SHENZHEN HUAFA ELECTRONICS CO., LIMITED

FINANCIAL STATEMENTS

SIX MONTHS ENDED 30TH JUNE 2005

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Consolidated Income Statement
For the Six Months Ended 30th June 2005
(Expressed in RMB Thousand Yuan)

	Notes	Six months ended 30th June 2005 RMB'000	2004 RMB'000
Revenue	3	59,688	68,628
Cost of sales		(51,019)	(57,309)
Gross profit		8,669	11,319
Other revenue		1,733	853
Selling and distribution costs		(1,082)	(1,701)
Administrative expenses		(571)	(8,069)
Other operating expenses		(4,884)	(895)
Profit from operations	4	3,865	1,507
Net finance costs	5	(3,461)	(3,438)
Net profit (loss) from ordinary activities before taxation		404	(1,931)
Income tax expenses	6	-	-
Profit (loss) attributable to shareholders		404	(1,931)
Earnings (loss) per share – Basic	8	RMB0.0014	(RMB0.0068)

Consolidated Balance Sheet
As at 30th June 2005
(Expressed in RMB Thousand Yuan)

	Notes	At 30/6/2005	At 31/12/2004
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	264,655	273,095
Construction in progress	11	1,749	2,102
Other investment	12	-	-
Total non-current assets		266,404	275,197
Current assets			
Inventories	13	39,190	38,188
Bills receivable		1,832	3,010
Trade accounts receivable		45,800	60,574
Prepaid expenses and other current assets	14	22,975	17,337
Cash and cash equivalents	15	32,991	35,402
Total current assets		142,788	154,511
Total assets		409,192	429,708
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	283,161	283,161
Share premium	17	98,461	98,461
Property revaluation reserve	18	3,033	3,033
Surplus reserves	19	77,391	77,391
Accumulated losses		(229,405)	(229,809)
		232,641	232,237
Current liabilities			
Trade accounts payable		35,177	46,517
Accrued expenditures and other payables	20	29,474	25,954
Short-term bank loans	21	111,900	125,000
Total current liabilities		176,551	197,471
Total equity and liabilities		409,192	429,708

The financial statements on pages 2 to 22 were approved by the Board of Directors and authorised for issue on July 28, 2005and signed on its behalf by:

Director   Director

Consolidated Statement of Changes in Equity
For the Six Months Ended 30th June 2005
(Expressed in RMB Thousand Yuan)

	Share capital	Share premium	Property revaluation reserve	Surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January 2004	283,161	98,461	3,033	77,391	(185,467)	276,579
Loss attributable to shareholders	-	-	-	-	(1,931)	(1,931)
Balance at 30th June 2004	283,161	98,461	3,033	77,391	(187,398)	274,648
Loss attributable to shareholders	-	-	-	-	(42,411)	(42,411)
Balance at 31st December 2004	283,161	98,461	3,033	77,391	(229,809)	232,237
Profit attributable to shareholders	-	-	-	-	404	404
Balance at 30th June 2005	283,161	98,461	3,033	77,391	(229,405)	232,641

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

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	404	(1,931)
Adjustment:		
Bank interest income	(135)	(148)
Interest expenses	3,518	3,639
Depreciation	12,126	11,762
Increase in inventories	(1,002)	(8,238)
Decrease in trade and other receivables	10,314	13,529
Decrease in trade and other payables	(7,821)	(1,158)
Cash generated from operations	17,404	17,455
Income tax refunded	1	-
Interest paid	(3,518)	(3,639)
NET CASH FROM OPERATING ACTIVITIES	13,887	13,816
INVESTING ACTIVITIES		
Interest received	135	148
Purchase of property, plant and equipment	(1,366)	(2,570)
Increase in construction in progress	(1,967)	(596)
NET CASH USED IN INVESTING ACTIVITIES	(3,198)	(3,018)
FINANCING ACTIVITIES		
New bank loans	111,900	55,800
Repayment of bank loans	(125,000)	(64,800)
NET CASH USED IN FINANCING ACTIVITIES	(13,100)	(9,000)
INCREASE IN CASH AND CASH EQUIVALENTS	(2,411)	1,798
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,402	47,270
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	32,991	49,068

Notes to the Financial Statements
For the Six Months Ended 30th June 2005
(Expressed in RMB Thousand Yuan)

1. GENERAL INFORMATION

Shenzhen Huafa Electronics Co., LTD (the "Company") was established in the People's Republic of China (the "PRC") on 8 December 1981 and was approved and reformed into a sino-foreign joint stock limited company on 3rd December 1991. The Company's shares were listed and have been traded on the Shenzhen Stock Exchange since 28th April 1992.

The holding company of the company is Shenzhen SEG Group Ltd.(the "SEG Group"), a state-owned enterprise registered in the PRC.

The Company and its subsidiary (together referred to as the "Group") are principally engaged in the manufacture and sales of electronic products and property investment.

Particulars of the Company's subsidiary as at 30th June 2005 are as follows :

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

2. PRINCIPAL ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

The Group maintains its accounting records and prepares its statutory financial statements in accordance with the accounting principles in the PRC, PRC Accounting Standards and the Accounting System ("Statutory Financial Statements").

The accounting policies and basis adopted to the preparation of the Statutory Financial Statements differ in certain respects from IFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with IFRS are adjusted in financial statements but will not be taken up in the accounting records of the Group.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) Basis of preparation

The consolidated financial statements have been prepared in Renminbi (“RMB”), the currency in which the majority of the Group’s transactions are denominated.

Except for certain financial instruments which are stated at their fair value, the financial statements have been prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The principal accounting policies adopted in this report are set out below:

c) Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to the profit from ordinary activities after taxation. All significant inter-company balances, transactions, and any unrealized gains arising from intercompany transactions are eliminated on consolidation.

d) Foreign currency transactions

Transactions in foreign currencies are translated to RMB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are re-translated to RMB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at historical cost are translated to RMB at the foreign exchange rate ruling at the date of the transaction.

The results of foreign enterprises are translated into RMB at the average exchange rates for the year; balance sheet items are translated into RMB at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) Foreign currency transactions (Continued)

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit of loss on disposal.

e) Property, plant and equipment

i) Investment property

Investment property, which is land and buildings held to earn rentals and/or for capital appreciation. Investment properties are initially recognized at cost. Cost represents the cash and cash equivalents paid for acquisition or construction of the assets. After initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment.

ii) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs.

Where an item of property, plant and equipment comprises major components having 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, and major components that are accounted for separately. The estimated useful lives are as follows:-

	Years	Depreciation rates per annum
Leasehold land		Over the lease terms
Buildings	20-50 years	1.9%-4.75%
Machinery and equipment	5-10 years	9.5%-19%
Furniture and fixtures	5 years	19%
Motor vehicles	5 years	19%

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment (Continued)

v) Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.

f) Construction in progress

Construction in progress represents properties under construction and is stated in the balance sheet at cost less impairment losses. Cost comprises direct cost of construction as well as interest charges and foreign exchange differences on related borrowing funds to the extent that they are regarded as an adjustment to interest charges during the period of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

g) Other investments

Other investments are stated at cost less any accumulated impairment loss.

h) Impairment

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of inventories is calculated based on the weighted average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

j) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalent in the cash flow statement.

l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

m) Trade and other payables

Trade and other payables are stated at their cost.

n) Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o) Revenue

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Rental income is recognized on straight-line basis during the rental period.

p) Expenses

i) Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

Interest expenses are recognized in the income statement using the effective interest rate method.

ii) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

q) Retirement benefits

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

r) Income tax expenses

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the 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:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Sales of electronic goods	41,719	52,204
Property investment	17,969	16,424
	59,688	68,628

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Staff costs		
-Wages and salaries and welfare	2,097	9,175
-Contribution to retirement scheme	251	734
Depreciation on property, plant and equipment	12,126	11,762

5. NET FINANCE COSTS

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Interest expenses	3,518	3,639
Interest income	(135)	(148)
Exchange gain, net	(22)	(88)
Bank charges	100	35
	3,461	3,438

6. INCOME TAX EXPENSES

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

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

7. DIVIDENDS

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

8. EARNINGS (LOSS) PER SHARE

The earnings (loss) per share for the six months ended 30th June 2005 is calculated based on the net profit attributable to shareholders of RMB 404,000 (Six months ended 30th June 2004: RMB a loss of RMB1,931,000) and the weighted average number of ordinary shares outstanding during the period of 283,161,227 shares (Six months ended 30th June 2004: 283,161,227 shares).

The amount of diluted earnings (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 period was RMB251,000 (Six months ended 30th June 2004: RMB 734,000).

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 2005	111,436	151,851	112,312	31,399	4,000	410,998
Additions	-	-	3,116	570	-	3,686
At 30th June 2005	111,436	151,851	115,428	31,969	4,000	414,684
Accumulated depreciation						
At 1st January 2005	41,903	19,901	53,905	18,077	3,143	136,929
Charge for the period	2,835	3,258	4,174	1,764	95	12,126
At 30th June 2005	44,738	23,159	58,079	19,841	3,238	149,055
Accumulated impairment losses						
At 1st January 2005 and 30th June 2005	-	-	-	974	-	974
Net book value						
At 30th June 2005	66,698	128,692	57,349	11,154	762	264,655
At 31st December 2004	69,533	131,950	58,407	12,348	857	273,095

During the period, the additions include the Group's property, plant and equipment with cost approximately RMB2,320,000 ,which were transferred from construction in progress.

All of the buildings owned by the Group are located in the PRC under medium lease (lease periods of 20 years or more but less than 50 years).

As at 30th June 2005, the Group's investment properties with net book value of RMB66,698,000 were leasing under operating leases to independent third parties. The terms of leases are ranging from 3 to 11 years.

As at 30th June 2005, the Group's investment properties, land and buildings with aggregate net book value of approximately RMB113,283,000 (At 31st December 2004 : RMB69,533,000) were pledged to banks for the bank borrowings.

The gross rental income generated from the investment properties for the period was RMB17,969,000 (six months ended 30th June 2004: RMB16,424,000).

Direct operating expenses arising from the investment properties for the period amounted to RMB7,975,000 (six months ended 30th June 2004 : RMB7,541,000).

11. CONSTRUCTION IN PROGRESS

	RMB'000
Balance at 1st January 2005	2,102
Additions	1,967
Transfer to property, plant and equipment	(2,320)
Balance at 30th June 2005	1,749

12. OTHER INVESTMENT

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Cost	900	900
Less: Provision for impairment losses	(900)	(900)
	-	-

13. INVENTORIES

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Raw materials	7,791	7,938
Work-in-progress	5,897	4,282
Finished goods	25,502	25,968
	39,190	38,188

14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Prepaid expenses	3,576	475
Other current assets	19,399	16,862
	22,975	17,337

15. CASH AND BANK BALANCES

At the balance sheet date, no cash and bank balances (At 31st December 2004: RMB284,000) was guarantee deposits used for the purposes of opening letter of credit.

16. SHARE CAPITAL

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Registered, issued and fully paid share capital:		
181,165,391 "A" shares of RMB1.00 per share	181,165	181,165
101,995,836 "B" shares of RMB1.00 per share	101,996	101,996
	283,161	283,161

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

There was no movement in the Company's shares during the six months ended 30 June 2005 and the year ended 31 December 2004.

17. SHARE PREMIUM

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Share premium	98,461	98,461

In accordance with the articles of association, the share premium may be utilized to offset prior years' losses or for the issuance of bonus shares.

18. PROPERTY REVALUATION RESERVE

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Revaluation surplus of investment property	3,033	3,033

19. SURPLUS RESERVES

	At 30/6/2005	At 31/12/2004
	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.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into shares capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

b) Public welfare fund reserve

According to the Company's Articles of Association, the Company and its subsidiaries is required to transfer a certain percentage (from 5% to 10%) of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

c) Discretionary surplus reserve

Discretionary surplus reserve fund is appropriated after the appropriation of statutory surplus reserve and statutory public welfare reserve at the resolution of the Board of Directors and the discretion of the general shareholders' meeting. Its usage is similar to that of stationary surplus reserve.

20. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Accrued expenses	6,455	6,370
Income tax payable	(120)	(121)
Other tax payables	974	2,657
Received in advance	14,462	10,381
Other payables	7,703	6,667
	29,474	25,954

21. SHORT-TERM BANK LOANS

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Secured (note 10)	111,900	118,000
Guaranteed	-	7,000
	111,900	125,000

The annual interest rates of the bank loans are 5.31%-6.138%. (Six months ended 30th June 2004: 5.31%)

At 31st December 2004, the guaranteed bank borrowings of RMB4,200,000 and RMB2,800,000 were guaranteed by SEG Group and China Zhenghua Electronics Ltd., Group, which are the shareholders of the company.

22. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bill receivable, and trade and other receivables. Financial liabilities of the Group include bank loans, bill receivable, and trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 30th June 2004 and 31st December 2003.

(a) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables and other current assets, except for prepayment and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade account receivable relate to sales of third parties operating in the electronics industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. During the period, the sales of the five maximum customers are 47.98% of total revenue.

22. FINANCIAL INSTRUMENTS

(a) Credit risk - Continued

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

(b) Interest rate risk

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

(c) Foreign currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1st January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into Hong Kong Dollars [United States dollar] or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form with suppliers' invoice, shipping documents and signed contracts.

(d) Fair value

The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and / or estimation methodologies may have a material effect on the estimated fair value amounts.

Investments in unlisted equity securities have no quoted market process in the PRC. Accordingly, a reasonable estimate of the fair value could not be made without incurring excessive costs.

The fair values of other financial instrument approximate their carrying amounts due to the nature or short-term maturity of these instruments.

23. OPERATING COMMITMENTS

As a leasor

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:

	At 30/6/2005	At 31/12/2004
	RMB'000	RMB'000
Less than one year	31,229	31,229
Between one and five years	110,910	110,910
Between five and ten years	46,463	64,432
	188,602	206,571

24. SEGMENTAL REPORT

(a) Business segments

For management purposes, the Group is currently organized into two operating divisions— electronic goods and property investment . These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Electronic goods - manufacture and sales of electronic products

Property investment - leasing of property

In prior years, the Group was also engaged in the operation of supermarket. That operation was discontinued in March 2001.

Segment information about these businesses is presented below:

24. SEGMENTAL REPORT - Continued

I) For the period ended 30th June 2005/ as at 30th June 2005

i) Income statement

	Electronic goods	Property investment	Consolidated total
	RMB'000	RMB'000	RMB'000
REVENUE	41,719	17,969	59,688
RESULT			
Operating (loss)/profit of segment	(6,129)	9,994	3,865
Net finance costs			(3,461)
Net profit for the year			404
OTHER INFORMATON			
Depreciation	9,291	2,835	12,126

ii) Balance sheet

	Electronic goods	Property investment	Consolidated Total
	RMB'000	RMB'000	RMB'000
ASSETS			
Segment assets	342,165	66,698	408,863
Segment assets of discontinued operations			329
Consolidated total assets			409,192
LIABILITIES			
Segment liabilities	175,824	-	175,824
Segment liabilities of discontinued operations			727
Consolidated total liabilities			176,551

24. SEGMENTAL REPORT (Continued)

II) For the six months ended 30th June 2004 / as at 30th June 2004

i) Income statement

	Electronic goods	Property investment	Consolidated total
	RMB'000	RMB'000	RMB'000
REVENUE	52,204	16,424	68,628
RESULT			
Operating (loss)/profit of segment	(6,542)	8,049	1,507
Net finance costs			(3,438)
Net profit for the year			(1,931)
OTHER INFORMATON			
Depreciation	7,778	3,984	11,762

ii) Balance sheet

	Electronic goods	Property investment	Consolidated Total
	RMB'000	RMB'000	RMB'000
ASSETS			
Segment assets	365,928	98,035	463,963
Segment assets of discontinued operations			329
Consolidated total assets			464,292
LIABILITIES			
Segment liabilities	188,917		188,917
Segment liabilities of discontinued operations			727
Consolidated total liabilities			189,644

b) Geographical segment

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

25. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

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