SHENZHEN HUAFA ELECTRONICS CO., LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2006

SHINEWING (HK) CPA Limited
Certified Public Accountants
Hong Kong

SHENZHEN HUAFA ELECTRONICS CO., LIMITED

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YEAR ENDED 31ST DECEMBER 2006

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF B SHARE OF
SHENZHEN HUAFA ELECTRONICS CO., LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shenzhen Huafa Electronics Co., Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 3 to 30, which comprise the consolidated balance sheet as at 31st December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
17th April 2007

Shenzhen Huafa Electronics Co., Limited
Consolidated income statement
For the year ended 31st December 2006

	Notes	2006	2005
		RMB'000	RMB'000
Continuing operations			
Revenue	5	199,196	141,861
Cost of sales		(177,525)	(114,554)
Gross profit		21,671	27,307
Other operating income		7,263	2,903
Selling expenses		(3,445)	(2,539)
Administrative expenses		(32,790)	(8,284)
Other operating expenses		(2,512)	(2,318)
(Loss) profit from operations		(9,813)	17,069
Finance costs, net	7	(5,203)	(6,682)
(Loss) profit before taxation		(15,016)	10,387
Income tax expenses	8	-	-
(Loss) profit for the year from continuing operations		(15,016)	10,387
Discontinued operation			
Loss for the year from discontinued operation	9	-	(3,765)
(Loss) profit for the year	10	**(15,016)**	**6,622**
(Loss) earnings per share			
From continuing and discontinued operations:			
- Basic	12	(RMB 0.0530)	RMB 0.0234
From continuing operations:			
- Basic	12	(RMB 0.0530)	RMB 0.0367

Shenzhen Huafa Electronics Co., Limited
Consolidated balance sheet
As at 31st December 2006

	Notes	2006	2005
		RMB'000	RMB'000
Assets			
Non-current assets			
Investment properties	14	47,661	61,983
Property, plant and equipment	15	189,368	201,265
Construction in progress	16	161	-
Available-for-sale investment	17	-	-
Total non-current assets		237,190	263,248
Current assets			
Inventories	18	14,400	30,613
Trade and other receivables	19	92,724	62,926
Prepaid expenses and other current assets	20	12,108	15,307
Cash and bank balances		19,610	17,091
Total current assets		138,842	125,937
Total assets		376,032	389,185
Equity and liabilities			
Capital and reserves			
Share capital	21	283,161	283,161
Share premium	22	98,461	98,461
Property revaluation reserve		3,033	3,033
Surplus reserves	23	77,391	77,391
Accumulated losses		(238,203)	(223,187)
		223,843	238,859
Current liabilities			
Trade payables	24	74,525	34,940
Accrued expenses and other current liabilities	25	10,364	21,286
Short-term bank loans	26	67,300	94,100
Total current liabilities		152,189	150,326
Total equity and liabilities		376,032	389,185

The consolidated financial statements on pages 3 to 30 were approved by the Board of Directors and authorised for issue on 17th April 2007 and signed on its behalf by:

Director

Director

Shenzhen Huafa Electronics Co., Limited
Consolidated statement of changes in equity
For the year ended 31st December 2006

	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 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 and 1st January 2006	283,161	98,461	3,033	77,391	(223,187)	238,859
Loss for the year	-	-	-	-	(15,016)	(15,016)
At 31st December 2006	283,161	98,461	3,033	77,391	(238,203)	223,843

Shenzhen Huafa Electronics Co., Limited

Consolidated cash flow statement
For the year ended 31st December 2006

	2006	2005
	RMB'000	RMB'000
Operating activities		
(Loss) profit for the year	(15,016)	6,622
Adjustments for:		
Bank interest income	(149)	(383)
Bank interest expenses	5,186	6,614
Depreciation on property, plant and equipment	25,421	24,323
(Gain) loss on disposal of property, plant and equipment	(14)	67
Gain on disposal of investment properties	(4,538)	-
Allowance for bad and doubtful receivables	-	172
Operating cash flow before movements in working capital	10,890	37,415
Decrease in inventories	16,213	7,575
(Increase) decrease in trade and other receivables, prepaid expenses and other current assets	(26,599)	2,516
Increase (decrease) in trade payables, accrued expenses and other current liabilities	28,663	(16,245)
Cash generated from operations	29,167	31,261
Interest paid	(5,186)	(6,614)
Net cash from operating activities	23,981	24,647
Investing activities		
Interest received	149	383
Expenditure on acquisitions of property, plant and equipment, investment properties and construction in progress	(5,603)	(12,522)
Proceeds from investment properties	10,764	-
Proceeds from disposal of property, plant and equipment	28	81
Net cash generated from (used in) investing activities	5,338	(12,058)
Financing activities		
New bank loans granted	104,230	127,320
Repayment of bank loans	(131,030)	(158,220)
Net cash used in financing activities	(26,800)	(30,900)
Increase (decrease) in cash and cash equivalents	2,519	(18,311)
Cash and cash equivalents at beginning of year	17,091	35,402
Cash and cash equivalents at end of year,		
Cash and bank balances	19,610	17,091

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 2006, 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”), had 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 2006, 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 transfer of share was completed on 11th April 2007.

The addressee of its registered office and principal place business are 6/F., 411 Bldg., Huafa N Rd., Futian District, Shenzhen 518031, China.

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 2006 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. Application of new and amended International Financial Reporting Standards

In the current year, the Group has applied, all of the new and revised International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1st January 2006. The adoption of these new and revised IFRSs, IASs and Interpretations had no material effect on how the results for the current or prior accounting years are prepared and presented.

At the date of these consolidated financial statements authorised for issue, the following IFRSs, IASs and Interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IFRS 7	Financial instruments : Disclosures[1]
IFRS 8	Operating segements[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economics[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim Financial Reporting and Impairment[6]
IFRIC 11	Group and Treasury Share Transactions[7]
IFRIC 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st January 2009.
3 Effective for annual periods beginning on or after 1st March 2006.
4 Effective for annual periods beginning on or after 1st May 2006.
5 Effective for annual periods beginning on or after 1st June 2006.
6 Effective for annual periods beginning on or after 1st November 2006.
7 Effective for annual periods beginning on or after 1st March 2007.
8 Effective for annual periods beginning on or after 1st January 2008.

The directors anticipate that the adoption of these IFRSs, IASs and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. Principal accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRSs promulgated by the IASB. IFRSs includes IASs 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 IFRSs. The differences arising from the restatement of the results of operations and the net assets for compliance with IFRSs are adjusted in consolidated financial statements but will not be taken up in the accounting records of the Group.

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 values, the consolidated 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.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. Principal accounting policies (continued)

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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in currency units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 consolidated income statement on a straight-line basis over the lease terms of for investment properties after taking into accounts 5% residue value.

f) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated 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 consolidated income statement as an expense as incurred.

3. Principal accounting policies (continued)

f) Property, plant and equipment (continued)

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment after taking into accounts 10% residue value. The estimated useful lives are as follows:

	Years	Depreciation rates per annum
Leasehold land	Over the lease terms	-
Buildings	20-50 years	1.8%-4.5%
Machinery and equipment	5-10years	9%-18%
Furniture and fixtures	3-5 years	18%-30%
Motor vehicles	5 years	18%

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 consolidated 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 consolidated balance sheet at cost less subsequent accumulated 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) Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets

Available-for-sale investments

Available-for-sale investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

3. Principal accounting policies (continued)

h) Financial instruments (continued)

Available-for-sale investments (continued)

Available-for-sale investments are non-derivatives investments. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale investments are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

Trade and other receivables

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

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 consolidated cash flow statement.

3. Principal accounting policies (continued)

h) Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequent measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. 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) Provisions

A provision is recognized in the consolidated 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.

l) Revenue

Revenue is measured at the fair value of the consideration received or receivables. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Rental income is recognized on straight-line basis over the term of the relevant lease.

3. Principal accounting policies (continued)

m) 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 consolidated income statement as it accrues, taking into account the effective yield on the assets.

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

n) Retirement benefits

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

o) 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 consolidated 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.

p) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Group as lessor</u>

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operation lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the the lease term.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3 above, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. Revenue

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

Continuing operation	2006	2005
	RMB'000	RMB'000
Manufacturing and sales of electronic goods, except for television sets	161,209	105,282
Property rental income	37,987	36,579
	199,196	141,861

Discontinued operation (see note 9)	2006	2005
	RMB'000	RMB'000
Manufacturing and sales of television sets	-	9,140

6. 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

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

For the year ended 31st December 2006 / as at 31st December 2006

	Electronic goods	Leasing	Total
	RMB'000	RMB'000	RMB'000
i) Consolidated income statement			
Revenue	161,209	37,987	199,196
Operating results			
Operating profit of segment	(25,316)	17,521	(7,795)
Unallocated expenses			(2,018)
Loss from operations			(9,813)
Finance costs, net			(5,203)
Loss for the year from continuing operations			(15,016)
ii) Consolidated balance sheet			
Assets			
Segment assets	311,354	63,798	375,152
Unallocated assets			880
Total assets			376,032
Liabilities			
Total liabilities	151,566	623	152,189
iii) Other information			
Depreciation for continuing operations	17,073	8,348	25,421

6. Segment information (continued)

(a) Business segments (continued)

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

	Electronic goods	Leasing	Total
	RMB'000	RMB'000	RMB'000
i) Consolidated 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 for the year from continuing operations			10,387
ii) Consolidated 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

(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.

7. Finance costs, net

	2006	2005
	RMB'000	RMB'000
Bank interest expenses	5,186	6,614
Bank interest income	(149)	(383)
Exchange loss	276	444
Others	(110)	7
	5,203	6,682

8. 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 consolidated financial statements as the Group has adequate taxation loss brought forward from previous years to offset the assessable profit for both years.

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

9. 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
	RMB'000
Revenue	9,140
Cost of sales	(11,497)
Other direct attributable expenses	(1,408)
Loss from discontinued operation for the year	(3,765)

10. (Loss) profit for the year

(Loss) profit for the year has been arrived at after charging (crediting):

	2006	2005
	RMB'000	RMB'000
Staff costs		
- Wages and salaries and welfare	24,748	19,824
- Contribution to retirement scheme	1,021	862
	25,769	20,686
Depreciation on property, plant and equipment	25,421	24,323
(Gain) loss on disposal of property, plant and equipment	(14)	67
Gain on disposal of investment properties	(4,538)	-
Cost of inventories	156,991	107,049
Allowance for bad and doubtful receivables	-	172

11. Dividends

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

12. (Loss) earnings per share

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

<u>(Loss) earnings:</u>

	2006	2005
	RMB'000	RMB'000
(Loss) profit for the year from continuing and discontinued operations	(15,016)	6,622
(Loss) profit for the year from continuing operations	(15,016)	10,387

<u>Number of shares</u>

The weighted average number of ordinary shares outstanding during the year was 283,161,227 shares (2005: 283,161,227 shares).

The amount of diluted (loss) profit per share is not presented as there were no dilutive events existed during the years presented.

13. 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 approximately RMB1,021,000 (2005: RMB862,000).

The Company's contribution to the defined contribution plans administered by the PRC government is recognized as an expense in the consolidated income statement as incurred.

14. Investment properties

	RMB'000
Cost	
At 1st January 2005	111,436
Additions	878
At 31st December 2005	112,314
Additions	95
Transfer from property, plant and equipment	218
Disposal	(11,828)
At 31st December 2006	100,799
Accumulated depreciation	
At 1st January 2005	41,903
Charge for the year	8,428
At 31st December 2005	50,331
Charge for the year	8,348
Transfer from property, plant and equipment	61
Written back on disposal	(5,602)
At 31st December 2006	53,138
Net carrying value	
At 31st December 2006	47,661
At 31st December 2005	61,983

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 2006, all the Group's investment properties with net carrying value of approximately RMB47,661,000 (2005: RMB61,983,000) 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 approximately RMB37,988,000 (2005: RMB36,579,000).

15. 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
Additions	-	912	4,007	428	5,347
Disposal	-	-	-	(138)	(138)
Transfer to investment properties	(218)	-	-	-	(218)
At 31st December 2006	151,992	123,907	37,915	3,615	317,429
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
Charge for the year	3,892	8,955	4,024	202	17,073
Written back on disposal	-	-	-	(124)	(124)
Transfer to investment properties	(61)	-	-	-	(61)
At 31st December 2006	27,487	70,956	25,763	2,881	127,087
Accumulated impairment losses					
At 1st January 2005	-	-	974	-	974
Additions	-	-	-	-	-
At 31st December 2005	-	-	974	-	974
Additions	-	-	-	-	-
At 31st December 2006	-	-	974	-	974
Net carrying value					
At 31st December 2006	124,505	52,951	11,178	734	189,368
At 31st December 2005	128,554	60,994	11,195	522	201,265

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 RMB1,119,000(2005: RMB10,617,000) which were transferred from construction in progress.

16. Construction in progress

	2006	2005
	RMB'000	RMB'000
At beginning of year	-	2,102
Additions	1,280	8,515
Transfer to property, plant and equipment	(1,119)	(10,617)
At end of year	161	-

17. Available-for-sale investment

	2006	2005
	RMB'000	RMB'000
Unlisted PRC shares, at cost	900	900
Less: Allowance 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 made without incurring excessive costs.

18. Inventories

	2006	2005
	RMB'000	RMB'000
Raw materials	5,177	6,475
Work in progress	3,656	5,982
Finished goods	5,567	18,156
	14,400	30,613

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

	2006	2005
	RMB'000	RMB'000
Raw materials	-	2,362
Work in progress	-	2,006
Finished goods	-	9,600
	-	13,968

19. Trade and other receivables

	2006	2005
	RMB’000	RMB’000
Trade receivables	101,667	64,791
Less: Accumulated impairment	(12,909)	(9,484)
	88,758	55,307
Bill receivables	3,966	7,619
Total trade and other receivables	92,724	62,926

20. Prepaid expenses and other current assets

	2006	2005
	RMB’000	RMB’000
Prepaid expenses	364	225
Expenses prepaid for 武汉中恒	-	638
Other receivables	11,744	14,444
	12,108	15,307

21. Share capital

	2006	2005
	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 2006 and 2005.

“A” share and “B” share rank pari passu in terms of shareholders’ rights.

22. 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.

23. Surplus reserves

	2006	2005
	RMB'000	RMB'000
Statutory surplus reserve	21,322	20,949
Public welfare fund reserve	-	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.

Starting from 1st January 2006, the Group is not required to transfer any of its net profit to statutory public welfare reserve in accordance with the amendment on Section 167 of Chapter Eight in the PRC Companies Ordinance. Therefore, the Group transferred the balances of the statutory public welfare reserves as at 1st January 2006 to the statutory public welfare reserve during the year.

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.

24. Trade payables

	2006	2005
	RMB'000	RMB'000
Trade payables	74,525	34,940

25. Accrued expenses and other current liabilities

	2006	2005
	RMB'000	RMB'000
Accrued expenses	2,654	4,741
Prepaid income tax	-	(120)
Other taxes payable	1,863	1,159
Receipt in advance	1,079	12,802
Other payables	4,768	2,704
	10,364	21,286

26. Short-term bank loans

	2006	2005
	RMB'000	RMB'000
Secured (note 28)	67,300	94,100

The annual fixed interest rates of the bank loans are ranged from 6.12% to 6.732% (2005: 4.425% to 5.115%). All bank loans are denominated in RMB.

Details of assets pledged for the bank loans are set out in note 28.

27. 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 2006 and 2005.

(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 61.55% to the total revenue.

(b) Interest rate risk

The interest rates of the Group's borrowings are disclosed in note 26.

(c) Foreign exchange risk

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

(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.

28. Pledge of assets

(a) At the balance sheet date, the Group's investment properties, land and buildings with aggregate net carrying value of approximately RMB121,040,000 (2005: RMB131,139,000) were pledged to banks for the bank borrowings.

(b) At the balance sheet date, the Group's bank balances of approximately RMB4,939,000 were pledged as secured deposits for opening letters of credit. (2005: RMB250,000)

29. 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:

	2006 RMB'000	2005 RMB'000
Within one year	32,227	27,723
In two and five years	106,676	102,895
After five years	14,717	37,983
	153,620	168,601

30. Related party transactions

(a) The Group has entered into an asset transfer agreement with Zhenhua Group Shenzhen Electronics Limited, a subsidiary of Zhenhau Group, to dispose of certain land and buildings (the "Disposed Assets") at a consideration of approximately RMB12,800,000 included tax expenses approximately RMB2,606,300 (the "Agreement").

According to the terms of the Agreement, the tenancy agreement in respect of the Disposed Assets for the period from 1st November 2006 to 31st August 2008 was assigned to the Group. The Group will, therefore, continuously recognize the respective rental income. During the year, the rental income from those related land and buildings was RMB570,000.

(b) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2006 RMB'000	2005 RMB'000
Short-term benefits	932	1,084

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard the performance of individuals and market trends.

31. Post balance sheet events

As set out in note 1, on 6th June 2005, the Company's shareholders, SEC Group and Zhenhua Group entered into a share transfer agreement with 武汉中恒 to dispose of its entire interests of 22.06% each of the Company's A shares to 武汉中恒. The share transfer was completed on 11th April 2007.

32. Difference between Statutory Financial Statements and IFRS financial statements

Other than the differences in the classifications of certain financial captions and the accounting for the items described below, there are no material differences between the Group's consolidated financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	2006 **RMB'000**	**2005** **RMB'000**
(Loss) profit attributable to equity holders of the parent under the PRC Accounting Rules and Regulations	(19,554)	6,622
Adjustments:		
Reclassification of gain on disposal of investment properties from capital reserves	4,538	-
(Loss) profit attributable to equity holders of the Company under IFRS	(15,016)	6,622

There are no effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' fund.