operating profit	-18.76%	-17.13%	-0.1539	-0.1539
Net profit	-19.09%	-17.43%	-0.1566	-0.1566
Net profit after deducting non-recurring gains and losses	-17.62%	-16.09%	-0.1445	-0.1445

(II) Particulars about changes in shareholders' equity in the report year

In RMB

Items	Share capital	Capital reserve	Surplus reserve	Statutory public welfare fund	Undistributed profit	Total shareholders' equity
Amount at the period-begin	283,161,227	101,494,017	77,391,593	373,108	-185,468,248	276,578,589
Increase in the report period	---	---	---	---	---	---
Decrease in the report period	---	---	---	---	44,341,967	44,341,967
Amount at the period-end	283,161,227	101,494,017	77,391,593	373,108	-229,810,215	232,236,622
Reason for Change	The decrease of undistributed profit was due to the operation loss in this report year.					

III. CHANGES IN CAPITAL SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about the changes in share capital

1. Statement of change in shares

Unit: Share

Items	Before the change	Increase/decrease of this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Subtotal	
I. Unlisted shares								
1. Sponsors' shares								
Including:								
State-owned shares								
Domestic legal person's shares	124,925,828						0	124,925,828
Foreign legal person's shares								
Others								
2. Raised legal person's shares								
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	124,925,828						0	124,925,828

II. Listed shares								
1. RMB ordinary shares	56,239,563						0	56,239,563
2. Domestically listed foreign shares	101,995,836						0	101,995,836
3. Overseas listed foreign shares								
4. Others								
Total listed shares	158,235,399						0	158,235,399
III. Total shares	283,161,227						0	283,161,227

(II) Issuance and listing of shares

1. The previous three year ended the period-end, the Company issued neither new shares nor derived securities.
2. In the report period, the Company's total shares and its structure remained unchanged.
3. There existed no inner employees' shares in the Company.

(III) About shareholders

1. Total number of shareholders at the end of report year

By the end of the report year, the Company had totally 28,089 shareholders, including 17,509 shareholders of A-share and 10,580 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders ended Dec. 31, 2004

No.	Shareholders' name	Increase/decrease in the report year (+/-)	Holding shares at the year- end (share)	Proportion in total shares (%)	Type
	Shenzhen SEG Group Co., Ltd.	-	62,462,914	22.06	A-share
	China Zhenhua Electronics 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
	YIN GANG	+225,000	945,145	0.33	B-share
	BINGHUA LIU	+876,013	876,013	0.31	B-share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	+100,000	648,262	0.23	B-share
	GUOTAI JUNAN SECURIES HONG KONG LIMITED	+549,230	549,230	0.19	B-share
	CHINA MERCHANTS SECURITIES (HONG KONG) 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 and shares held by them were unlisted shares.

[Note 2] 62,462,914 domestic legal person's shares of the Company held by Shenzhen SEG Group Co., Ltd. were frozen judicially. The Company has published the detailed information on China Securities and Ta Kung Pao dated Oct. 30, 2004 and Nov. 16, 2004.

[Note 3] 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.

3. The controlling shareholder of the Company

Name of the controlling shareholder: Shenzhen SEG Group Co., Ltd.

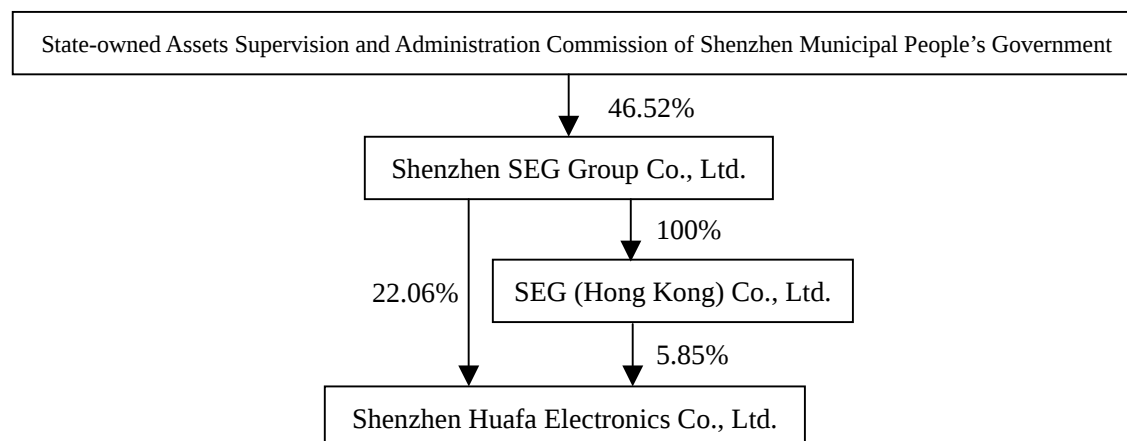
Legal representative: Sun Yulin

Date of foundation: Aug. 23, 1984

Registered capital: RMB 1,355.42 million

Business scope: Production and research of electronic products, electrical home appliances 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. The legal person shareholders holding over 10% of the total shares

Name of the control shareholder: China Zhenhua Electronics Group Co., Ltd.

Legal representative: Chen Qingjie

Date of foundation: Oct. 1984

Business scope: electronic information products, electronic products and machine products and technology consultation and trading.

Registered capital: RMB 288.52 million

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

No.	Shareholders' name	Holding shares at the year- end (share)	Proportion in total shares (%)	Type
	SEG (Hong Kong) Co., Ltd.	16,569,560	5.85	B-share
	GOOD HOPE CORNET INVESTMENTS LTD	13,900,000	4.91	B-share
	ADVANCE FUTURE GROUP LIMITED	3,674,410	1.30	B-share
	YIN GANG	945,145	0.33	B-share
	BINGHUA LIU	876,013	0.31	B-share
	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	648,262	0.23	B-share
	GUOTAI JUNAN SECURITIES HONG KONG LIMITED	549,230	0.19	B-share
	CHINA MERCHANTS SECURITIES (HONG KONG) CO., LTD.	520,000	0.18	B-share
	MA JIN HUI	503,507	0.18	B-share
	BOHAI SECURITIES CO., LTD.	486,099	0.17	A-share

The Company was unknown whether there exists associated relationship among the top ten shareholders of circulation share; SEG (Hong Kong) Co., Ltd. is overseas wholly-owned subsidiary of Shenzhen SEG Group Co., Ltd., except for this, the Company was unknown whether there exists associated relationship among other shareholders of circulation share and the top ten shareholders.

IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

(I) Directors, supervisors and senior executives

1. Basic information

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

Hu Jianping	Male	43	Deputy General Manager, Chief Accountant, Secretary of Board	Sep. 2004-Mar. 2005	0	0
Cai Guiyong	Male	57	Deputy General Manager	Sep. 2004-Sep. 2007	35,545	35,545
Sun Lei	Male	40	Deputy General Manager	Sep. 2004-Sep. 2007	0	0

[Note 1] 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.

[Note 2] Particulars about directors and supervisors holding the position in Shareholding Company

Name	Shareholding Company	Title	Office term
Wu Dehua	China Zhenhua Electronics Group Co. Ltd. Shenzhen Electronics Co., Ltd.	General Manager	Apr. 2001 to now
Feng Quanbao	Shenzhen SEG Group Co., Ltd.	Deputy General Manager	Jun. 1992 to now
Che Wenshen	China Zhenhua Electronics Group Co., Ltd.	Chief Accountant	Aug. 2000 to now
Liu Jingju	Shenzhen SEG Group Co., Ltd.	Deputy Secretary	May 1997 to now

2. Major business experience of directors, supervisors and senior executives and particulars about holding the post in other companies except for Shareholding Company

Wu Dehua: Bachelor degree, senior engineer. He successfully took the posts of Manager of Shenzhen Huashen Automobile Electronic Company, Deputy General Manager of China Zhenhua Electronics Group Co., Ltd., Deputy General Manager (Deputy Director), Standing Commissar of the Party Committee of Group Corporation (083 Base), and Director and General Manager of Shenzhen Huafa Electronics Co., Ltd.. Now he acts as General Manager in Shenzhen Electronics Co., Ltd. of Zhenhua Group and Chairman of the Board in Shenzhen Huafa Electronics Co., Ltd..

Feng Quanbao: Bachelor degree, senior economist. He successfully took the posts of Deputy General Manager of China National Electronics Import & Export Shenzhen Industries and Trading Company and Chairman of the Board of Shenzhen Shenyun Electronics Co., Ltd.. He now acts as Deputy General Manager of Shenzhen SEG Group Co., Ltd. and Vice Chairman of the Board of Shenzhen Huafa Electronics Co., Ltd..

Zhang Yongcheng: Bachelor degree, senior economist. He took the post of Standing Deputy General Manager of Shenzhen SEG Samsung Co., Ltd. in 1998; from Sep. 2000 to now, he successfully took the posts of Property Representative, Secretary of

the Party Committee, Director and General Manager of Shenzhen Huafa Electronics Co., Ltd.; In Mar. 2005, he 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.

Che Wenshen: Senior accountant. From 1986 to now, he successfully took the posts of Accountant and Deputy Division Chief of Zhenhua Company, Deputy Director of Zhenhua Financial Settlement Center, Standing Deputy Manager of Zhenhua Financial Company, Chief Accountant of Zhenhua Technology Company, Chief Accountant of Zhenhua Group Company and Director of Shenzhen Huafa Electronics Co., Ltd..

Zhou Daozhi, Master degree, senior economist. He successfully took the posts of Institute Deputy Director of Financial Research Institute of Shenzhen Special Economic Zone Branch, People Bank of China, Deputy Division Chief of Financial Management Division, Division Chief of Securities Management Division, Vice President of General Bank of China Evenbright Bank, Director of China Evenbright Group (H.K.) Company, Director and Standing Vice-president of Evenbright Securities Co., Ltd., Director and Deputy General Manager of China Evenbright Financial Holding (H.K.) Company and Chairman of the Board of Boshi Funds Management Co., Ltd.. He now acts Executive Director and Secretary of the Party Committee in Boshi Funds Management Company.

Zhao Junrong, Master degree with the major of International Economic Law, Lawyer. He successfully took the posts of reporter and editor in monthly magazine "Securities Market Review" of SSE, Business Manager of Personnel Dept. and Legal Adviser of Law Dept. in Ping An Insurance Company of China, Business Manager of Development and Research Dept. and Legal Adviser of Law Dept. in Shenzhen Investment Holding Corporation. Now he acts as Certified Lawyer of Guangdong China Commercial Law Firm and Independent Director of Shenzhen Huafa Electronics Co., Ltd.; and concurrently holds Chief Legal Adviser in Shenzhen International Holding Co., Ltd. and China Total Logistics (Shenzhen) Co., Ltd..

He Xiaoming, Bachelor degree, CPA. From 1994 to 1997, he took the post in Shekou China Certified Public Accountants; from 1997 to 2000, he took the post in Andersen Certified Public Accountants Shenzhen Branch. He now acts as copartner of Shenzhen Zhongqing Certified Public Accountants, Independent of Director Fortune Ng Fung Food (Hebei) Co., Ltd. and Shenzhen Huafa Electronics Co., Ltd..

Ye Daming, Senior Accountants. From 1966 to 1984, he took the posts of Accountant and Deputy Section Chief in No. 4326 Factory of Guizhou Province; he successfully took the posts of Deputy Manager and Manager of Financial Dept., Deputy Chief Accountant, Chief Accountant and Chairman of the Supervisory Committee in Shenzhen Huafa Electronics Co., Ltd. since 1984.

Liu Jingju, Bachelor degree, Economist. She successfully took the posts of Director of Auditing Office in No. 883 Factory of China Zhenhua Group Co. and Legal Adviser of Shenzhen Nanguang Electronics Industrial Co., Ltd.. From 1993 to now, she takes the posts of Assistant Head and Deputy Head in Supervision and Auditing Dept. and Party and Mass Work Dept. of Shenzhen SEG Group.

Hu Jianping, Master degree, Senior Accountant. From 1984 to 1993, he took the post of Deputy Director of the Financial Teaching and Research Section in Xi'an Highway University; he successfully took the posts of Manager of Financial Dept. and Chief Accountant in Shenzhen Southern Ocean Transportation Company, Deputy Head of Financial Dept. in Shenzhen SEG Group Co., Ltd., and Deputy General Manager, Secretary of the Board and Chief Accountant of Shenzhen Huafa Electronics Co., Ltd. since 1993. Now he acts as General Manager in Shenzhen Huafa Electronics Co., Ltd. and Chairman of the Board in Shenzhen Huafa Property Lease Management Co., Ltd..

Cai Guiyong, Senior Economist. He took the posts of Section Deputy Manager, Manager, Deputy Chief Economist and Deputy General Manager of Shenzhen Huafa Electronics Co., Ltd. from 1982 to now.

Sui Lei, Postgraduate, Senior Engineer. From 1987 to 1999, he even took the posts of clerk of Personnel Section in Beijing Research Institute of Automation for Machinery Industry, temporarily cadre of Personnel Dept. in China National Machinery Industry Commission, clerk of the No. 2 Cadre Division of Personnel Dept. in Machinery Electronic Industry Ministry, clerk of the No. 2 Cadre Division of Personnel Bureau of China Electronic Industry General Corporation, clerk of the No. 2 Cadre Division and Deputy Division Chief of Education Dept. in Electronic Industry Ministry; from 1999 to 2001, he took the posts of Deputy Head and Head of Personnel Dept. in Shenzhen SEG Group Co., Ltd.. Now he acts as Deputy General Manager of Shenzhen Huafa Electronics Co., Ltd..

3. Particulars about the annual recompense

(1) The decision-making processes of annual recompense held by directors, supervisors and senior executives

In accordance to Articles of Association of the Company, Shareholders' General Meeting determined the annual recompense of directors and supervisors, and Board of Directors determined the annual recompense of the senior executives.

(2) The annual recompense of directors, supervisors and senior executives

The total annual recompense drew by present directors, supervisors and senior executives from the Company amounted to RMB 1,799,700. The total amount of annual recompense of the top three senior executives drawing the highest payment was RMB 873,300; the annual allowance of independent directors was RMB 36,000 respectively.

The range of annual salary held by directors, supervisors and senior executives are as

follows: three enjoyed the annual recompense under RMB 50,000, five enjoyed between RMB 200, 000 and RMB 300,000 and one enjoyed over RMB 300,000.

Chairman of the Board Mr. Wu Dehua, Vice Chairman of the Board Mr. Feng Quanbao, Director Mr. Che Wenshen and Supervisor Ms. Liu Jingju received no pay from the Company; among them, Mr. Wu Dehua drew his recompense from China Zhenhua Electronics Group Co., Ltd.; Che Wenshen drew his recompense from China Zhenhua Electronics Group Co., Ltd.; Mr. Feng Quanbao and Ms. Liu Jingju drew their recompense from Shenzhen SEG Group Co., Ltd..

4. Name of directors, supervisors and senior executives leaving the office in the report year and reasons

Wang Chu submitted an application to resign from the post of Director due to work change on Apr. 20, 2004, which was examined and approved by the 2003 Shareholders' General Meeting held on May 26, 2004, and at the same time, Mr. He Xiaoming was elected as Independent Director of the 4th Board of Directors.

On Sep. 14, 2004, the office term of the 4th Board of Directors and the 4th Supervisory Committee has expired. The 5th Board of Directors and the 5th Supervisory Committee were elected at the 1st Extraordinary Shareholders' General Meeting 2004. Members of the 5th Board of Directors: Wu Dehua, Feng Quanbao, Zhang Yongcheng, Che Wenshen, Zhou Daozhi, Zhao Junrong and He Xiaoming; members of the 5th Supervisory Committee: Ye Daming, Liu Jingju and Li Liangzhen. The 1st meeting of the 5th Board of Directors elected Wu Dehua and Feng Quanbao as Chairman of the Board and Vice Chairman of the Board respectively; engaged Zhang Yongcheng as General Manager. According to nomination of Chairman of the Board, the Board engaged Hu Jianping as Secretary of the Board; and nominated by General Manager, the Board engaged Cai Guiyong, Hu Jianping and Sun Lei as Deputy General Manager respectively, engaged Hu Jianpin as Chief Accountant.

(II) About Employees

Ended Dec. 31, 2004, the Company had 1,378 employees. Among them, production personnel takes 82.66% of the total employees, salespersons takes 1.96% of the total employees, technicians takes 4.57% of the total employees, financial personnel takes 0.94% of the total employees, administrative personnel takes 9.87% of the total employees. Among non-production personnel, Bachelor degree or above takes 19.25% of total employees, persons graduated from 3-years regular college take 21.76% of the total employees. Social insurance bore the pension for 81 retirees of the Company.

V. ADMINISTRATIVE STRUCTURE

(I) Administration of the Company

In the report period, strictly according to the requirements of relevant laws and regulations such as Company Law, Securities Law, Administration Rule for Listed Companies and the Rules for Listing Shares in the Shenzhen Stock Exchange, the Company continually perfected the legal person's administration structure, amplified

the internal management and standardized the Company's operation and running.

1. Shareholders and Shareholders' General Meeting

The Company convened and held the shareholders' general meeting strictly according to the relevant regulations of Standardization Opinion of Shareholders' General Meeting in Listed Companies and the Rules of Procedure of Shareholders' General Meeting, and ensured all shareholders to exercise their rights in full play. The lawyer engaged by the Company presented at the shareholders' general meeting for witness and expressed the legal opinion. In the report period, there existed no the related transactions and the guarantee provided for shareholders and its related parties in the Company.

2. The controlling shareholder and the Company

The controlling shareholder of the Company could standardized its behaviour strictly, seriously performed the Administration Rules of Listed Company, ensured the Company's independence, and did not intervene in the Company's decision-making and did not harm the rights and interests of the Company and other shareholders directly and indirectly. The nominate of directors candidate and supervisors candidate was in compliance with the conditions and procedures regulated in laws, rules and the Articles of Associations of the Company. The Company owned the independent and complete business and own operation capability. The Company strictly divided in business, personnel, assets, finance and organization from its controlling shareholder, and the Board of Directors, Supervisory Committee and internal organs operated independently.

3. Directors and the Board of Directors

The Company elected directors and organized the work of the Board strictly according to the relevant regulations of Company Law, the Articles of Association of the Company, Rules of Procedure of the Board of Directors and System of Independent Directors. On May 26, 2004, the Company's Shareholders' General Meeting 2003 elected Mr. He Xiaoming (accounting professional) as Independent Director of the Company, up to now, the number of Independent Director of the Company has reached to over 1/3 of total numbers of the Board, and the number of the Board and personnel composing were in compliance with the requirements of the laws and regulations. The directors of the Company performed the responsibility in faith, honesty and diligence.

4. Supervisors and the Supervisory Committee

The Company elected supervisors and organized the work of the Supervisory Committee strictly according to the relevant regulations of Company Law, the Articles of Association of the Company and Rules of Procedure of the Supervisory Committee. The number of the Board and personnel composing were in compliance with the requirements of the laws and regulations; the supervisor performed seriously their duties, and conducted the supervision for the significant events, related transaction, financial status and validity of the duties performed by the Company's directors and other senior executives and expressed the opinion.

5. Information Disclosure: The secretary of the Board was responsible for the information disclosure of the Company, the management of investor relationship and received shareholder's visit and consultation. The newspapers of information disclosure appointed by the Company is China Securities and Ta Kung Pao and

Internet website is <http://www.cninfo.com.cn>. The Company could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law and regulations in order to ensure all the shareholders have equal opportunity to obtain the information.

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

1. Particulars about independent directors' presenting the Board meeting:

Name of independent directors	Times that should be attend the Board meeting	Times of personal presence	Times of commission presence	Times of absence
Zhou Daozhi	6	5	1	0
Zhao Junrong	6	6	0	0
He Xiaoming	4	4	0	0

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.

During the report period, the Company's independent directors did not propose the objection on the relevant events.

(III) Particulars about the Company's "Five Separations" from the controlling shareholder in respect of business, personnel, assets, organization and finance, the Company owned the whole business and independent operating capability.

1. Separation in business: the Company has independent system of purchasing, production and sale and the activities and production and operation are completely separated from the controlling shareholder.

2. Separation in personnel: the management of labor, personal and salary of the Company was independent. The senior executives of the Company took no administrative posts in the companies of the controlling shareholders. Their salaries and allowances were paid by the Company.

3. Separation in assets: the Company had complete and independent production system, auxiliary production system and auxiliary facilities, industry property right, trademark, non-patent technology and system of purchase and sale.

4. Separation in organization: the institutions and organizations of the Company operated independently and there existed no affiliation between the function departments of the Company and all shareholders' companies and their function departments.

5. Separation in financing: the Company established independent financing

departments and system of accounting statement and has normative and independent system of financing management and bank account.

(IV) The remuneration plan of senior executives was examined and approved by the Board of Directors. At present, the Company is actively planning and preparing a set of perfect achievements evaluation and encouragement mechanism of senior executives.

VI. ABOUT THE SHAREHOLDERS' GENERAL MEETING

(I) Particulars about the Annual Shareholders' General Meeting 2003

1. Notification, convening, and holding of the meeting

The Company published the notification on holding Annual Shareholders' General Meeting 2003 on China Securities and Ta Kung Pao dated Apr. 24, 2004. The meeting was held at the meeting hall of the Company on the morning of May 26, 2004. Mr. Wu Dehua, Chairman of the Board, presided over the meeting. 4 shareholders and proxies of the Company were presented at the meeting, representing 141,561,366 shares, taking by 49.99% of the total shares of the Company, including 1 shareholder's representative of B-share, representing 16,569,560 shares, taking 5.85% of the total shares of the Company. Directors, supervisors and senior executives attended the meeting as nonvoting delegate.

2. Particulars about resolutions approved and disclosed

The following reports and resolutions were examined and approved in the Annual Shareholders' General Meeting 2003:

- (1) 2003 Work Report of the Board of Directors;
- (2) 2003 Work Report of the Supervisory Committee;
- (3) 2003 Financial Settlement Report;
- (4) 2003 Profit Distribution Plan;
- (5) 2003 Annual Report;
- (6) 2004 Financial Budget Report;
- (7) Reengage Shenzhen Nanfang Minhe Certified Public Accountants and HO and HO & Company Certified Public Accountants as domestic and international auditor in 2004 respectively. The total remuneration of the aforesaid two auditors in 2004 was RMB 300,000.
- (8) Agreed Mr. Wang Chu to resign the post of Director of the Company;
- (9) Elected Mr. He Xiaoming as Independent Director of the Company;
- (10) Proposal on Amending the Articles of Association of the Company.

The resolutions of the Annual Shareholders' General Meeting 2003 were published on China Securities and Ta Kung Pao dated May 27, 2004.

3. Particulars about change in directors and supervisors

Mr. Wang Chu resigned from the post of Director of the Company due to work transfer; and elected by the Annual Shareholders' General Meeting 2003, Mr. He Xiaoming was elected as Independent Director of the Company.

(II) Particulars about the 1st Provisional Shareholders' General Meeting for 2004

1. Notification, convening, and holding of the meeting

The Company published the notification on holding the 1st Provisional Shareholders'

General Meeting for 2004 on China Securities and Ta Kung Pao dated Aug. 4, 2004. The meeting was held at the meeting hall of the Company on the morning of Sep. 13, 2004. Mr. Wu Dehua, Chairman of the Board, presided over the meeting. 4 shareholders and proxies of the Company were presented at the meeting, representing 124,991,806 shares, taking by 44.1% of the total shares of the Company, including 0 shareholder's representative of B-share, representing 0 share.

2. Particulars about resolutions approved and disclosed

The following reports and resolutions were examined and approved in the 1st Provisional Shareholders' General Meeting for 2004:

(1) Elected the 5th Board of Directors; the 5th Board of Directors was composed of the following 7 directors: Wu Dehua, Feng Quanbao, Zhang Yongcheng, Che Wenshen, Zhou Daozhi, Zhao Junrong and He Xiaoming;

(2) Elected the 5th Supervisory Committee: the 5th Supervisory Committee was composed of the following 3 supervisors: Ye Daming, Liu Jingju and Li Liangzhen;

(3) The remuneration of the Chairman of the Supervisory Committee (full time) was paid based on the remuneration standardization of Deputy General Manager.

The resolutions of the 1st Provisional Shareholders' General Meeting for 2004 were published on China Securities and Ta Kung Pao dated Sep. 14, 2004.

3. Particulars about change in directors and supervisors

The said meeting elected Wu Dehua, Feng Quanbao, Zhang Yongcheng and Che Wenshen as Director of the 5th Board of Directors; elected Zhou Daozhi, Zhao Junrong and He Xiaoming as Independent Director of the 5th Board of Directors; and elected Ye Daming, Liu Jingju and Li Liangzhen as Supervisor of the Supervisory Committee.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Discussion and analysis of financial report and significant events 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.

(II) Operation of the Company in the report period

1. Scope of core business and its operation

(1) Particulars about constitution of income from core business and profit from core business

Classified by industries; core business of the Company is production and sales of printing and manufacturing the electronic products of circuit boards and exact plastic injection hardware, and OEM manufacturing color TVs etc., which all belonged to electronic products industry.

Classified according to areas:

Classified according to areas	Income from main operations (RMB' 0000)	Increase/decrease in income from main operations over the last year (%)
Domestic	11,163.07	13.33
Overseas	1,761.52	-9.07

the sales of products of the Company focuses on the area of South China at home.

Classified according to products:

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 (%)
Circuit Boards	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 transactions	0	0				

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

2. Operation and achievement of main holding and share-holding companies

Shenzhen Huafa Property Rent and Management Co., Ltd., whose 60% equity is held by the Company, is mainly engaged in the lease surrogate of property and property management of the Company with a registered capital of RMB 1 million. The total assets at the end of the report period was RMB 2,905,300, and the income from property management expense of the Company was RMB 1,781,800 with a net profit of RMB -531,200.

3. Major suppliers and customers

The total amount of purchase of the top five suppliers was RMB 30,804,500, taking 38.47% of the total amount of purchase.

The total amount of sales of the top five customers was RMB 82,205,900, taking 63.60% of the total amount of sales.

4. Difficulties and problems arising from the operation and solutions

In 2004, the profitability of core business of the Company declined with main

problems as follows: the price of raw materials for circuit board rose up sharply, while the selling price of products went down stage by stage; the need of products shifted to multi-board with high technology content, while the promoting speed of production technology level of the Company lagged behind; the production and operation of plastic injection hardware went well with high profitability, while the production capability and scale was limited; the processing price for Color TVs kept decreasing without any profit.

Under the stern circumstances, the Company made a big decision on resolving the survival problem of the Company. The Board determined: I. Adjust product structure the orientation of core business; II. Enhance the production technology of circuit board; III. Expanding investment to improve productivity of plastic injection hardware.

(III) The Company had no proceeds raised through share offering or investment projects in the report period

(IV) Financial status

Unit: RMB

Item	At the end of 2004	At the end of 2003	Increase/decrease (%)
Total amount of assets	429,708,402	476,380,523	-9.80
Shareholders' equity	232,236,622	276,578,589	-16.03
Item	In 2004	In 2003	Increase/decrease (%)
Profit from core business	1,403,679	9,413,809	-85.09
Net profit	-44,341,967	-7,734,401	-473.31
Net increase of cash and cash equivalents	-11,867,862	1,395,838	-950.23

Reason for changes:

1. Profit from core business decreased mainly due to price-rising of raw materials and increase in production costs and selling price-falling of products;
2. Net profit decreased mainly due to sharp decrease in profit from core business and decrease in profit from property lease and capital reserve appropriated;
3. Shareholders' equity decreased mainly due to the loss of the Company this year;
4. Total assets decreased mainly due to increase in shareholders' equity and partial loan repaid this year;
5. Net increase of cash and cash equivalents decreased mainly due to borrowing amounting to RMB 9 mil this year.

(V) Business plan of the new report year

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.

(VI) Routine work of the Board of Directors

1. Meetings and resolutions of the Board of Directors in the report period

The Board totally held six meetings in the report period:

1) On Mar. 16, 2004, the Company held 1st Provisional meeting in 2004. According to SZBFZ (2003) No. 283 Document "Notification on Requiring Shenzhen Huafa Electronics Co., Ltd. to Rectify within limit" issued by Shenzhen Securities Inspection Bureau, with respect to the existent problems mentioned in the "Notification", the Board seriously conducted discussion and analysis item by item, and made rectification plan.

2) On Apr. 21, 2004, the Company held 7th meeting of the 4th Board. At the meeting; approved Work Report 2003 of General Manger, Annual Report 2003, 1st Quarterly Report 2004; formed 2003 Report of the Board, Financial Settlement Report 2003, Profit Distribution Plan 2003 and Financial Budget Report 2004; planned to reengage Shenzhen Nanfang Minhe Certified Public Accountants and Ho and Ho & Company Limited as domestic and overseas CPAs in 2004, and totaled annual remuneration amounting to RMB 0.3 million; accepted resignation of Director Wang Chu; Nominated Mr. He Xiaoming as Candidate for Independent Director (accounting professional); determined to hold 2003 Shareholders' General Meeting on May 26, 2004.

3) On Aug. 2, 2004, the Company held 8th meeting of the 4th Board. At the meeting; approved Work Report of General Manger in the first half of 2004; nominated Wu Dehua, Feng Quanbao, Zhang Yongcheng, and Che Wenshen as Candidates for Directors of the 5th Board, nominated Zhou Daozhi, Zhao Junrong, and He Xiaoming as Candidates for Independent Directors of the 5th Board; planned the salary of Chairman of the Supervisory Committee of the Company (Full-time) implemented as per the standard of salary of Deputy General Manager of the Company; determined to hold 2004 1st Provisional Shareholders' General Meeting on Sep. 13, 2004.

4) On Sep. 13, 2004, the Company held 1st meeting of the 5th Board. The meeting elected Mr. Wu Dehua as Chairman of the Board, and Mr. Feng Jinbao as Vice Chairman of the Board; Engaging Mr. Zhang Yongcheng as General Manager of the Company; according to nomination of Chairman of the Board, engaging Mr. Hu Jianping as Secretary of the Board; according to the nomination of General Manager, engaging Mr. Cai Guiyong, Mr. Hu Jianping and Mr. Sun Lei as Deputy General Manger of the Company and Mr. Hu Jianping as Chief Accountant.

5) On Oct. 20, 2004, the Company held 2nd provisional meeting in 2004. The meeting examined and approved 3rd Quarterly Report of the Company in 2004 and Reforming Plan of Using Vehicles for Business System.

6) On Dec. 22, 2004, the Company held 3rd provisional meeting in 2004 by fax. The meeting examined and approved Internal Control System; studied report of Shenzhen Inspection Bureau <Setting up Trust and Lawful Mind, and Improving Administration

and Operation Level>, and draw up study summary.

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

The Board had implemented resolutions of 2003 Shareholders' General Meeting and 2004 1st Provisional Shareholders' General Meeting. In the report period, for the above two Shareholders' General Meeting held by the Company, the Company didn't authorize the Board about any matters. In 2004, the Company didn't distribute profit, ration and additionally issue any shares.

(VII) The preplan of profit distribution and converting capital public reserve into share capital: in 2004, the Company suffered losses and didn't distribute profit and convert capital public reserve into share capital for 2004.

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

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

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

As prudently inspected, the Company and no external guarantee in 2004. Ended Dec. 31, 2004, accumulative external guarantee of the Company was zero. The Company could strictly implement regulations of No. 56 Document to forbid guarantee out of line.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

I. Daily work of the Supervisory Committee and meetings held

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

1. The 9th provisional meeting of the 4th Supervisory Committee was held on Mar. 16, 2004, and the meeting examined and approved the Rectification Scheme of the Company for the Patrolling Inspection of 2003;

2. On Apr. 6, 2004, the 7th meeting of the 4th Supervisory Committee was held. The meeting examined and approved the Work Report 2003 of the Supervisory Committee, Annual Report 2003, Financial Final Report 2003, Profit Appropriation Plan 2003, Financial Budget Report 2004, the proposal on engaging Certified Public Accountants and their remunerations, and the 1st Quarterly Report of 2004.

3. On Aug. 2, 2004, the 8th meeting of the 4th Supervisory Committee was held. The meeting examined and approved the Semi-Annual Report 2004, and nominated Mr.

Ye Daming and Ms. Liu Jingju as the supervisor candidates of the 5th Supervisory Committee and also submitted to the Shareholders' General Meeting for election.

4. On Sep. 13, 2004, the 1st meeting of the 5th Supervisory Committee was held. The meeting chose Mr. Ye Daming as the Chairman of the 5th Supervisory Committee.

5. On Oct. 20, 2004, the 1st provisional meeting of the 5th Supervisory Committee was held. The meeting examined and approved the 3rd Quarterly Report of 2004.

6. On Dec. 28, 2004, the 2nd provisional meeting of the 5th Supervisory Committee was held. The meeting examined and approved the Inner Control System of the Company and the proposal on borrowing from the Industrial and Commercial Bank of China, studied and discussed the Report on Establishing the Concept of Being Faithful and Law-Abiding and Upgrading the Level of Management and Operation, and also summarized the study.

II. Independent opinions of the Supervisory Committee on certain matters of the Company in 2004

1. The Company's operation according to laws

The Supervisory Committee believed that the Company could operate strictly according to relevant laws, and the Board had made full use of their rights in the daily operation and management work within the range authorized by the Shareholders' General Meeting to ensure the standard operation of the Company. The voting procedures, voting style, voting process of each proposal had conformed to the relevant laws and regulations promulgated by the CSRC and the Stock Exchange as well as the Articles of Association of the Company. The Company had established a relatively complete, reasonable, and effective inner control system. While performing their duties, the directors and managers of the Company had no deeds against the national laws, or regulations, or done harm to the interest of the Company.

2. Inspection of the financial status of the Company

The Supervisory Committee had inspected and looked through the Financial Report 2004 of the Company and other relevant accounting materials, and believed that the Company's financial system had been sound, procedures precise, and operation standard. The Financial Report of this year had truly reflected the financial status and operation achievements of the Company in the report period. The standard and unqualified Auditors' Reports furnished by Shenzhen Nanfang Minhe Certified Public Accountants Ltd. and Ho and Ho & Company Certified Public Accountants had been objective and impartial.

3. The use of raised funds

The use of the funds raised during the latest time (December 1997) by the Company had been carried out completely item by item according to plan, and the proposals on the changed parts compared with the original plan had all been examined and approved by the Shareholders' General Meeting, and the procedures of the changes had been legal.

4. The Company had no purchase or sale of assets in the report period. No insider dealings had ever happened, nor had there been any cases that would do harm to the rights or interests of part of the shareholders, or lead to the loss of the Company's

assets.

5. In the report period, there were no related transactions, nor were there any deeds that would do harm to the interests of the Company.

IX. SIGNIFICATN EVENTS

I. There was no material lawsuit or arbitration in the report year.

II. There were no events of purchases or sales of assets, takeovers or mergers in the report period.

III. There was no related transaction in the report period.

IV. Material contracts and implementation

1. In 2001, the Company signed the Building Lease Contract with Shenzhen Wanshang Friendship Department Store Ltd. and China Resources Vanguard Department Store Ltd. and leased the 1st to the 4th floor, with the floor space totaling 22,241.7 m², to the aforesaid two companies. The lease term was 10 years, and the floors would be used to establish emporia such as “China Resources Vanguard Department Store”, etc.. In the report period, the implementation of this contract progressed smoothly.

2. The Company had no external guarantee contract that had been implemented or had not been completely implemented in the report period, nor had the Company provided guarantees for holding subsidiaries.

3. The Company had no entrustment of cash assets management in the report period or continuing in the report period.

V. Neither the Company nor the shareholders holding over 5% shares of the Company had made any commitments in the report period.

VI. In the report period, the Company continued to engage Shenzhen Nanfang Minhe Certified Public Accountants and Ho and Ho & Company Certified Public Accountants as the domestic and overseas auditors of the Company respectively. The remuneration of the year totaled RMB 0.3 million. Up to now, Shenzhen Nanfang Minhe Certified Public Accountants has provided auditing services for the Company for 2 years, and Ho and Ho & Company Certified Public Accountants 4 successive years.

VII. In the report period, the Company, the Board and directors of the Company had not been inspected by, or received administrative penalty, or circulating criticism from CSRC, nor had they been criticized publicly by the Stock Exchange.

X. FINANCIAL REPORTS

1. Auditors’ Report (attached at the back)

2. Accounting Statements (attached at the back)

3. Notes of Accounting Statements (attached at the back)

XI. CONTENTS OF REFERENCE DOCUMENTS

1. Accounting statements carrying the personal signatures and seals of the Legal Representative, General Manager, and person in charge of accounting.
2. Original of Auditors' Report carrying the seal of Certified Public Accountant as well as personal signatures and seals of certified public accountants.
3. Originals of all documents and manuscripts of public notice publicly disclosed on Securities Times and Hong Kong Ta Kung Pao in the report year.
4. Original of the overseas notification of the Summary of the Annual Report.

Note: This report is written in both Chinese and English. Should there be any difference in interpretation of the two versions, the Chinese version shall prevail.

Chairman of the Board: Wu Dehua
Board of Directors of
Shenzhen Huafa Electronics Co., Ltd.
Apr. 28, 2005

Attachment

**Special Explanation on Capital of Shenzhen Huafa Electronics Co., Ltd.
Occupied by the Controlling Shareholder and Other Related Parties in 2004**

SNZSBZi(2005)No. ZA055

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

We have audited the accompanying balance sheet of Shenzhen Huafa Electronics Co., Ltd. as of Dec. 31, 2004 and the accompanying income statement and cash flow statement (hereinafter referred to as Accounting Statements) for the year then ended according to Independent Auditing Standards of Chinese CPA and have issued the unqualified auditors' report on Apr.26, 2005.

According to the requirements in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Some Problems released by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission of the State Council, Shenzhen Huafa Electronics Co., Ltd. has prepared Statement of Capital of the Listed Company Occupied by Related Parties in 2004 attached in the special explanation.

Preparing and disclosing the Summary Statement externally and ensuring its truthfulness, legality and completeness are the responsibility of Shenzhen Huafa Electronics Co., Ltd.. We have checked the materials carried in Statement of Capital of the Listed Company Occupied by Related Parties in 2004 with the accounting information rechecked and relevant contents in the financial report audited while auditing the financial report for 2004 of Shenzhen Huafa Electronics Co., Ltd. and have not found any variance in all material aspects, and have found no capital of Shenzhen Huafa Electronics Co., Ltd. occupied by related parties in 2004. Except for implementing the auditing procedures related to related transactions carried out in the auditing of accounting statements for 2004 to Shenzhen Huafa Electronics Co., Ltd., we have not conducted extra auditing procedures on the materials carried in the Statement of Capital of the Listed Company Occupied by Related Parties in 2004.

In order to better understand the capital occupancy between Shenzhen Huafa Electronics Co., Ltd. and its controlling shareholder and other related parties, the Summary Statement of Capital Occupancy between Shenzhen Huafa Electronics Co., Ltd. and its Controlling Shareholder and Other Related Parties in 2004 should be read along with the accounting statements ever audited.

Appendix: Statement of Capital of the Listed Company Occupied by Related Parties in 2004

Shenzhen Nanfang-Minhe
Certified Public Accountants
Shenzhen, China

Chinese CPA: Zhu Ziwu
Chinese CPA: Yang Lian
Apr.26, 2005

Statement of Capital of the Listed Company Occupied by Related Parties in 2004

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

Unit: RMB

Name of related parties	Associated relationship	Accounting subjects	Amount at year-beginning	Debit amount	Credit amount	Balance at year-end	Bad debts reserve withdrawn	Way and reason of occupation	Repayment way	Belonged to capital occupation forbidden by No. 56 Document or not	Note
Shenzhen SEG Group Co., Ltd.	Shareholder	Naught	0	0	0	0	0	-	-	-	
China Zhenhuo Electrics Group Co., Ltd.	Shareholder	Naught	0	0	0	0	0	-	-	-	
Total			0	0	0	0	0	-	-	-	

Legal representative: **Wu Dehua** Chief person in charge of accounting organizations: Hu Jianping Person in charge of accounting organizations: Wang Yiqing
 Date: 2005-4-26 Date: 2005-4-26 Date: 2005-4-26

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	<u>2004</u>	<u>2003</u>
		RMB'000	RMB'000
Revenue	3	158,648	151,392
Cost of sales		<u>(146,868)</u>	<u>(125,374)</u>
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		<u>(2,707)</u>	<u>(750)</u>
Loss from operations	4	(37,136)	(972)
Finance costs, net	5	<u>(7,206)</u>	<u>(6,762)</u>
Loss before taxation		(44,342)	(7,734)
Income taxation	6	<u>-</u>	<u>-</u>
Loss attributable to shareholders		<u>(44,342)</u>	<u>(7,734)</u>
Loss per share – basic	8	<u>(RMB0.1566)</u>	<u>(RMB0.0273)</u>

Consolidated balance sheet**As at 31st December 2004**

(Amount expressed in thousands of RMB)

	Note	<u>2004</u>	<u>2003</u>
		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		<u>275,197</u>	<u>290,652</u>
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	<u>35,402</u>	<u>47,270</u>
Total current assets		<u>154,511</u>	<u>185,729</u>
Total assets		<u>429,708</u>	<u>476,381</u>
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		<u>(229,809)</u>	<u>(185,467)</u>
		<u>232,237</u>	<u>276,579</u>
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	<u>125,000</u>	<u>134,000</u>
Total current liabilities		<u>197,471</u>	<u>199,802</u>
Total equity and liabilities		<u>429,708</u>	<u>476,381</u>

The financial statements on pages 27 to 46 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	<u>283,161</u>	<u>98,461</u>	<u>3,033</u>	<u>77,391</u>	<u>(229,809)</u>	<u>232,237</u>

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:

<u>Name of subsidiary</u>	<u>Place of incorporation and operation</u>	<u>Proportion of equity interest</u>	<u>Principal activities</u>
Shenzhen Huafa Property Tenancy Management Co., Ltd.	PRC	60%	Property leasing and management

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

	<u>Years</u>	<u>Depreciation rates per annum</u>
Leasehold land	Over the lease terms	
Buildings	20-50 years	1.90%-4.75%
Machinery and equipment	5-10 years	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 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:

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

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 RMB'000	Land and buildings RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total 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

- 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).
- 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.
- 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.
- 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.
- The gross rental income generated from the investment properties for the year was RMB29,410,000 (2003: RMB32,870,000).
- 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
	<u>25,954</u>	<u>23,082</u>

20. Short-term bank loans

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

- 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
	<u>206,571</u>	<u>182,889</u>

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

24. Segment information

(a) Business segments (continued)

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

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

(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.