SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2005

HO AND HO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2005

CONTENTS | PAGES

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 subsidiary (the "Group") as of 31st December 2005 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 2005 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
18th January 2006

Shenzhen Huafa Electronics Co., Limited
Financial statements for the year ended 31st December, 2005

Consolidated income statement
For the year ended 31st December 2005

	Note	2005	2004
		RMB'000	RMB'000
Continuing operation			
Revenue	3	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	5	(6,682)	(7,206)
Profit (loss) before taxation		10,387	(32,408)
Income tax expenses	6	-	-
Profit (loss) for the year from continuing operation		10,387	(32,408)
Discontinued operation			
Loss for the year from discontinued operation	7	(3,765)	(11,934)
Profit (loss) for the year	8	**6,622**	**(44,342)**
Earning (loss) per share			
From continuing and discontinued operations:			
- Basic	10	RMB 0.0234	(RMB 0.1566)
From continuing operation			
- Basic	10	RMB 0.0367	(RMB 0.1145)

Shenzhen Huafa Electronics Co., Limited
Financial statements for the year ended 31st December, 2005

Consolidated balance sheet
As at 31st December 2005

	Note	2005	2004
		RMB'000	RMB'000
Assets			
Non-current assets			
Investment properties	12	61,983	69,533
Property, plant and equipment	13	201,265	203,562
Construction in progress	14	-	2,102
Available-for-sale investment	15	-	-
Total non-current assets		263,248	275,197
Current assets			
Inventories	16	30,613	38,188
Bill receivables		7,619	3,010
Trade receivables		55,307	60,574
Prepaid expenses and other current assets	17	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	18	283,161	283,161
Share premium	19	98,461	98,461
Property revaluation reserve		3,033	3,033
Surplus reserves	20	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	21,286	25,954
Bank loans – repayable within one year	22	94,100	125,000
Total current liabilities		150,326	197,471
Total equity and liabilities		389,185	429,708

The financial statements on pages 2 to 23 were approved by the Board of Directors and authorised for issue on 18 January 2006 and signed on its behalf by:

Director　　　　　　　　Director

Consolidated statement of changes in equity
For the year ended 31st December 2005

	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 2004	283,161	98,461	3,033	77,391	(185,467)	276,579
Loss for the year	-	-	-	-	(44,342)	(44,342)
At 1st January 2005	283,161	98,461	3,033	77,391	(229,809)	232,237
Profit for the year	-	-	-	-	6,622	6,622
At 31st December 2005	283,161	98,461	3,033	77,391	(223,187)	238,859

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

	2005	2004
	RMB'000	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

Notes to the financial statements
For the year ended 31st December 2005

1. General information

Shenzhen Huafa Electronics Co., Limited (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.

At 31st December 2005, the holding company of the company is Shenzhen Electronics Group Company Limited ("SEG Group"), a state-owned enterprise registered in the PRC.

On 6th June 2005, SEG Group and another shareholder China Zhenhua Electronics Group Limited ("Zhenhua Group") were entered into share transfer agreements with **武汉中恒新科技产业集团有限公司** ("**武汉中恒**"), whereby SEG Group and Zhenhua Group each would transfer the unlisted shares of the Company respectively totalling of 44.12% of the Company's share capital to **武汉中恒**. At 31st December 2005, the formalities for the transfer were in progress. Had the above transaction been completed, **武汉中恒** would have been the holding company of the Company.

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 2005 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of equity interest held	Principal activities
Shenzhen Huafa Property Tenancy Management Co., Ltd.	The 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) 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. Depreciation is charged to the income statement on a straight-line basis over the lease terms of for investment properties after taking into accounts 5% residue value.

2. Principal accounting policies (continued)

(f) Property, plant and equipment

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

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

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.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment after taking into accounts 5% residue value. The estimated useful lives are as follows:-

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

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.

g) 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.

h) Available-for-sale investment

Other investments are stated at fair value.

2. Principal accounting policies (continued)

i) 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.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is calculated based on the weighted average costing method.

k) 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.

l) 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.

m) 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.

2. Principal accounting policies (continued)

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.

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.

2. Principal accounting policies (continued)

r) Income tax expenses (continued)

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 for the year, for both continuing and discontinued operations, is as follows:

Continuing operation	2005 RMB'000	2004 RMB'000
Manufacturing and sales of electronic goods, except for television sets	105,282	112,273
Property rental income	36,579	29,402
	141,861	141,675

Discontinued operation (see note 7)	2005 RMB'000	2004 RMB'000
Manufacturing and sales of television sets	9,140	16,973

4. 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
Leasing	- leasing of property

In prior years, the Group was also involved in the manufacture and sale of television sets, which has been included in the pool of electronic goods. That operation was discontinued with effect from April 2005. Segment information about the Group's discontinued operations is presented in note 7.

Segment information about the Group's continuing operations is presented below.

For the year ended 31st December 2005/ as at 31st December 2005

	Electronic goods	Leasing	Total
	RMB'000	RMB'000	RMB'000
i) Income statement			
Revenue	105,282	36,579	141,861
Operating results			
Operating profit of segment	429	17,632	18,061
Unallocated expenses			(992)
Profit from operations			17,069
Finance costs, net			(6,682)
Profit attributable to shareholders from continuing operations			10,387
ii) Balance sheet			
Assets			
Segment assets	308,134	79,785	387,919
Unallocated assets			1,266
Total assets			389,185
Liabilities			
Total liabilities	149,578	748	150,326
iii) Other information			
Depreciation for continuing operations	15,376	8,429	23,805

4. Segment information

(a) Business segments (continued)

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

	Electronic goods	Leasing	Total
	RMB'000	RMB'000	RMB'000
i) Income statement			
Revenue	112,273	29,402	141,675
Operating results			
Operating (loss) profit of segment	(32,476)	10,317	(22,159)
Unallocated expenses			(3,043)
Loss from operations			(25,202)
Finance costs, net			(7,206)
Loss attributable to shareholders from continuing operations			(32,408)
ii) Balance sheet			
Assets			
Segment assets	333,928	93,759	427,687
Unallocated assets			2,021
Total assets			429,708
Liabilities			
Segment liabilities	196,802	510	197,312
Unallocated liabilities			159
Total liabilities			197,471
iii) Other information			
Depreciation and impairment losses for continuing operations	11,814	8,351	20,165

(b) Geographical segment

Since the Group's revenue by geographical market and assets are mainly in the PRC, the analysis of geographical segments is not presented.

5. Finance costs, net

	2005	2004
	RMB'000	RMB'000
Bank interest expenses	6,614	7,261
Bank interest income	(383)	(323)
Exchange loss	444	172
Others	7	96
	6,682	7,206

6. Income tax expenses

The applicable PRC income tax rate for the Group was 15%. However, provision for income tax has not been made for in the financial statements as the Group has adequate taxation loss brought forward from previous years to offset the assessable profit for the year.

In the opinion of directors, no deferred tax has been provided for in the financial statements in respect of estimated tax loss and deductible temporary differences due to the unpredictability of future profit streams.

7. Discontinued operation

In April 2005, the Group has ceased its television set manufacturing operation.

The results of the television set manufacturing operation for the period from January 2005 to April 2005 are as follows:

	1/1/2005 to 30/4/2005	1/1/2004 to 31/12/2004
	RMB'000	RMB'000
Revenue	9,140	16,973
Cost of sales	(11,497)	(19,148)
Other direct attributable expenses	(1,408)	(9,759)
Loss from discontinued operation for the year	(3,765)	(11,934)

8. Profit (loss) for the year

Profit (loss) for the year has been arrived at after charging (crediting):

	2005	2004
	RMB'000	RMB'000
Staff costs		
-Wages and salaries and welfare	19,824	31,009
-Contribution to retirement scheme	862	1,388
	20,686	32,397
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

9. Dividends

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

10. Earnings (loss) per share

The basic earnings (loss) per share are calculated as follows:

Earnings (loss)

	2005	2004
	RMB'000	RMB'000
Profits (loss) for the year from continuing and discontinued operations	6,622	(44,342)
Profits (loss) for the year from continuing operations	10,387	(32,408)

Number of shares

The weighted average number of ordinary shares outstanding during the year was 283,161,227 shares (2004: 283,161,227 shares).

The amount of diluted profit (loss) per share is not presented as there were no dilutive potential ordinary shares in expositing during the years presented.

11. 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 862,000 (2004: RMB 1,388,000).

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.

12. Investment properties

	RMB'000
Cost	
At 1st January 2005	111,436
Additions	878
At 31st December 2005	112,314
Accumulated depreciation	
At 1st January 2005	41,903
Charge for the year	8,428
At 31st December 2005	50,331
Net book value	
At 31st December 2005	61,983
At 31st December 2004	69,533

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

b) As at 31st December 2005, all the Group's investment properties with net book value of RMB61,983,000 (2004: RMB69,533,000) were leasing under operating leases to independent third parties. The terms of leases are ranging from 3 to 11 years.

c) The gross rental income generated from the investment properties for the year was RMB36,579,000 (2004: RMB29,402,000).

13. Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 1st January 2005	151,851	112,312	31,399	4,000	299,562
Additions	359	10,683	2,509	195	13,746
Disposals	-	-	-	(870)	(870)
At 31st December 2005	152,210	122,995	33,908	3,325	312,438
Accumulated depreciation					
At 1st January 2005	19,901	53,905	18,077	3,143	95,026
Charge for the year	3,755	8,096	3,662	382	15,895
Written back on disposal	-	-	-	(722)	(722)
At 31st December 2005	23,656	62,001	21,739	2,803	110,199
Accumulated Impairment losses					
At 1st January 2005	-	-	974	-	974
Additions	-	-	-	-	-
At 31st December 2005	-	-	974	-	974
Net book value					
At 31st December 2005	128,554	60,994	11,195	522	201,265
At 31st December 2004	131,950	58,407	12,348	857	203,652

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

b) During the year, the additions include the Group's property, plant and equipment with cost approximately RMB10,617,000 (2004: RMB2,353,000) which were transferred from construction in progress.

14. Construction in progress

	2005	2004
	RMB'000	RMB'000
At beginning of year	2,102	469
Additions	8,515	4,090
Transfer to property, plant and equipment	(10,617)	(2,353)
Written off	-	(104)
At end of year	-	2,102

15. Available-for-sale investment

	2005	2004
	RMB'000	RMB'000
Unlisted PRC shares, at cost	900	900
Less: Provision for impairment losses	(900)	(900)
	-	-

There is no quoted market price for the securities and accordingly a reasonable estimate of the fair value could not be make without incurring excessive costs.

16. Inventories

	2005	2004
	RMB'000	RMB'000
Raw materials	6,475	7,938
Work in progress	5,982	4,282
Finished goods	18,156	25,968
	30,613	38,188

Inventories stated at net realisable value included in above are as follows:

	2005	2004
	RMB'000	RMB'000
Raw materials	2,362	1,476
Work in progress	2,006	3,067
Finished goods	9,600	23,367
	13,968	27,910

17. Prepaid expenses and other current assets

	2005	2004
	RMB'000	RMB'000
Prepaid expenses	225	475
Expenses prepaid for 武汉中恒	638	-
Other receivables	14,444	16,862
	15,307	17,337

18. Share capital

	2005	2004
	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 2005 and 2004.

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

19. 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.

20. Surplus reserves

	2005	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.

20. 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.

21. Accrued expenses and other current liabilities

	2005	2004
	RMB'000	RMB'000
Accrued expenses	4,741	6,370
Prepaid income tax	(120)	(121)
Other taxes payable	1,159	2,657
Receipt in advance	12,802	10,381
Other payables	2,704	6,667
	21,286	25,954

22. Short-term bank loans

	2005	2004
	RMB'000	RMB'000
Secured (note 24)	94,100	118,000
Guaranteed (b)	-	7,000
	94,100	125,000

a) The annual interest rates of the bank loans are ranged from 4.425% to 5.115% (2004: 5.310% to 6.138%).

b) No bank loans are guaranteed by the shareholders of the Company. At 31st December 2004, the guarantee was provided by the shareholders of the Company.

23. 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 2005 and 2004.

(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 50.23% to the total revenue.

(b) Interest rate risk

The interest rates of the Group's borrowings are disclosed in note 22.

(c) Foreign exchange risk

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

23. 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.

24. Pledge of assets

(a) At the balance sheet date, the Group's investment properties, land and buildings with aggregate net book value of approximately RMB131,139,000 (2004 : RMB137,990,000) were pledged to banks for the bank borrowings.

(b) At the balance sheet date, the Group's bank balances of RMB250,000 were pledged to banks for the bank borrowings. At 31st December 2004, a deposit of HK$107,000, equivalent to RMB113,000 was pledged as secured deposits for opening letters of credit.

25. Operating leases commitment

The Group as lessor

At the balance sheet date, the Group has contracted with tenants for the following future minimum lease payments:

	2005	2004
	RMB'000	RMB'000
Within one year	27,723	31,229
In two and five years	102,895	110,910
After five years	37,983	64,432
	168,601	206,571

26. Related party transactions

During the year, the Group did not have any significant transactions with the related parties. For the year ended 31st December 2004, bank loans of RMB7,000,000 were guaranteed by the SEG Group and Zhenhua Group and the Group had paid bank loans guarantee fee of RMB34,000 to SEG Group.

27. Post balance sheet events

In accordance with the resolution of the director's meeting of 13th May 2005, certain land and buildings of the Group will be sold to Zhenhua Group Shenzhen Electronics Limited, a subsidiary of Zhenhua Group at a consideration of RMB12,800,000. The transaction is estimated to be completed before 30th April 2006.

28. 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.