

SHENZHEN HUAFA ELECTRONICS CO., LTD.SUMMARY OF ANNUAL REPORT 2006

Stock Code: 000020

Public Notice No.: 2007-27

Short Form of the Stock: S ST Huafa

SHENZHEN HUAFA ELECTRONICS CO., LTD. SUMMARY OF ANNUAL REPORT 2006

§1. Important Notice

1.1 The Board of Directors and the Supervisory Committee 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. The 2006 Annual Report Summary is abstracted from the full text of Annual Report. And the investors are suggested to read the full text of the Annual Report to understand more details.

1.2 No director, supervisors, and senior executives stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

1.3

Name of absent directors	Reason for absence	Name of entrustees
Director Zhang Weibing	Due to be transferred work in Supreme Court and put forward the resignation report to Board of Directors.	Naught
Independent Director Zhou Daozhi	Due to business	Independent Director He Xiaoming

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

1.5 Mr. Che Wenshen, Principal of the Company, 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.

§2. Company Profile

2.1 Basic information

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

2.2 Contact person and contact information

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	Secretary of the Board of Directors	Representative in charge of Securities Affairs
Name	Cao Li	
Contact address	6 th Floor, 411 Bldg., Huafa (N) Road, Futian District, Shenzhen	
Telephone	(0755)83352207	
Fax	(0755)83323169	
E-mail	sz000020@163.com	

§3. Summary of Financial Highlights and Business Highlights

3.1 Main Accounting Highlights

Unit: RMB

	2006	2005	Increase/decrease over last year (%)	2004
Income from main operations	161,208,668.37	114,421,667.78	40.89%	129,245,944.71
Total profit	-19,554,248.65	6,622,306.73	-395.28%	-44,341,967.47
Net profit	-19,554,248.65	6,622,306.73	-395.28%	-44,341,967.47
Net profit after deducting the non-recurring losses and gains	-19,610,828.58	5,287,265.36	-470.91%	-40,930,832.66
Net cash flow from operating activities	26,649,992.33	27,577,023.56	-3.36%	10,777,229.37
	At the end of 2006	At the end of 2005	Increase/decrease over last year-end (%)	At the end of 2004
Total assets	376,031,844.21	389,185,291.70	-3.38%	429,708,402.01
Shareholder's equity (excluding minority shareholders' equity)	223,842,836.53	238,858,928.26	-6.29%	232,236,621.53

3.2 Financial Indexes:

Unit: RMB

	2006	2005	Increase/decrease over last year (%)	2004
Earnings per share	-0.0691	0.02	-445.50%	-0.16
Earnings per share (Note)	-0.0691	-	-	-
Return on equity	-8.74%	2.77%	Decrease 11.51 percentage points	-19.09%
Return on equity as calculated based on net profit after deducting non-recurring gains and losses	-8.76%	2.21%	Decrease 10.97 percentage points	-17.62%
Net cash flow per share arising from operating activities	0.09	0.10	-10.00%	0.04
	At the end of 2006	At the end of 2005	Increase/decrease over	At the end of 2004

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			last year-end (%)	
Net assets per share	0.79	0.84	-5.95%	0.82
Net assets per share after adjustment	0.77	0.79	-2.53%	0.77

Note: Earnings would be calculated based on new share capital if share capital of the Company changed from the end of the report period to disclosure date.

Items of non-recurring gains and losses

Applicable Inapplicable

Unit: RMB

Item of deducting non-recurring gains and losses	Amount
Non-operating income	57,147.98
Non-operating expenses	568.05
Total	56,579.93

3.3 Difference of the CAS and IAS

Applicable Inapplicable

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

Unit: Share

	Before the change		Increase / decrease in this time (+, -)					After the change	
	Amount	Proportion	New shares issued	Bonus share	Capitalization of capital 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: State-owned share									
Domestic legal person share	124,925,828	44.12%					0	124,925,828	44.12%
Foreign legal person share									
Other									
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	101,995,836	36.02%					0	101,995,836	36.02%

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foreign shares									
3. Overseas listed foreign capital share									
4. Other									
III. Total shares	283,161,227	100.00%					0	283,161,227	100.00%

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

Unit: Share

Total number of shareholders	20,608				
Particulars about shares held by the top ten shareholders					
Name of shareholders	Nature of shareholders	Proportion of shares held	Total number of 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.	Foreign-funded shareholder	5.85%	16,569,560	0	Unknown
GOOD HOPE CORNER INVESTMENTS LTD	Foreign-funded shareholder	4.91%	13,900,000	0	Unknown
Chen Zhujun	Foreign-funded shareholder	0.63%	1,787,940	0	Unknown
Yang Jian	Foreign-funded shareholder	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	Foreign-funded shareholder	0.31%	876,213	0	Unknown
Particulars about shares held the top ten circulating shareholders					
Shareholders' name	Circulated shares held		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		RMB ordinary share		
Luo Ya	1,090,442		RMB ordinary share		
Hou Lixuan	931,339		RMB ordinary 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		
Explanation of on the above-mentioned associate	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				

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relationship and accordant action 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.
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4.3 Particulars about the controlling shareholders and actual controller of the Company

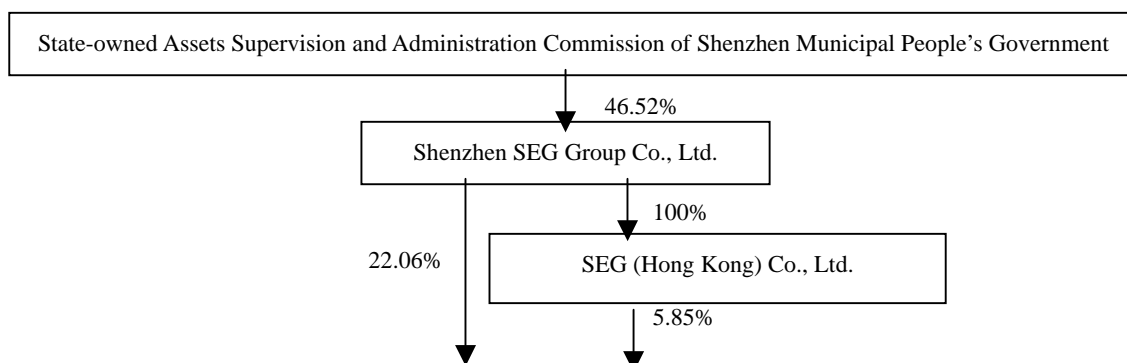
4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company

Applicable Inapplicable

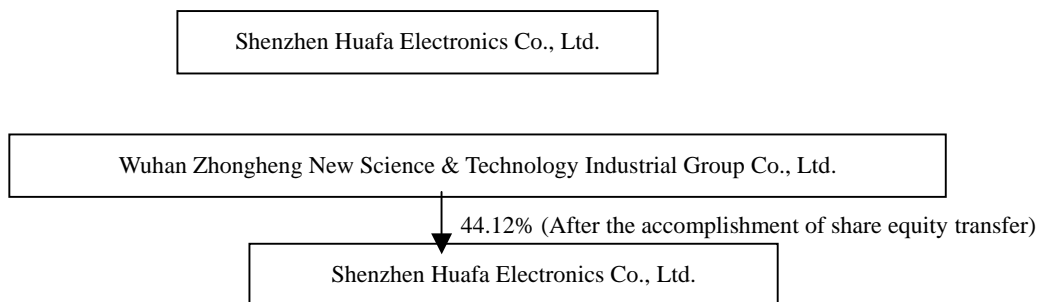
4.3.2 Detailed information on the controlling shareholder and other actual controller

<p>Name of the controlling shareholder: Shenzhen SEG Group Co., Ltd.</p> <p>Legal representative: Guo Yonggang</p> <p>Date of foundation: Aug.23, 1984</p> <p>Registered capital: RMB 1,355.42 million</p> <p>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.</p> <p>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..</p> <p>Name of the actual controller: Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.</p> <p>Legal representative: Li Zhongqiu</p> <p>Date of foundation: March 31, 1996</p> <p>Registered capital: RMB 138 million</p> <p>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.</p>

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



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§5. Particulars about Directors, Supervisors and Senior Executives

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

Name	Position	Gender	Age	Start date of term office	End date of term office	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total remuneration drawn from the Company in the report period (RMB'0000)	Draw the remuneration from shareholders' units or other associated units or not
Che Wenshen	Chairman of the Board	Male	57	Sep.13, 2004	Sep.13, 2007	0	0		0.00	Yes
Feng Quanbao	Vice Chairman of the Board	Male	61	Sep.13, 2004	Sep.13, 2007	0	0		0.00	Yes
Song Shaohua	Director	Male	43	Jul.7, 2006	Sep.13, 2007	0	0		0.00	Yes
Zhang Weibing	Director	Male	40	Jul.7, 2006	Sep.13, 2007	0	0		0.00	Yes
Zhou Daozhi	Independent Director	Male	57	Sep.13, 2004	Sep.13, 2007	0	0		3.60	No
Zhao Junrong	Independent Director	Male	42	Sep.13, 2004	Sep.13, 2007	0	0		3.60	No
He Xiaoming	Independent Director	Male	35	Sep.13, 2004	Sep.13, 2007	0	0		3.60	No
Ye Daming	Chairman of Supervisory Committee	Male	61	Sep.13, 2004	Sep.13, 2007	30,433	30,433		27.73	Yes
Liu Jingju	Supervisor	Female	51	Sep.13, 2004	Sep.13, 2007	0	0		0.00	Yes
Li Liangzhen	Supervisor	Male	41	Sep.13, 2004	Sep.13, 2007	0	0		13.82	No
Feng Guotai	General Manager	Male	57	Jun.5, 2006	Sep.13, 2007	0	0		15.52	No
Liu Zuodong	Deputy General Manager	Male	44	Jun.12, 2006	Sep.13, 2007	0	0		15.99	No
Cao Li	Secretary of the Board	Female	36	Oct.24, 2006	Sep.13, 2007	0	0		9.36	No
Total	-	-	-	-	-	30,433	30,433	-	93.22	-

§6. Report of the Board of Directors

SHENZHEN HUAFU ELECTRONICS CO., LTD.SUMMARY OF ANNUAL REPORT 2006

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

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 budget 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.

6.1.1 Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards.

Applicable Inapplicable

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio of main operations (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio of main operations over the last year (%)

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Manufacture of electronic products	16,120.87	15,699.14	2.57%	40.89%	46.65%	Decrease 3.83 percentage points
Main operations classified according to products						
Circuit Boards	10,083.39	9,840.01	2.41%	22.03%	23.18%	-0.91%
Plastic injection hardware	1,689.19	1,534.90	9.13%	-25.55%	-6.78%	-18.30%
LCD business	4,348.29	4,324.23	0.55%	0.00%	0.00%	0.00%
Including: related transactions	0.00	0.00	0.00%	0.00%	0.00%	0.00%

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
South of China	11,772.58	11.78%

6.4 Application of the raised proceeds

Applicable Inapplicable

Particulars about the changed projects

Applicable Inapplicable

6.5 Particulars about the proceeds not raised through shares offering

Applicable Inapplicable

6.6 Explanation of the Board of Directors on the "Qualified Opinion" made by the CPAs

Applicable Inapplicable

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

Applicable Inapplicable

The Company didn't appropriate share distribution preplan though the Company achieved the profit in the report period

Applicable Inapplicable

§7. Significant Events

7.1 Purchase of assets

Applicable Inapplicable

7.2 Sales of assets

Applicable Inapplicable

Influences on the business continuity and stability of management of the Company by the matters 7.1 and 7.2 concerned

7.3 Significant guarantee

Applicable Inapplicable

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7.4 Significant related transactions

7.4.1 Related transactions related to the routine operation

Applicable Inapplicable

7.4.2 Current related credits and liabilities

Applicable Inapplicable

7.4.3 Progress of paying off the occupied fund at the end of year 2005

Applicable Inapplicable

Occupation of newly increased fund during the year 2006

Applicable Inapplicable

Reasons, measures of paying off debts adopted and plan for responsibility ascertainment in case of listed companies' failure to complete paying off the occupied non-operating fund at the end of 2006

Applicable Inapplicable

7.5 Entrusted assets management

Applicable Inapplicable

7.6 Implementation of commitments

7.6.1 Commitment during the Share Merger Reform made by the original non-tradable shareholders and its implementations

Applicable Inapplicable

7.6.2 Amount of tradable shares with unrestricted conditions held by original non-tradable shareholders whose holding proportion exceeded 5% at the end of report period

Applicable Inapplicable

7.7 Significant lawsuit and arbitrations

Applicable Inapplicable

§8. Report of the Supervisory Committee

Applicable Inapplicable

(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

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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.

§ 9. Financial Report

9.1 Auditor's opinions

Auditor's opinions: standard unqualified auditor's opinions

9.2 Financial statement

9.2.1 Balance Sheet

Prepared by Shenzhen Huafa Electronics Co., Ltd.

December 31, 2006

Unit: RMB

Items	Amount at year-end		Amount at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	19,610,336.01	17,579,528.19	17,090,691.20	15,864,966.44
Short-term investment				
Notes receivable	3,965,810.00	3,965,810.00	7,618,907.22	7,618,907.22
Dividend receivable				
Interest receivable				
Accounts receivable	88,757,569.38	88,730,872.11	55,307,060.62	53,893,736.49
Other receivables	11,744,468.19	13,622,750.77	15,082,011.69	17,202,144.83
Accounts in advance	363,575.68	363,575.68	225,094.88	225,094.88
Subsidy receivable				
Inventories	14,400,324.64	14,400,324.64	30,613,350.75	30,613,350.75
Expenses to be apportioned				
Long-term bonds investment due within one year				
Other current assets				
Total current assets	138,842,083.90	138,662,861.39	125,937,116.36	125,418,200.61

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Long-term investment:				
Long-term equity investment	0.00	0.00	0.00	0.00
Long-term credit investment	0.00	0.00	0.00	0.00
Total long-term investment	0.00	0.00	0.00	0.00
consolidation variance	0.00	0.00	0.00	0.00
Fixed assets:				
Fixed assets-original value	418,227,168.23	416,445,398.66	409,063,935.65	407,286,154.08
Less: Accumulative depreciation	180,224,722.64	179,571,695.85	156,218,868.69	155,643,673.76
Fixed assets-net value	238,002,445.59	236,873,702.81	252,845,066.96	251,642,480.32
Less: Provision for devaluation of fixed assets	973,496.73	0.00	973,496.73	
Fixed assets-net amount	237,028,948.86	236,873,702.81	251,871,570.23	251,642,480.32
Engineering material	0.00	0.00	0.00	0.00
Construction in progress	160,811.45	160,811.45		
Disposal of fixed assets	0.00	0.00	0.00	0.00
Total fixed assets	237,189,760.31	237,034,514.26	251,871,570.23	251,642,480.32
Intangible and other assets:				
Intangible assets				
Long-term expenses to be apportioned			11,376,605.11	11,376,605.11
Other long-term assets	0.00	0.00	0.00	0.00
Total intangible and other assets	0.00	0.00	11,376,605.11	11,376,605.11
Deferred tax:				
Deferred tax-debit	0.00	0.00	0.00	0.00
Total assets	376,031,844.21	375,697,375.65	389,185,291.70	388,437,286.04
Current liabilities:				
Short-term loans	67,300,000.00	67,300,000.00	94,100,000.00	94,100,000.00
Notes payable				
Accounts payable	74,524,574.49	74,414,725.39	34,940,234.49	34,830,385.39
Accounts received in advance	1,079,361.39	1,079,361.39	12,801,657.20	12,801,657.20
Wage payable				
Welfare funds payable	988.73	988.73	138,290.33	138,290.33
Dividends payable				
Taxes payable	1,863,663.91	1,826,111.71	1,279,273.37	1,241,070.12
Other duties payable	59,058.02	0.00	52,946.57	
Other accounts payable	4,767,688.68	4,783,331.08	3,690,872.12	3,275,459.71
Accrued expenses	2,593,672.46	2,450,020.82	3,323,089.36	3,191,495.03
Projected liabilities	0.00	0.00	0.00	0.00
Long-term liabilities due within 1 year	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00
Total current liabilities	152,189,007.68	151,854,539.12	150,326,363.44	149,578,357.78
Long-term liabilities:				
Long-term loans	0.00	0.00	0.00	0.00
Bonds payable	0.00	0.00	0.00	0.00
Long-term accounts payable				

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Special accounts payable				
Other long-term liabilities				
Total long-term liabilities				
Deferred tax:				
Deferred tax-credit item	0.00	0.00	0.00	0.00
Total liabilities	152,189,007.68	151,854,539.12	150,326,363.44	149,578,357.78
Minority interests				
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00
Less: Restituted investment				
Net amount of paid-in capital (share capital)	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00
Capital public reserve	106,032,173.92	106,032,173.92	101,494,017.00	101,494,017.00
Surplus public reserve	77,391,593.25	77,391,593.25	77,391,593.25	77,391,593.25
Including: Statutory public welfare fund				
Retained profit	-242,742,157.64	-242,742,157.64	-223,187,908.99	-223,187,908.99
Including: Cash dividend				
Unconfirmed investment				
Balance difference of foreign currency translation				
Total owner's equity (shareholders' equity)	223,842,836.53	223,842,836.53	238,858,928.26	238,858,928.26
Total liabilities and owner's equity (shareholder's equity)	376,031,844.21	375,697,375.65	389,185,291.70	388,437,286.04

9.2.2 Profit and Profit Distribution Statement

Prepared by Shenzhen Huafa Electronics Co., Ltd.

January-December, 2006

Unit: RMB

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Income from core business	161,208,668.37	161,208,668.37	114,421,667.78	114,421,667.78
Less: Cost of core business	156,991,380.02	156,991,380.02	107,048,606.74	107,048,606.74
Taxes and extras of core business	67,144.84	67,144.84	54,500.77	54,500.77
II. Profit of core business (Loss is listed with "-")	4,150,143.51	4,150,143.51	7,318,560.27	7,318,560.27
Add: Profit of other business (Loss is listed with "-")	17,677,789.53	17,226,626.70	17,885,998.94	17,511,192.51
Less: Operating expense	3,445,845.36	3,445,845.36	2,538,648.54	2,538,648.54
Administrative expense	32,789,662.98	32,332,854.34	9,692,215.28	9,314,419.69
Financial expense	5,203,253.28	5,208,899.09	6,681,869.81	6,685,445.95
III. Operating profit (Loss is listed with "-")	-19,610,828.58	-19,610,828.58	6,291,825.58	6,291,238.60
Add: Investment earnings (Loss is listed with "-")				
Subsidy income				
Non- operating income	57,147.98	57,147.98	401,131.25	401,131.25
Less: Non-operating expenditure	568.05	568.05	70,650.10	70,063.12
IV. Total profits (Total loss is listed with "-")	-19,554,248.65	-19,554,248.65	6,622,306.73	6,622,306.73

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“-”)				
Less: Income tax		0.00		
Minority interests		0.00		
Add: Occurring amount of unconfirmed investment loss				
V. Net profit (Net loss is listed with “-”)	-19,554,248.65	-19,554,248.65	6,622,306.73	6,622,306.73
Add: Undistributed profits at the year-begin	-223,187,908.99	-223,187,908.99	-229,810,215.72	-229,810,215.72
Other transfer-in	0.00	0.00	0.00	0.00
VI. Profit available for distribution	-242,742,157.64	-242,742,157.64	-223,187,908.99	-223,187,908.99
Less: Appropriation of statutory surplus public reserve				
Appropriation of statutory public welfare funds				
Appropriation of employees' encouragement and welfare funds				
Appropriation of reserve funds				
Appropriation of enterprise development funds				
Profits' restoring to investments				
VII. Profits available for distribution to investors	-242,742,157.64	-242,742,157.64	-223,187,908.99	-223,187,908.99
Less: Dividends of preference share payable	0.00	0.00	0.00	0.00
Appropriation of arbitrary surplus public reserve	0.00	0.00	0.00	0.00
Dividends of ordinary share payable	0.00	0.00		
Dividends of ordinary share converting into capital (share capital)	0.00	0.00	0.00	0.00
VIII. Retained profit	-242,742,157.64	-242,742,157.64	-223,187,908.99	-223,187,908.99
Profit Statement (Supplemental information)				
1. Income from selling or disposal branch and investee enterprise				
2. Losses due from natural disaster				
3. Increase (or decrease) of total profit due to the change of accounting policies				
4. Increase (or decrease) of total profit due to the change of accounting estimation				
5. Loss on debts reorganization				
6. Others				

9.2.3 Cash Flow Statement

Prepared by Shenzhen Huafa Electronics Co., Ltd.

January-December, 2006

Unit: RMB

Items	This period	
	Consolidation	Parent Company
I. Cash flows arising from operating activities:		
Cash received from selling commodities	125,414,469.88	123,386,589.88

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and providing labor services		
Write-back of tax received	415,206.90	415,206.90
Other cash received concerning operating activities	16,744,509.30	16,089,352.47
Subtotal of cash inflow arising from operating activities	142,574,186.08	139,891,149.25
Cash paid for purchasing commodities and receiving labor service	45,958,017.08	45,958,017.08
Cash paid to/for staff and workers	26,726,083.74	25,840,837.00
Taxes paid	9,712,807.91	9,585,363.52
Other cash paid concerning operating activities	33,527,285.02	32,666,010.38
Subtotal of cash outflow arising from operating activities	115,924,193.75	114,050,227.98
Net cash flows arising from operating activities	26,649,992.33	25,840,921.27
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income		
Net cash received from disposal of fixed, intangible and other long-term assets	10,221,724.56	10,221,724.56
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	10,221,724.56	10,221,724.56
Cash paid for purchasing fixed, intangible and other long-term assets	2,010,385.00	2,006,397.00
Cash paid for investment		
Other cash paid concerning investing activities		
Subtotal of cash outflow from investing activities	2,010,385.00	2,006,397.00
Net cash flows arising from investing activities	8,211,339.56	8,215,327.56
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	104,230,000.00	104,230,000.00
Other cash received concerning financing activities		
Subtotal of cash inflow from financing activities	104,230,000.00	104,230,000.00
Cash paid for settling debts	131,030,000.00	131,030,000.00
Cash paid for dividend and profit distributing or interest paying	5,185,881.05	5,185,881.05
Other cash paid concerning financing activities		
Subtotal of cash outflow from financing activities	136,215,881.05	136,215,881.05
Net cash flows arising from financing activities	-31,985,881.05	-31,985,881.05

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IV. Influence on cash due to fluctuation in exchange rate	-355,806.03	-355,806.03
V. Net increase of cash and cash equivalents	2,519,644.81	1,714,561.75
Cash Flow Statement (Supplement information)		
1. Adjusting net profit to cash flows for operating activities:		
Net profit	-19,554,248.65	-19,554,248.65
Add: Withdrawal of provision for devaluation of assets	18,322,980.62	17,866,171.98
Depreciation of fixed assets	23,722,965.80	23,645,133.94
Amortization of intangible assets		
Amortization of long-term expenses to be apportioned	1,697,541.96	1,697,541.96
Decrease of expenses to be apportioned (Less: increase)		
Increase of accrued expenses (Less: decrease)	-729,416.90	-741,474.21
Loss on disposal of fixed, intangible and other long-term assets (Less: income)	-30,660.00	-30,660.00
Loss on rejection of fixed assets		
Financial expenses	5,541,687.08	5,541,687.08
Investment loss (less: income)		
Deferred tax- credit item (Less: debit)		
Decrease of inventories (Less: increase)	4,360,100.71	4,360,100.71
Decrease of receivables in operating (less: increase)	-33,068,404.06	-33,756,371.72
Increase of payables in operating (less: decrease)	25,816,522.32	26,242,116.73
Other	570,923.45	570,923.45
Gains and losses of minority shareholders		
Net cash flows arising from operating activities	26,649,992.33	25,840,921.27
2. Investment and financing activities with no cash incomings/outgoings involved		
Capital transferred from debts		
Convertible company bonds due within one year		
Fixed assets leasing for financing		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	19,610,336.01	17,579,528.19
Less: Balance of cash at the period -begin	17,090,691.20	15,864,966.44
Add: Balance of cash equivalents at the period -end		
Less: Balance of cash equivalents at		

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the period -begin		
Net increase of cash and cash equivalents	2,519,644.81	1,714,561.75

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

Applicable Inapplicable

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

Applicable Inapplicable

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

Applicable Inapplicable

9.6 Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards

Unit: RMB

Items	Amount
Shareholders' equity as December 31 2006 (Existing Accounting Standards)	223,842,836.53
Balance of long-term equity Investment	
Including: Long-term equity investment balance formed by merger of enterprises under the same control	
Other credit balance of long-term equity investment calculated based on equity method	
Investment property measured with fair value	
Prior year depreciation withdrawal due to dismantling cost of asset	
Termination indemnity conformed to the acknowledgement of estimated liabilities	
Share-based payment	
Reconstructing duties conformed to the acknowledgement of estimated liabilities	
Enterprises merger	
Including: Book value of enterprises merger goodwill under the same control	
Provision for impairment of goodwill withdrawn based on New Accounting Standards	
Financial asset and credit asset available for sales attributable to current losses and gains with fair value measurement and changes	
Financial liabilities attributable to current losses and gains with fair value measurement and changes	
Increased equity due to demerger of financial instrument	
Derived financial instrument	
Income tax	

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Minority shareholders' equity	
Other	
Shareholders' equity as January 1 2007 (New Accounting Standards)	223,842,836.53

Auditor's opinions

REPORT OF THE AUDITORS

XYZH/2006ATS018

To Board of Directors of Shenzhen Huafa Electronics Co., Ltd.,

We have audited the accompanying Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards (hereinafter abbreviated as "Reconciliation Statement") of Shenzhen Huafa Electronics Co., Ltd. (hereinafter abbreviated as "Weifu Co., Ltd."). According to Accounting Standard for Business Enterprises No.38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No.136, hereinafter abbreviated as "Notice"), compilation on the Reconciliation Statement are the responsibility of Weifu Co., Ltd. 's management. Our responsibility is to express an opinion on these Reconciliation Statement based on our audit.

Pursuant to the regulations of Notice, We conducted our audit in accordance with Standard on Review Engagements for CPAs of China No.2101- Review of Financial Statements on Auditing. Those Standards require that we plan and perform the audit to obtain limited assurance about whether the Reconciliation Statement is free from material misstatement. An audit is mainly limited to inquiring relevant personnel the relevant accounting policy and all material cognizance, understand the calculation procedure of reconciliation amounts in reconciliation statement of differences, read reconciliation statement of differences to consider whether conform to designated basis of compilation and implement analysis procedure when necessary, the guarantee supplied from the review was lower than the audit. We did not conduct; thus, we issued no auditor's opinions.

In our opinion, we did not notice that any matters made us believed that, the reconciliation statement of differences was not compiling in accordance with the relevant regulations of Accounting Standard for Business Enterprises No.38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice.

Shinewing Certified Public Accountants
Beijing, P.R.C

CPAs of China:
Apr.18, 2007

**Board of Directors of
Shenzhen Huafa Electronics Co., Ltd.**
April 20, 2007