深圳華發電子股份有限公司
SHENZHEN HWAFA ELECTRONICS CO., LTD

ANNUAL REPORT 2006

Stock Code: 000020, 200020
Short Form of the Stock: SST Huafa, ST Huafa B

Public Notice No.: 2007-26

Important Notice

The Board of Directors and the Supervisory Committee its members 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 fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

7 directors should attend the meeting, but 5 of them actually did, of which Director Zhang Weibing was transferred to work in Supreme Court and put forward the resignation report to Board of Directors and did not present the meeting, Independent Director Zhou Daozhi entrusted Independent He Xiaoming to voting on his behalf due to go on business.

Shinewing Certified Public Accountants audited the 2006 financial report of the Company and issued the standard unqualified Auditors' Report.

Mr. Che Wenshen, Chairman of the Board of the Company, Mr. Feng Guotai, General Manager, Mr. Liu Zuodong, Person in charge of accounting work, and Mr. Wang Wei, Person in charge of accounting organ hereby confirm that the Financial Report of Annual Report 2006 is true and complete.

Contents

I. Company Profile

1. Name of the Company

   In Chinese: 深圳华发电子股份有限公司

   In English: SHENZHEN HUAFA ELECTRONICS CO., LTD.

2. Legal Representative: Chen Wenshen

3. Secretary of the Board of Directors: Cao Li

   Contact Address: 6/F, W, 411 Bldg., Huafa North Road, Futian District, Shenzhen

   Tel: (86) 755-83352207

   Fax: (86) 755-83323169

   E-mail: sz000020@163.net

4. Registered Address: 411 Bldg., Huafa North Road, Futian District, Shenzhen

   Office Address: 6/F, W, 411 Bldg., Huafa North Road, Futian District, Shenzhen

   Post Code: 518031

   Company's Internet Web Site: http://www.hwafa.com

5. Newspapers for Disclosing the Information of the Company:

   China Securities, Securities Times and Hong Kong Wen Wei Po

   Internet Web Site for Publishing the Annual Report: http://www.cninfo.com.cn

   The Place Where the Annual Report is Prepared and Placed: OFF. of Board of Directors of Shenzhen Huafa Electronics Co., Ltd.

6. Stock Exchange Listed with: Shenzhen Stock Exchange

   Short Form of the Stock: SST HUAFA , ST HUAFA B

   Stock Code: 000020, 200020

7. Other Relevant Information of the Company

   Initial registered date and place or changed registered date and place:

   Registered date: May 1992

   Registered place: 411 Bldg., Huafa North Road, Futian District, Shenzhen

   Registered number of enterprise legal person's business license: 100296

   Registered number of tax: 113260

   Name and office address of Certified Public Accountants engaged by the Company:

   Name: Shinewing Certified Public Accountants

   ShineWing (HK) CPA Limited.

   Address: 9/F, Block A, Fu Hua Mansion No.8 Chaoyang Men, Bei da jie, Dong Cheng District, Beijing, P.R.China

   Room 2009-18, 20/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

II. Financial highlights and business highlights

(I) Major accounting data as of the year 2006

Items	Amount (RMB)
Total profit	-19,554,248.65
Net profit	-19,554,248.65
Net profit after deducting non-recurring gains and losses	-19,610,828.58
Profit from main operations	4,150,143.51
Other operating profit	17,677,789.53
Operating profit	-19,610,828.58
Investment income	0
Subsidy income	0
Net non-operating income/expenses	56,579.93
Net cash flow arising from operating activities	26,649,992.33
Net increase/decrease of cash and cash equivalents	2,519,644.81

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

Items	Amount (RMB)
Non-operating income	57,147.98
Non-operating expenses	568.05
Total	56,579.93

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

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

Unit: RMB

Items	2006	2005	2004
Income from main operations	161,208,668.37	114,421,667.78	129,245,944.71
Net profit	-19,554,248.65	6,622,306.73	-44,341,967.47
Total assets	376,031,844.21	389,185,291.70	429,708,402.01
Shareholders' equity (excluding minority interest)	223,842,836.53	238,858,928.26	232,236,621.53
Earnings per share	-0.0691	0.02	-0.16
Net assets per share	0.79	0.84	0.82
Net assets per share after adjustment	0.77	0.79	0.77

Net cash flow per share arising from operating activities	0.09	0.10	0.04
Return on equity	-8.74%	2.77%	-19.09%

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

Profit in the report period	**Return on equity (%)**		**Earnings per share (RMB/share)**	
	Fully diluted	**Weighted average**	**Fully diluted**	**Weighted average**
Profit from main operations	1.85	1.81	0.0147	0.0147
Operating profit	-8.76	-8.56	-0.0693	-0.0693
Net profit	-8.74	-8.54	-0.0691	-0.0691
Net profit after deducting non-recurring gains and losses	-8.76	-8.56	-0.0693	-0.0693

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

Unit: RMB

Items	Share capital	Capital reserve	Surplus reserve	Statutory public welfare fund	Undistributed profit	Total
Amount at the period-begin	283,161,227	101,494,017	77,391,593	373,108	-223,187,909	238,858,928
Increase in the report period	0	4,538,156.92	0	0	-19,554,249	-15,016,092
Decrease in the report period	0	0	0	0	0	0
Amount at the period-end	283,161,227	106,032,173.92	77,391,593	0	-242,742,158	223,842,836
Reason for Change: The increase in capital reserve was due to transfer the 1# Plant and affiliated building in Shangbu Industrial Park, the decrease in undistributed profit was due to losses in year of 2006.						

III. Changes in capital shares and particulars about shareholders

(I) Particulars about the changes in share capital

1. Statement of change in shares

Unit: Share

	Before the change		Increase/decrease of this time (+, -)					After the change	
	Amount	Proportion	New share issued	Bonus shares	Capitalization of public reserve	others	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									
3. Inner employees' shares									
4. Preference shares or others									
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%					0	283,161,227	100%

Note： The Company held the relevant shareholders' meeting of A-stock market dated Nov.13, 2006, examined and approved the Share Merger Reform Scheme of the Company in way of voting(for the details, please refer to Notice on Voting Rights of Shareholders' Meeting of A-stock Market on Share Merger Reform, and the public notice number was 2006-33). Ended the disclosure dated of the report, the Share Merger Reform Scheme of the Company has not been implemented, and the share structure of the Company has not been changed.

2. Issuance and listing of shares

(1) The previous three year ended the period-end; the Company issued neither new share nor

derived securities.

(2) There existed no inner employees' shares in the Company.

(II) About shareholders

1. The number of shareholders and particulars about the shares held by them

Unit: share

Total number of shareholders	20,608				
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	0	Unknown
GOOD HOPE CORNER INVESTMENTS LTD	Other	4.91	13,900,000	0	Unknown
Chen Zhujun	Other	0.63	1,787,940	0	Unknown
Yang Jian	Other	0.41	1,147,400	0	Unknown
Zhang Bin	Other	0.39	1,109,710	0	Unknown
Luo Ya	Other	0.39	1,090,442	0	Unknown
Hou Lixuan	Other	0.33	931,339	0	Unknown
BINGHUA LIU	Other	0.31	876,213	0	Unknown
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; the Company was 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.			

2. The controlling shareholder of the Company

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

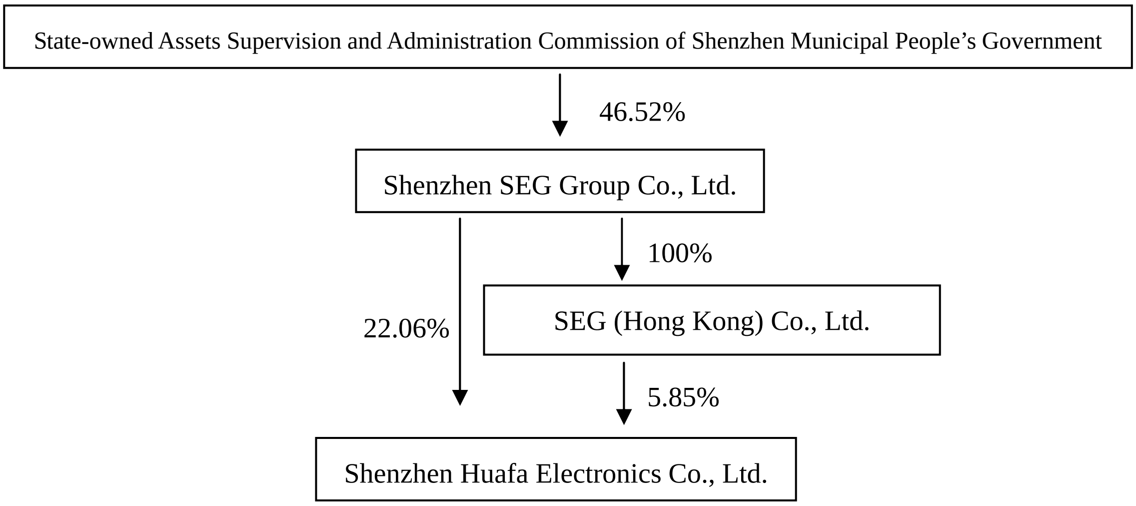
Legal representative: Guo Yonggang

Date of foundation: Aug. 23, 1984

Registered capital: RMB 1,355.42 million

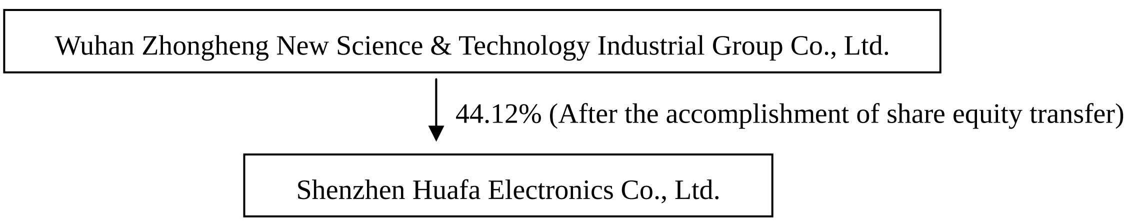
Business scope: Production and research of electronic products, electrical home appliances and electronic projects; undertake various electronic system project (Import and export business and exclusive commodities were conducted according to regulations); raise development funds and invest credit; technology 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..



(2) Name of the actual controller: Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.

Legal representative: Li Zhongqiu
Date of foundation: March 31, 1996
Registered capital: RMB 138 million
Business scope: Production; sales of computers, TV set, display, other hardware and computer software; development of internal data communication network, building of packing materials and light weight building material for packaging; hardware metal product, plastic product; acoustic product and electronic equipment; fabrics and garments; sales of building materials; management of exports business for the own products and technologies for the Company and member enterprise; management of export business on raw material, apparatus and instrument, machinery equipments, spare parts and technologies (barring those limited on operations or forbidden products or techniques of export and import by nation), development of real-estate and sales of commercial housings.



3. Legal person shareholder holding over 10% of the Company's total shares

China Zhenhua Electronics Group Co., Ltd.: Legal representative: Chen Qingjie; Date of foundation: Oct., 1984; Business scope: Products of electronic information and services; electronics, machinery equipments and technological consultation, commercial trade; Registered capital: RMB 288.52 million.

4. Explanations on share equity transfer

On June 6，2005, Shenzhen SEG Group Co., Ltd. and China Zhenhua Electrics Group Co., Ltd, which are the two corporate shareholders of the Company, signed the Agreement for Sale and Purchase of Shares respectively with Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. (hereinafter referred to as "Wuhan Zhongheng"). In the agreement, 62,462,914 A-shares and each 22.06% of the total shares were respectively transferred to Wuhan Zhongheng. If the transfer of shares were accomplished, Wuhan Zhongheng should hold 124,925,828 corporate shares taking 44.12% of the total shares, and would become the first major shareholder of the Company. The transfer of shares would be transferred to assignee for only one time in the way of agreement. For the details, please refer to the public notices were publicly disclosed on June 8, 2005 and June 25, 2005.

On April 10, 2006, the share equity transfer was approved by the Supervision and Administration of State-owned Assets of State Council. For the details, please refer to Approval Notice on State-owned Equity Transfer from Supervision and Administration of State-owned Assets publicly disclosed on May 27, 2006 with the public notice number of 2006-11.

On Feb.13, 2007, delaying on expiration date of transferring the equity was approved by Supervision and Administration of State-owned Assets of State Council. For the details, please refer to Approval Notice on Delaying the Sate-owned Equity Transfer from Supervision and Administration of State-owned Assets publicly disclosed on Feb.14, 2007 with the public notice number of 2007-06.

On March 19, 2007, the equity transfer was obtained approval from CSRC on exemption of obligations on purchasing offer of Wuhan Zhongheng. For the details, please refer to Notice on Exemption of Obligations on Purchasing Offer of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd from CSRC publicly disclosed on March 26, 2007 with the public notice number of 2007-09.

On April 12, 2007, procedures on changing the name of owner in a register of the equity transfer were accomplished. For the details, please refer to Notice on Accomplishment of

Changing the Name of Owner in a Register of Shareholders' Equity with the public notice number of 2007-022.

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

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 CORNER INVESTMENTS LTD	13,900,000	Domestically listed foreign shares
Chen Zhujun	1,787,940	Domestically listed foreign shares
Yang Jian	1,147,400	Domestically listed foreign shares
Zhang Bin	1,109,710	A-share
Luo Ya	1,090,442	A-share
Hou Lixuan	931,339	A-share
BINGHUA LIU	876,213	Domestically listed foreign shares
Huang Jianwen	773,700	Domestically listed foreign shares
ABN AMRO BANK NV	668,800	Domestically listed foreign shares
Explanations on associate relationship among the above shareholders	SEG (Hong Kong) Co., Ltd. belongs to overseas sole subsidiary of Shenzhen SEG Group Co., Ltd; the Company was unknown that there existed associate relationship among other shareholders.	

IV. Particulars about directors, supervisors, senior executives and employees

(I) Directors, supervisors and senior executives during the report period

1. Basic information

Name	Sex	Age	Title	Office term	Number of holding shares (share)	
					At the year-begin	At the year-begin
Che Wenshen	Male	57	Chairman of the Board	Sep., 2004-Sep., 2007	0	0
Feng Quanbao	Male	61	Vice Chairman of the Board	Sep., 2004-Sep., 2007	0	0
Song Shaohua	Male	43	Director	Jul., 2006-Sep., 2007	0	0
Zhang Weibing	Male	40	Director	Jul., 2006-Sep., 2007	0	0
Zhou Daozhi	Male	57	Independent Director	Sep., 2004-Sep., 2007	0	0

Zhao Junrong	Male	42	Independent Director	Sep., 2004-Sep., 2007	0	0
He Xiaoming	Male	35	Independent Director	Sep., 2004-Sep., 2007	0	0
Ye Daming	Male	61	Chairman of Supervisory Committee	Sep., 2004-Sep., 2007	30,433	30,433
Liu Jingju	Female	51	Supervisor	Sep., 2004-Sep., 2007	0	0
Li Liangzhen	Male	41	Supervisor	Sep., 2004-Sep., 2007	0	0
Feng Guotai	Male	57	General Manager	Jun., 2006-Sep., 2007	0	0
Liu Zuodong	Male	44	Deputy General Manager	Jun., 2006-Sep., 2007	0	0
Cao Li	Female	36	Secretary of the Board	Oct., 2006-Sep., 2007	0	0

2. Major business experience of directors, supervisors and senior executives in recent 5 years.

Che Wenshen: He holds a post of Chief Accountant of China Zhenhua Electronics Group Co., Ltd. from Aug., 2000 till now.

Feng Quanbao: He successively took the posts of deputy general manger of Shenzhen SEG Group Co., Ltd., and retired in Oct. 2005, now he is the vice chairman of the board of China Zhenhua Electronics Group Co., Ltd.

Song Shaohua: From 2002 to 2004, he had held the post of president of Shenzhen Public Asset Management Co., Ltd., from the year of 2005 till now; he has held the post of consultant of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.

Zhang Weibing: From 1993 till 2006, he has held the posts of lawyer and director of Hubei Luojia Law Office.

Zhou Daozhi: He successively took the posts of deputy governor of China Everbright Bank, executive deputy general manger of Everbright Securities Co., Ltd. and China Everbright Financial Holdings (Hong Kong), chairman of the board and secretary of the party committee of Bosera Funds Management Co., Ltd.

Zhao Junrong: Since Oct. 2000 till now, he has taken the post of certified lawyer of Guangdong China Commercial Law Firm and concurrently taken the post of Chief Legal Adviser in Shenzhen International Holding Co., Ltd. and China Total Logistics (Shenzhen) Co., Ltd.

He Xiaoming: Since 2001 he acts as copartner of Shenzhen Zhongqing Certified Public Accountants and independent director of Fortune Ng Fung Food (Hebei) Co., Ltd. and became copartner of Pan-China Shinda CPAs in 2005.

Ye Daming: His specific duty on Chairman of the Supervisory Committee in Shenzhen Huafa Electronics Co., Ltd. since June 1998.

Liu Jingju: Since June 2000 till now, she has taken the posts of Assistant Head of Party and Mass Work Dept. of Shenzhen SEG Group, and supervisor of Shenzhen Huafa Electronics Co., Ltd.

Li Liangzhen: He has taken the post of chairman of labor union of Shenzhen Huafa Electronics Co., Ltd. in recent 5 years all along.

Feng Guotai: From Mar. 2002 to Jun. 2006, he had taken the post of senior deputy manager of Baocheng Group Guangwei Computer Co. Ltd.; senior deputy manager of Weicheng Electronics Co., Ltd.; executive vice president of Guangwei Computer Co. Ltd.; since Jun. 2006 till now, he has been the general manager of Shenzhen Huafa Electronics Co., Ltd.
Liu Zuodong: He has successively taken the posts of president of Shenzhen Commercial Bank; deputy governor of China Merchants Bank Wuhan Qiaokou subbranch; general manager in marketing department of Shanghai Pudong Development Bank Wuhan branch; since Jun. 2006 till now, he has taken the post of deputy general manager of Shenzhen Huafa Electronics Co., Ltd.
Cao Li: From 2001 to 2005, she had taken the post of chief financial officer of Wuhan ZhongHeng New Science & Technology Industrial Group Co., Ltd., and entered equity transferring group of Huafa in Jun. 2005; since Oct. 2006 till now, she has taken the post of secretary of the board of Shenzhen Huafa Electronics Co., Ltd.

3. Particulars about the annual remuneration
i. The decision-making processes of annual remuneration held by directors, supervisors and senior executives
In accordance with Articles of Association of the Company, the shareholders' general meeting determined the annual remuneration of directors and supervisors, and board of directors determined the annual remuneration of senior executives.
ii. The annual remuneration of directors, supervisors and senior executives

Names	Total amount of annual remuneration
Che Wenshen	Not drawing remuneration in the Company
Feng Quanbao	Not drawing remuneration in the Company
Song Shaohua	Not drawing remuneration in the Company
Zhang Weibing	Not drawing remuneration in the Company
Zhou Daozhi	RMB 36,000
Zhao Junrong	RMB 36,000
He Xiaoming	RMB 36,000
Ye Daming	RMB 277,300
Liu Jingju	Not drawing remuneration in the Company
Li Liangzhen	RMB 138,200
Feng guotai	RMB 155,200
Liu Zuodong	RMB 159,900
Cao Li	RMB 93,600
Total	RMB 932,200

4. Changes on directors, supervisors and senior executives in the report period
On Jun.5, 2006, the board of the Company engaged Mr. Feng Guotai as the general manager;

Mr. Wu Dehua resigned from the post of director and chairman of the board of the Company; Mr. Hu Jianping no longer took the posts of director, general manager and secretary of the board of the Company; Mr. Song Shaohua, Mr. Zhang Weibing were nominated the candidates of directors of the 5th board of directors.
On Jun.12, 2006, the board of the Company engaged Mr. Liu Zuodong as the deputy general manager.
On Jun.21, 2006, the board of the Company elected Mr. Che Wenshen as the chairman of the board.
On Jul.7, 2006, the 2006 1st extraordinary shareholders' general meeting of the Company by-elected Mr. Song Shaohua, Mr. Zhang Weibing as the directors of the 5th board of directors.
On Oct.24, 2006, the board of the Company engaged Ms. Cao Li as the secretary of the board; Mr. Cai Guiyong and Mr. Sun Lei no longer took the post of deputy general manager of the Company due to work changes.

(II) About Employees

At the end of current year, the Company had a staff of 441, including: production workers take up 53%, sales person take up 2%, technicians take up 7%, financial personnel take up 3%, administrative personnel take up 24%, and others take up 11% of the total employees; and bachelor degree or above take up 6%, junior college degree take up 13% of the total employees; others take up 81%. The Company had job-waiting and early-retired persons amounting to 75, which pay their cost of living by the Company according to relevant regulations; and social insurance pay the pension for 95 retirees of the Company.

V. Administrative structure

(I) Administration of the Company

In the report period, the Company seriously carried out the regulations and requirements of CSRC and Shenzhen Stock Exchange on company administration, seriously participated in the studies and trainings organized by supervision department, actively responded to the vocation of CSRC etc. five ministries and commissions on promoting the share merger reform of listed companies, successfully promoted the share merger reform of the Company, performed the duties of listed company on information disclosure, regulatory operation etc., the actual situation of administrative structure of the Company was in accordance with the requirements of Code of Corporate Governance for Listed Companies.

1. Shareholders and Shareholders' General Meeting

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

2. The controlling shareholder and the Company

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

3. Directors and the Board of Directors

The procedure of selecting and engaging for the Company's director was open, fair, just and independent; the whole directors all signed the Announcement and Commitment of Directors promulgated by Shenzhen Stock Exchange, they could implemented their responsibilities with faith, integrity and diligence; the meetings of the Board could act in strict accordance with Articles of Association and Rules of Procedure for the Board Meeting which had complete and true logs; the Company supplied relative situations for independent directors' implementing responsibility, independent director could performed their responsibilities independently and maintained the general interests of the Company; at present the Company didn't establish the specific commission for the Board of Directors, but an auditing department attributed to the Board, its key responsibility were make a risk evaluation for every economic business of the Company, make inspections to financial data and assessments to contracts.

4. Supervisors and the Supervisory Committee

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

5. The performance assessment and the system of encouragement and restriction

The directors of the Company hadn't draw the remuneration in the Company so the Company did not establish the performance assessment and the system of encouragement of restriction for the directors for the moment; the engagement of the Company's managers act in strict accordance with related codes and the stipulations of Articles of Association of the Company and Operating Instruction for General Manager, the remuneration plan was decided by the Board of Directors of the Company.

6. Persons with interests concerned

The Company respects legal responsibility of those who has interests concerned, i.e. bank, other creditors, employees, consumers, suppliers and communities, the Company supplied necessary information and carry on active cooperation so as to promote the development of the Company.

7. Information Disclosure and transparency: The secretary of the Board was responsible for the information disclosure of the Company, the management of investor relationship and receiving shareholders' visit and consultation. The newspapers of information disclosure designated by the Company are China Securities and Wen Wei Po and internet website is http://www.cninfo.com.cn. The Company could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law and regulations in order to ensure all the shareholders have equal opportunity to obtain the information.

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

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

Name of independent directors	Times that should have attended the Board meeting	Times of personal presence	Times of commission presence	Times of absence
Zhou Daozhi	8	7	0	1
Zhao Junrong	8	8	0	0
He Xiaoming	8	8	0	0

According to relevant regulations of Articles of Association of the Company and Independent Director System, Independent Director Mr. Zhou Daozhi, Mr. Zhao Junrong and Mr. He Xiaoming performed their duties in a patient and responsible, prudential and diligent way, attended meetings of the board of on time, analyzed each proposal earnestly and expressed professional opinions; paying attention to operating situation and financial status of the Company; expressed the independent opinion on changes of directors and senior executives, related transaction, external guarantee and other events, maintained general interests of the Company. During the report period, the Company's independent directors did not propose the objection on the relevant events.

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

1. Separation in business: the Company has independent system of purchasing, production

and sale and the activities and production and operation are completely separated from the controlling shareholder.

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

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

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

5. Separation in financing: the Company established independent financing departments and system of accounting statement and has normative and independent system of financing management and bank account.

(IV) In the report period, the Company worked out rewards and punishment measures on business performances of the management team in 2006, examined and approved by the 4th meeting of the 5th board of directors, would implement in accordance with the auditing result in 2006.

VI. Brief introduction to the shareholders' general meeting

In the report period, the Company held two shareholders' general meetings:

1. The Annual Shareholders' General Meeting 2005. On Jan.24, 2006, the Company published the Notice on holding the Annual Shareholders' General Meeting 2005 on China Securities and Hong Kong Wen Wei Po, the meeting was held on Feb.28, 2006, and the resolution of the meeting was published on China Securities and Hong Kong Wen Wei Po dated Mar.1, 2006.

2. The 2006 1st Extraordinary Shareholders' General Meeting. The Company published the Notice on holding the 2006 1st Extraordinary Shareholders' General Meeting 2006 on China Securities and Hong Kong Wen Wei Po dated Jun.7, 2006, the meeting was held on Jul.7, 2006, and the resolution of the meeting was published on China Securities and Hong Kong Wen Wei Po dated Jul.8, 2006.

VII. Report of the board of directors

(I) Review on the operation of the Company in the report period

1. Overall operation of the Company

In the report period, the operational budget of the Company was greatly influenced due to the bad environment of operation: i. Since the Shenzhen Government approved the company to transfer equity on Jul.13, 2005, the whole report period were in the transition period of equity transfer; ii. Influenced by this: The whole staff of the Company was in a situation of waiting and looking on, which significantly influenced the routine production and operation of the Company; iii. Influenced by this, the suppliers also decreased orders in that they were afraid of the order delivering capability of the Company and the product quality when the Company was in transition period.

In order to better complete the budge objective in 2006, the Company introduced international professional manager Mr. Feng Guotai from Taiwan to take the post of general manager of the Company in June 2006, and successfully started order receiving and production of video communication business since July, thereout became new profit rising point of the Company.

The details of the operation of the Company were as follows:

i. Have the future development in mind. Since the anaphase of 2006, the Company started to put career department system into trial operation, practiced and introduced a patch of middle-level cadres of career department, exploit many directions and projects in cost reduction and locale management, lay the foundation for career department operating new system in 2007.

ii. Promote the work of share merger reform and equity transfer. On Sep.9, 2006, the Company held the 1st employee representative congress, passed the employee compensation and allocation scheme; on Nov.13, 2006, relevant shareholders' general meeting passed the share merger reform scheme of Huafa.

iii. Continued to maintain a steady development of property lease business. In the report period, the property lease business again made an excellent achievement; the lease rate reached 98% high, the rental income amounted to RMB 37,987,700, rental profit amounted to RMB 17,520,700, recovered rent amounted to RMB 37,117,600, and the recovery ratio reached 97.71%.

iv. Perfected the internal management. The Company adjusted the internal management organization, and strengthened the audit management according to business division and ministry units' consolidation, promote contract audit and assessment system, and put an end to management leak. Strengthened the management function, and gradually improved the product quality and service quality through training and intensified the whole staff consciousness; revised the regulations on the assessment and the rewards and punishment, tried to impel the target management, and initially established the effectively incentive mechanism; perfected the enterprise system and flow depending on the system authentication, and strictly carried on the budget controlling system. In Aug., 2006, the Company successfully passed the Quality Management System Authentication ISO9001:2000 promulgated by ShenZhen Excel International Certification Co., Ltd.; and in Jan., 2007, passed the Environment Management System Authentication ISO14001: 2004 promulgated by Shenzhen Southern Certification Co., Ltd.

Unit: RMB

	2006	2005	Increase/decrease
Income from main operation	161,208,668.37	114,421,667.78	+40.89%
Profit of main operation	4,150,143.51	7,318,560.27	-43.29%
Net profit	-19,554,248.65	6,622,306.73	-395.28

2. Main business and its operation of the Company

(1) Particulars about constitution of income from main operation and profit of main operation

The main operation of the Company focuses on the industry of electronic products, including the production and sales of circuit boards and plastic injection hardware and LCD business. The sales of products of the Company focus on the area of South China.

Classified according to products:

Classified according to products	Income from main operations (RMB' 0000)	Cost of main operations (RMB' 0000)	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Circuit Boards	100,833,885.29	98,400,070.77	2.41%	22.03%	0.23	Decrease 0.91 percentage points
Plastic injection hardware	16,891,889.08	15,349,045.25	9.13%	-25.55%	-0.07	Decrease 18.3 percentage points
LCD business	43,482,894.00	43,242,264.00	0.55%	—	—	—
Including: related transactions	0	0	0	0	0	0

(2) Major suppliers and customers

The total amount of purchase of the top five suppliers was RMB 7,280.41 ten thousand, taking 60.34%of the total amount of purchase.

The total amount of sales of the top five customers was RMB 9,922.03 ten thousand, taking 61.55% of the total amount of sales.

(3) The constitution of assets

Unit: RMB

	Amount	Proportion of the total assets	Increase/decrease over the last year
Account receivable	104,831,423.25	27.88%	+33.96%
Inventory	14,400,324.64	3.83%	-52.96%
Long-term equity investment	0	0	0
Fixed assets	237,028,948.86	63.03%	-5.89%

Construction in progress	160,811.45	0.04%	+100%
Short-term loans	67,300,000.00	17.90%	-28.48%
Long-term loans	0	0	0

	2006	2005	Increase/decrease
Operating expenses	3,445,845.36	2,538,648.54	+35.74%
Administrative expenses	32,789,662.98	9,692,215.28	+238.31%
Financial expenses	5,203,253.28	6,681,869.81	-22.13%

Reasons for changing:

i. The operating expenses increased 35.74% over the last year; it was mainly because that the income from sales of the Company increased 40.89% this year and relevant expenses increased such as transportation fees and wages.

ii. The management expenses increased 238.31%; it was mainly because that the Company withdrew the provision for inventory and the provision for bad debts from account receivable this year.

iii. The financial expensed reduced 22.13%, it was mainly because of cutting down the loans and decreasing the interest payout this year.

4. The constitution of cash flow

This year, the total cash inflows of the Company amounted to RMB 25,702.59 ten thousand, the total cash outflows amounted to RMB 25,415.05 ten thousand, the amount in the influence of fluctuation in exchange rate was RMB -35.58 ten thousand, the net cash flows were RMB 251.96 ten thousand, the followings were included:

(1) The cash inflows arising from operating activities amounted to RMB 14,257.42 ten thousand, the cash outflows amounted to RMB 11,592.42 ten thousand, and the net cash flows amounted to RMB 2,665 ten thousand, decreasing RMB 92.7 ten thousand compared to the same period of last year.

(2) The cash inflows arising from the investing activities amounted to RMB 1,022.17 ten thousand, the net cash outflows arising from the investing activities amounted to RMB 201.04 ten thousand; the net cash flows amounted to RMB 821.13 ten thousand, increasing RMB 1,614.1 ten thousand compared to the same period of last year, which was mainly because that the Company sold the Huafa House and received the house proceeds of RMB 1,019 ten thousand, and the investment expenses decreased RMB 600 ten thousand.

(3) The net cash outflows arising from the financing activities amounted to RMB -3,198.59 ten thousand, and it was from the amount of RMB 2,680 ten thousand by cutting down the loans and loan interest outflows of RMB 518.59 ten thousand of this year.

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

The controlling company, Shenzhen Huafa Property Rent and Management Co., Ltd., is mainly engaged in the lease surrogate of property and property management of the Company with a registered capital of RMB 1 million. Its 60% equity is held by the Company, and the total asset at the end of this year was RMB 390 ten thousand, and the income from property management expense of the Company was RMB 202.89 ten thousand with a net profit of RMB-93.08 ten thousand, the loss of this year was mainly because that the Company withdrew the provision of bad debt of RMB 138.76 ten thousand.

(II)The prospect for future of the Company

i. Development of the Industry and analysis to the market

With the completion of company reorganization of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd., the Company will fix its attention on the realization of reorganization plan in the future.

The original production resources of color televisions and the main operation of PCB main board was on the same chain as display industry of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd., with high industry relativity and mutual complementarities of advantages, and the successful expansion of visual communication business even made the leading force of the Company shift in the future. In view of the large throughput of PCB and plastic injection, the Company will not satisfied with the supporting production by itself, but focus on the development orientation of circuit boards and plastic injection hardware; Based on the existing production equipment, and under the premise of improving production technology, the circuit boards production of the Company will gradually achieve the transition of production structure towards taking 4-layered, 6-layered and 8-layered board as the main, and single and double layered board as the supplemented.

In 2007, with regard to the plastic injection hardware, the Company will gradually expand the products of plastic injection hardware such as panel televisions, automobile electrons, health care equipments, and air conditioner, at the same time of stabilizing the products of CRT color television enclosures. This kind of product can form the complementation with the existing products of the Company, and balance the production.

ii. Business plan of the new report year

1. The Company will adjust and perfect its internal administrative institutions, promote the operation system of business department, shift the administrative focus downward in order to make it easier for its administration to acclimate to the development of market, and further perfect the administration system and flow.

2. The Company will utilize the good opportunity of the completion of employee compensation and allocation, reintegrate the rank of functionary and staff, and establish a team with high efficiency and high benefits.

3. The Company will shape a new enterprise culture, enhance the administration of the team construction, and improve political understanding and business abilities of middle level cadres;

it will enforce the construction of the employee rank, do well in the training work of employees' technique ability, and increase the labor productivity.

4. The Company will enhance the expansion of visual communication business, and will strengthen the profit growth point to create profits.

5. The Company will revise the salary and remuneration system, assessment, rewards and punishment system, and further perfect the incentive mechanism of the Company.

iii. Arrangement of funds

For this new report year, the Company will take the self-possessed fund as the main, and properly increase the bank loans without other financing plans for the moment.

iv. Risks to be dealt with

Impacted by panel TV, market demand for CRT TV shrunk with years, which would bring some certain influence on circuit boards and plastic injection hardware products of the company, in order to deal with the change of the market, the Company would adjust the product structure in time, take a transition step by step to products applying to panel TV, auto electronics, communication products and digital camera, and so on.

(III) Investment in the report period

i. In the report period, there were no events of raising funds or previous annual raising funds used till the report period.

ii. In the report period, there were no significant investing projects of non-raising funds

(IV) Routine work of the Board of Directors

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

The Board totally held eight meetings in the report period:

1) On Jan.18, 2006, the 4th meeting of the 5th Board of Directors was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Jan.24, 2006.

2) On Apr.14, 2006, the 5th meeting of the 5th Board of Directors was held and the meeting examined and approved The First Quarterly Report 2006.

3) On Jun.5, 2006, the 1st Extraordinary Meeting in 2006 was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Jun.7, 2006.

4) On Jun.12, 2006, the 2nd Extraordinary Meeting in 2006 was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Jun.14, 2006.

5) On Jun.21, 2006, the 3rd Extraordinary Meeting in 2006 was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Jun.22, 2006.

6) On Aug.21, 2006, the 6th meeting of the 5th Board of Directors was held and the meeting examined and approved The Interim Report 2006.

7) On Oct.24, 2006, the 7th meeting of the 5th Board of Directors was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Oct.27,

2006.

8) On Nov.21, 2006, the 4th Extraordinary Meeting in 2006 was held and the resolutions of the meeting were published on China Securities and Hong Kong Wen Wei Po dated Nov.23, 2006.

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

The Board had implemented resolutions of 2005 Shareholders' General Meeting. In the report period, the Company didn't authorize the Board about any matters; distribute profit and ration, and additionally issue any shares.

(V) The preplan of profit distribution and converting capital public reserve into share capital: in 2006, the losses of the Company amounted to RMB 1,955 ten thousand, and the Company didn't distribute profit and convert capital public reserve into share capital.

(VI) In the report period, the newspapers for publicly disclosing engaged by the Company were China Securities, Securities Times and Hong Kong Wen Wei Po.

(VII) Special explanation of Shinewing Certified Public Accountants on the capital occupied by the controlling shareholder and other associated parties (attached at the back)

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

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

As prudently inspected, the Company had no external guarantee in 2006. Ended Dec.31, 2006, accumulative external guarantee of the Company was zero. The Company could strictly implement regulations of No.56 Document to forbid guarantee getting out of line.

VIII. Report of the Supervisory Committee

(I) Daily work of the Supervisory Committee and meetings held

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

1. On Jan.18, 2006, the 4th meeting of the 5th Supervisory Committee was held and the meeting examined and approved Work Report 2005 of Supervisory Committee, Annual Report 2005, Financial Final Report 2005, Profit Distribution Plan 2005, Budget Report 2006,

Proposal on Engaging Certified Public Accountants and deciding their Annual Remunerations, and Proposal on Resignation of Chairman of Supervisory Committee Ye Daming.

2. On Aug.21, 2006, the 5th meeting of the 5th Supervisory Committee was held and the meeting examined and approved The Interim Report 2006 of the Company.

3. On Oct.24, 2006, the 6th meeting of the 5th Supervisory Committee was held and the meeting examined and approved The Third Quarterly Report 2006, Budget Adjustment Report 2006, and Alteration of Supervisor of the Company.

(II) Independent opinions of the Supervisory Committee on certain matters of the Company in 2005

1. The Company's operation according to laws

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

2. Inspection of the financial status of the Company

The Supervisory Committee had inspected and looked through the Financial Report 2006 of the Company and other relevant accounting materials, and believed that the Company's financial system had been sound, procedures precise and operation standard. The Financial Report of this year had truly reflected the financial status and operation achievements of the Company in the report period. The standard and unqualified Auditors' Reports supplied by Shinewing Certified Public Accountants had been objective and impartial.

3. The use of raised funds

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

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

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

IX. Significant events

(I)There was no material lawsuit or arbitration in current year.

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

1. In the report period, there were no significant events of purchases or sales of assets, takeovers or mergers.

2. On May 20, 2005, the 2nd Extraordinary Meeting of the Board of Directors in 2005 of the Company approved the resolution on selling No.1 workshop and affiliated buildings of the Company in the Shangbu Industrial Zone to China Zhenhua Electronics (Shenzhen) with RMB 12,800,000. The trade belonged to the related transaction and the relevant public notice was publicly disclosed on China Securities and Hong Kong Ta Kung Pao dated May 24, 2005. The Company has completed the ownership transfer procedure of the asset transfer in Nov., 2006, China Zhenhua Electronics (Shenzhen) has already paid RMB 12.8 million. Meanwhile, On Mar.14, 2007 and Apr.3, 2007, the board of directors respectively held the 1st Extraordinary Meeting 2007 and the 2nd Extraordinary Meeting 2007, reconsidered the aforesaid asset transfer event, the Company and Zhenhua Group communicated and agreed that the lease income of property from Nov.1, 2006 to Aug.31, 2008 amounting to RMB 7.31 million was owned by the Company.

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

(IV) Material contracts and implementation

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

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

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

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

(VI) In order to guarantee the auditing process and quality and save the auditing cost, the Company engaged Shinewing Certified Public Accountants as domestic and oversea auditor in the year of 2006 for alteration, the annual remuneration amounted to RMB 0.3 million, for details, please refer to the public notice of resolution of the 8th meeting of the 5th Board of Directors published on Feb.14, 2007 and the public notice of the resolution of the 1st Extraordinary Shareholders’ General Meeting 2007 published on Apr.3, 2007.

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

(VIII)The Share Merger Reform of the Company

The Company has already held shareholders' meeting in relation to A share market on Nov.13, 2006, examined and approved the share merger reform scheme of the Company through voting by ballot (for details, please refer to the Announcement on Voting Results of the Shareholders' Meeting related to A Share Market on Share Merger Reform, Public Notice No.: 2006-33), due to the share merger reform related to state-owned equity transfer and assets reorganization, after the shareholders' meeting in relation to A share market was finished, relevant aspects will entered the submission and approval procedure of equity transfer and Share Merger Reform scheme. Ended the disclosure day of Annual Report 2006, the Share Merger Reform scheme hadn't been implemented yet.

X. Financial reports

(I) Auditors' Report (attached at the back)

(II) Accounting Statements (attached at the back)

(III) Notes of Accounting Statements (attached at the back)

XI. Documents for reference

(I) Accounting Statements carrying the personal signatures and seals of the Legal Representative, General Manager, and person in charge of accounting.

(II) Original of Auditors' Report carrying the seal of Certified Public Accountant as well as personal signatures and seals of certified public accountants.

(III) Originals of all documents and manuscripts of public notice publicly disclosed on China Securities, Hong Kong Wen Wei Po and Juchao Website in the report period.

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

Chairman of the Board: Che Wenshen

Board of Directors of

Shenzhen Huafa Electronics Co., Ltd.

April 20, 2007

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

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

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:

(Loss) earnings:

	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

Number of shares

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	2005
	RMB'000	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	2005
	RMB'000	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.