Stock Code: 000020, 200020 Public Notice No.: 2006-01
Short Form of the Stock: *ST Huafa A, *ST Huafa B

SHENZHEN HUAFA ELECTRONICS CO., LTD.

SUMMARY OF ANNUAL REPORT 2005

(Overseas Version)

§1. Important Notice

1.1 Board of Directors and Board of Supervisors of SHENZHEN HUAFA ELECTRONICS CO., LTD. (hereinafter referred to as the Company) and its directors, supervisors and senior executives 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.
1.2 No directors, supervisors and senior executives stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.
1.3 All directors attended the Board meeting.
1.4 Shenzhen Nanfang Min-He Certified Public Accountants and Ho and Ho & Company Certified Public Accountants audited the 2005 financial report of the Company and issued the standard unqualified Auditors' Report respectively.
1.5 Chairman of the Board of the Company Mr. Wu Dehua, General Manager Mr. Hu Jianping and Head of Financial Department Mr. Wang Yiqing hereby confirm that the Financial Report of Annual Report 2005 is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	*ST HUAFA A, *ST HUAFA B
Stock code	000020, 200020
Listed stock exchange	Shenzhen Stock Exchange
Registered address and office address	Registered address: 411 Bldg., Huafa North Road, Futian District, Shenzhen Office address: 6th Floor, West Block, 411 Bldg., Huafa (N) Road, Futian District, Shenzhen
Postcode	518031
Internet website of the Company	http://www.hwafa.com
E-mail	E-mail: sz000020@163.net

2.2 Contact person and contact information

	Secretary of the Board of Directors	Representative in charge of Securities Affairs
Name	Hu Jianping	Liu Yang
Contact address	6th Floor, West Block, 411 Bldg., Huafa (N) Road, Futian District, Shenzhen	

Telephone	(86) 755-83352207
Fax	(86) 755-83323169
E-mail	sz000020@163.net

§3. Summary of Financial Highlights and Business Highlights

3.1 Main Accounting Highlights

Unit: RMB'000

	2005	2004	Increase/decrease over last year（%）
Operating income	141,861	141,675	0.13%
Gross profit	27,307	13,955	95.68%
Income from other operating	2,903	1,598	81.66%
Net cash arising from operating activities	24,647	6,215	296.57%
	At the end of 2005	**At the end of 2004**	**Increase/decrease over last year (%)**
Total assets	389,185	429,708	-9.43%
Shareholders' equity(excluding minority interests)	238,859	232,237	2.85%

3.2 Financial Indexes:

Unit: RMB

	2005	2004	Increase/decrease over last year (%)
Net profit	0.02	-0.16	112.50%
Return on equity	2.77%	-19.09%	21.86%
Net cash per share arising from operating activities	0.09	0.02	350.00%
	At the end of 2005	**At the end of 2004**	**Increase/decrease over last year (%)**
Net assets per share	0.84	0.82	2.44%

3.3 Difference of the CAS and IAS

√Applicable ☐Inapplicable

Unit: RMB'000

	CAS	IAS
Net profit	6,622.31	6,622.31
Explanation on difference	The Company is a listed company of both A-share and B-share. There existed no difference on net profit as calculated according to CAS and IAS and relevant system.	

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

Unit: share

Items	Before the change		Increase/decrease of this time (+, -)	After the change	
	Amount	Proportion	subtotal	Amount	Proportion
I. Unlisted shares	124,925,828	44.12%	0	124,925,828	44.12%
1. Sponsors' shares	124,925,828	44.12%	0	124,925,828	44.12%
Including: Domestic legal person's shares	124,925,828	44.12%	0	124,925,828	44.12%
2. Raised legal person's shares	0	0.00%	0	0	0.00%
3. Inner employees' shares	0	0.00%	0	0	0.00%
4. Preferred stock or others	0	0.00%	0	0	0.00%
II. Listed shares	158,235,399	55.88%	0	158,235,399	55.88%
1. RMB ordinary shares	56,239,563	19.86%	0	56,239,563	19.86%
2. Domestically listed foreign shares	101,995,836	36.02%	0	101,995,836	36.02%
III. Total shares	283,161,227	100.00%	0	283,161,227	100.00%

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

Unit: share

Total number of shareholders	25,780				
Particulars about shares held by the top ten shareholders					
Name of shareholders	**Nature of shareholders**	**Proportion of shares held**	**Total number shares held**	**Non-circulating shares held**	**Pledged or frozen shares**
Shenzhen SEG Group Co., Ltd.	State-owned shareholder	22.06%	62,462,914	62,462,914	62,462,914
China Zhenhua Electronics Group Co., Ltd.	State-owned shareholder	22.06%	62,462,914	62,462,914	0
SEG (Hong Kong) Co., Ltd.	Other	5.85%	16,569,560		
GOOD HOPE CORNER INVESTMENTS LTD	Other	4.91%	13,900,000		
ADVANCE FUTURE GROUP LIMITED	Other	1.21%	3,432,110		
YIN GANG	Other	0.68%	1,911,455		
BINGHUA LIU	Other	0.31%	876,213		
HUANG JIANWEN	Other	0.27%	773,700		
DBS VICKERS (HONG KONG) LTD A/C	Other	0.23%	648,262		

CLIENTS					
GUOTAI JUNAN SECURIES HONG KONG LIMITED	Other	0.22%	617,500		

Particulars about shares held the top ten circulated shareholders		
Shareholders' name	Holding circulated shares	Type
SEG (Hong Kong) Co., Ltd.	16,569,560	Domestically listed foreign shares
GOOD HOPE CORNET INVESTMENTS LTD	13,900,000	Domestically listed foreign shares
ADVANCE FUTURE GROUP LIMITED	3,432,110	Domestically listed foreign shares
YIN GANG	1,911,455	Domestically listed foreign shares
BINGHUA LIU	876,213	Domestically listed foreign shares
HUANG JIANWEN	773,700	Domestically listed foreign shares
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	648,262	Domestically listed foreign shares
GUOTAI JUNAN SECURITIES HONG KONG LIMITED	617,500	Domestically listed foreign shares
KGI ASIA LIMITED	602,852	Domestically listed foreign shares
WANG XIAO PING	512,800	Domestically listed foreign shares
Explanation of on the above-mentioned associate relationship and accordant action relationship among shareholders	SEG (Hong Kong) Co., Ltd. belongs to overseas sole subsidiary of Shenzhen SEG Group Co., Ltd. It is unknown that there existed associate relationship among other shareholders nor belongs to accordant actors regulated by the Management Regulation of Information Disclosure on Change of Share Holding for Listed Companies by the Company.	

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

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

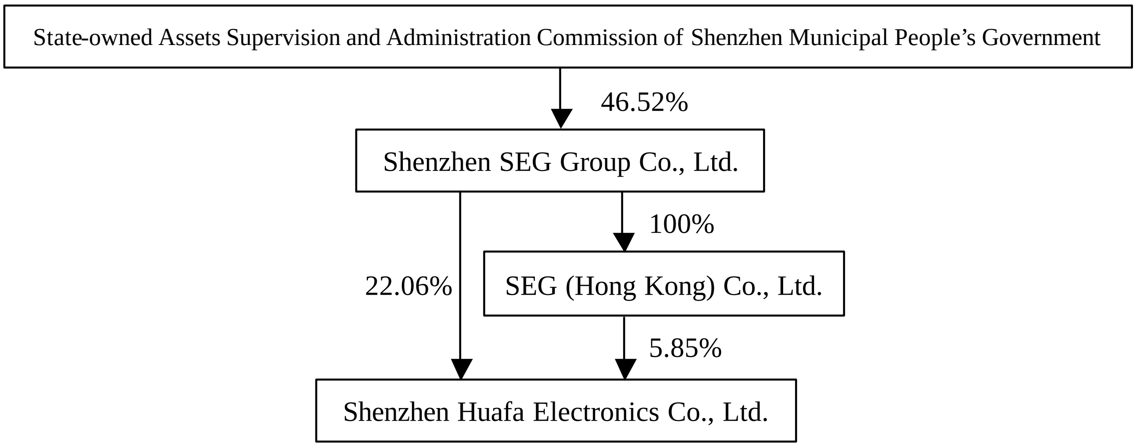
□Applicable √Inapplicable

4.3.2 Detailed information on the controlling shareholder and other actual controller

Name of the controlling shareholder: Shenzhen SEG Group Co., Ltd. Legal representative: Sun Yulin Date of foundation: Aug. 23, 1984 Registered capital: RMB 1,355.42 million Business scope: Production and research of electronic products, electrical home appliances and electronic projects; undertake various electronic system project (Import and export business and exclusive commodities were conducted according to regulations); raise development funds and invest credit; technology development and information service and maintenance; high-floor sightseeing, supporting food and drink, marketplace and exhibition of SEG Plaza.
State-owned Assets Supervision and Administration Commission of Shenzhen Municipal People's Government is the first largest shareholder of Shenzhen SEG Group Co., Ltd., who holds 46.52% equity of Shenzhen SEG Group Co., Ltd..

4.3.3 Property right and controlling relationship between the actual controller of the

Company and the Company is as follows:



§5. Particulars about Directors, Supervisors and Senior Executives

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

Name	Title	Sex	Age	Office term	Number of holding shares at the Year-begin	Number of holding shares at the year-end	Reason for changing	The total payment of drawing from Company in the report period(RMB' 0000)	Drawing from the shareholding company or the relevant company(Yes /No)
Wu Dehua	Chairman of the Board	Male	60	Sep. 13, 2004-Sep. 13, 2007	0	0		0.00	Yes
Feng Quanbao	Vice Chairman of the Board	Male	60	Sep. 13, 2004-Sep. 13, 2007	0	0		0.00	Yes
Che Wenshen	Director	Male	56	Sep. 13, 2004-Sep. 13, 2007	0	0		0.00	Yes
Hu Jianping	Director, Deputy General Manager, Secretary of Board	Male	43	Mar.18, 2005-Sep. 13, 2007	0	0		24.50	No
Zhou Daozhi	Independent Director	Male	56	Sep. 13, 2004-Sep. 13, 2007	0	0		3.60	No
Zhao Junrong	Independent Director	Male	41	Sep. 13, 2004-Sep. 13, 2007	0	0		3.60	No
He Xiaoming	Independent Director	Male	34	Sep. 13, 2004-Sep. 13, 2007	0	0		3.60	No
Ye Daming	Chairman of the Supervisory Committee	Male	60	Sep. 13, 2004-Sep. 13, 2007	30,433	30,433		19.90	No
Liu Jingju	Supervisor	Female	50	Sep. 13, 2004-Sep. 13, 2007	0	0		0.00	Yes
Li Liangzhen	Supervisor	Male	40	Sep. 13, 2004-	0	0		14.70	No

				Sep. 13, 2007					
Cai Guiyong	Deputy General Manager	Male	57	Sep. 13, 2004-Sep. 13, 2007	35,545	35,545		19.90	No
Sun Lei	Deputy General Manager	Male	40	Sep. 13, 2004-Sep. 13, 2007	0	0		18.60	No
Total	-	-	-	-	65,978	65,978	-	108.40	-

§6. Report of the Board of Directors

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

In the report period, the Company met great difficulties due to the bad environment of operation: ①The factory of the Company suffered a lot from the power cut influenced by the nervous condition in the electricity power and energy. In order to guarantee the regular production, the Company purchased and rented generators and the production cost increased. ②The banks tightened the debt for the Company and the pressure of production finance of the Company increased influenced by the adjustment of bank policy and continuous two-year losses. ③To a certain extent, the shortage of labor forces influenced the production in the midseason.

In order to achieve the aims of making up the deficits and getting surpluses, Board of the Directors of the Company regulated its administrative team this March. After earnestly analyzing the actual situations of the Company, the administrative team after regulations formulated the plans on turning losses into profits and relevant annual budget, they were as follows and carried out with the approval of Board of Directors of the Company: adjusting the structures of main operation, emphasizing the operation scope, stabilizing the rent service and strengthening the internal management. After a series of adjustment in the second quarter, the Company entered the period of turning losses into profits in the latter half of this year, even though the Company is standing in the transition period of the share transfer, the company received no influence from it, while working of one heart and one mind in the same condition, the Company obtained net profits of 2005 amounted to RMB 6.6223 million and over-fulfilled the annual goal. The details about the operations of the Company were as follows:

(1)After objective analysis to the operation and the trend of the industry of the Company, great adjustments to the main structure were taken: stop the production of color televisions, determine to take circuit boards and plastic injection hardware as the main business. The Company threw off the burden of losses completely because of stopping the production of color televisions, alleviated the basic problems of circuit board and expanded the production capacity on the plastic injection hardware because of increasing the investment on renovating and transforming the technologies on part of equipments belonged to the factories of circuit board and plastic injection hardware.

(2)The Company continued to maintain the stead development of the property lease business. In the report period, good achievements on the property lease business were obtained, the lease rate reached as high as 98%, the leasing income amounted to RMB 37,990, 000, the leasing profit amounted to RMB 16,930,000, the recycling leasing amounted to 37,580,000 and the returns-ratio reached to 98.92%.

(3)The Company consummated the internal management. The Company adjusted the internal organization of management and strengthened the ability of management, and

then the working efficiency improved obviously. While the Company trained to intensify the consciousness of whole staff, the product quality and service improved gradually. The Company revised the regulations on the inspection and the rewards and punishment, tried to impel the target management, and initially established the effectively incentive mechanism. The Company perfected the enterprise system and flow depending on the system authentication, and strictly carried on the budget controlling system.

6.2 Statement of main operations classified according to products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to products	Income from main operations	Cost of main operations	Profit ratio of main operations (%)	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 profit ratio over the last year (%)
Manufacture of electronic products	11,442.17	10,704.86	6.45%	-11.47%	-16.23%	5.32%
Main operations classified according to products						
Circuit Board	8,262.87	7,988.55	3.32%	-15.77%	-17.94%	2.56%
Plastic injection hardware	2,262.25	1,646.57	27.22%	59.62%	45.98%	6.80%

6.3 Particulars about main operations classified according to areas

The sales of products of the Company focus on the area of South China.

6.4 Application of the raised proceeds

□Applicable √Inapplicable

Particulars about the changed projects

□Applicable √Inapplicable

6.5 Particulars about non-raised capital projects

□Applicable √Inapplicable

6.6 Explanation of the Board of Directors on the "Qualified Opinion" made by the Certified Public Accountants

□Applicable √Inapplicable

6.7 The preplan on the profit distribution and capitalization of capital public reserve of the Board of Directors

√Applicable □Inapplicable

In 2005, the Company realized the net profits amounting to RMB 6,622,300 and all the net profits were used for offsetting the losses in the previous year, and didn't distribute profit and convert capital public reserve into share capital.

The Company did not appropriate share distribution preplan though the Company achieved the profit in the report period.

√Applicable □Inapplicable

The reason for that The Company did not appropriate share distribution preplan though the Company achieved the profit in the report	The purpose and using plan for the non-distributed profit of the Company

period.	
Used for offsetting the losses in the previous years	The non-distributed profit of the Company is nagative in the report period

§7. Significant Events

7.1 Purchase of assets

□Applicable √Inapplicable

7.2 Sales of assets

□Applicable √Inapplicable

7.3 Significant guarantee

□Applicable √Inapplicable

7.4 Significant related transactions

7.4.1 Related transactions related to the routine operation

□Applicable √Inapplicable

7.4.2 Current related credits and liabilities

□Applicable √Inapplicable

7.5 Entrusted assets

□Applicable √Inapplicable

7.6 Implementation of commitment items

7.6.1 The Schedule for the Share Merger Reform

The target date of the Share Merger Reform: the Share Merger Reform would be started up on Aug 1, 2006

Shenzhen SEG Group Co., Ltd and China Zhenhua Electronics Group Co., Ltd, non-circulating shareholders of the Company, signed Agreement for Sale & Purchase of Shares respectively with Wuhan Zhongheng High-tech Industrial (Group) Co., Ltd. dated on June 6, 2005, the Company enter into the transition period of the share transfer, which events was reported for approval at present. In the light of the above-mentioned cases, the Share Merger Reform of the Company must be dealt with through negotiation by assignor and assignee. At present, the two parties concerned communicated with each other actively and make decision of starting up the Share Merger Reform on Aug 1, 2006.

7.6.2 Other Commitments

□Applicable √Inapplicable

7.7 Significant lawsuit and arbitration

□Applicable √Inapplicable

§8. Report of the Supervisory Committee

□Applicable √Inapplicable

§ 9. Financial Report

9.1 Auditors' opinion

Auditors' opinion: standard unqualified auditor's opinion

9.2 Financial statements

9.2.1 **Consolidated balance sheet**

As at 31st December 2005

	2005	2004
	RMB'000	RMB'000
Assets		
Non-current assets		
Investment properties	61,983	69,533
Property, plant and equipment	201,265	203,562
Construction in progress	-	2,102
Available-for-sale investment	-	-
Total non-current assets	263,248	275,197
Current assets		
Inventories	30,613	38,188
Bill receivables	7,619	3,010
Trade receivables	55,307	60,574
Prepaid expenses and other current assets	15,307	17,337
Cash and cash equivalents	17,091	35,402
Total current assets	125,937	154,511
Total assets	389,185	429,708
Equity and liabilities		
Capital and reserves		
Share capital	283,161	283,161
Share premium	98,461	98,461
Property revaluation reserve	3,033	3,033
Surplus reserves	77,391	77,391
Accumulated losses	(223,187)	(229,809)
	238,859	232,237
Current liabilities		
Trade payables	34,940	46,517
Accrued expenses and other current liabilities	21,286	25,954
Bank loans – repayable within one year	94,100	125,000
Total current liabilities	150,326	197,471
Total equity and liabilities	389,185	429,708

9.2.2 **Consolidated income statement**
For the year ended 31st December 2005

	2005	2004
	RMB'000	RMB'000
Continuing operation		
Revenue	141,861	141,675
Cost of sales	(114,554)	(127,720)
Gross profit	27,307	13,955
Other operating income	2,903	1,598
Selling expenses	(2,539)	(3,871)

Administrative expenses	(8,284)	(34,177)
Other operating expenses	(2,318)	(2,707)
Profit (loss) from operations	17,069	(25,202)
Finance costs, net	(6,682)	(7,206)
Profit (loss) before taxation	10,387	(32,408)
Income tax expenses	-	-
Profit (loss) for the year from continuing operation	10,387	(32,408)
Discontinued operation		
Loss for the year from discontinued operation	(3,765)	(11,934)
Profit (loss) for the year	**6,622**	**(44,342)**
Earning (loss) per share		
From continuing and discontinued operations:		
- Basic	RMB 0.0234	(RMB 0.1566)
From continuing operation		
- Basic	RMB 0.0367	(RMB 0.1145)

9.2.3 **Consolidated cash flow statement**
For the year ended 31st December 2005

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit (loss) for the year	6,622	(44,342)
Adjustments for:		
Bank interest income	(383)	(323)
Bank interest expenses	6,614	7,261
Depreciation on property, plant and equipment	24,323	24,003
Impairment loss on property, plant and equipment	-	266
Loss on disposal of property, plant and equipment	67	488
Construction in progress written off	-	104
Provision for doubtful receivables	172	8,375
Provision for obsolesce inventories	-	13,596
Operating cash flow before movements in working capital	37,415	9,428
Decrease (increase) in inventories	7,575	(6,592)
Decrease in trade and other receivables	2,516	3,971
(Decrease) increase in trade and other payables	(16,245)	6,669
Cash from operations	31,261	13,476

Interest paid	(6,614)	(7,261)
Net cash from operating activities	24,647	6,215
Investing activities		
Interest received	383	323
Expenditure on acquisitions of property, plant and equipment and construction in progress	(12,522)	(9,683)
Proceeds from disposal of property, plant and equipment	81	277
Net cash used in investing activities	(12,058)	(9,083)
Financing activities		
New bank loans granted	127,320	130,000
Repayment of bank loans	(158,220)	(139,000)
Net cash used in financing activities	(30,900)	(9,000)
Decrease in cash and cash equivalents	(18,311)	(11,868)
Cash and cash equivalents at beginning of year	35,402	47,270
Cash and cash equivalents at end of year, analysis as:		
Cash and bank balances	17,091	35,402

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

□Applicable √Inapplicable

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

□Applicable √Inapplicable

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

□Applicable √Inapplicable