

Company Information

I. Legal Name in Chinese: 广东风华高新科技股份有限公司

Legal Name in English: FENGHUA ADVANCED TECHNOLOGY (HOLDING) CO., LTD.

II. Legal Representative: Liang Liping

III. Secretary of the Board: Liao Yongzhong

Securities Affairs Representative: Zhong Jianwei

Tel: 0758-2844724

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Liaison Address: Fenghua Electronic Industry City, No.18, Fenghua Road, Zhaoqing City, Guangdong

IV. Registered Address and Office Address: Fenghua Electronic Industry City, No.18, Fenghua Road, Zhaoqing City, Guangdong

Post Code: 526020

Internet Web Site: <http://www.fenghua-advanced.com>

E-mail: 000636@china-fenghua.com

V. Newspapers Designated for Disclosing the Information: China Securities Journal, Shanghai Securities News, Securities Times

Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: <http://www.cninfo.com.cn>

Place Where the Annual Report is Prepared and Placed: Secretary Office of the Board

VI. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: Fenghua Advanced Tech

Stock Code: 000636

VII. Other Relevant Information:

Date of first registration: March 23, 1994

Registered Address: No.24, Duanzhou San Road, Zhaoqing City, Guangdong

Date of registration alteration: Dec 30, 2004

Registered Address: Fenghua Electronic Industry City, No.18, Fenghua Road, Zhaoqing City, Guangdong

Legal Person Business License No.: 4400001001279

Taxation Registration No.: STGD Zi No. 441201502100006 (01)

Certified Public Accountants Engaged: Shenzhen NanFan-MinHe Certified Public Accountants

Office Address: 8/F, Dianzi Building, No.2072 Shennan C. Road, Shenzhen

Financial and Business Highlights

I. Financial and Business Highlights in the Report Year

No	Items	Amount (In RMB)
1	Total profit	34,004,300.54
2	Net profit	24,605,945.27
3	Net profit, less the non-recurring gains and losses	24,126,752.70
4	Profit from principal businesses	226,973,862.45
5	Profit from other business lines	2,165,598.77
6	Operating profit	34,578,420.71
7	Investment income	-1,367,067.27
8	Subsidy income	1,197,277.00
9	Net amount of non-operating income and expenses	-404,329.90
10	Net cash flows arising from operating activities	274,772,020.01
11	Net increase/decrease of cash and cash equivalents	137,177,334.01

Note: Items of non-recurring gains/losses deducted and amount involved

Items	Amount Involved (In RMB)
Short-term stock investment income	6,728,221.06
Subsidy income	1,197,277.00
Non-operating income	499,336.34
Non-operating expenditure (Value reduction reserves)	827,996.28
Amortization of difference in equity investment	7,033,082.16
Total	563,755.96
After elimination of the influence from the income tax	479,192.57

II. Financial Highlights over the past three Years (Consolidated)

Items	2004Y	2003Y	2002Y	
			After the adjustment	Before the adjustment
Income from principal businesses (In RMB)	1,275,577,104.35	1,055,978,947.88	1,018,165,554.75	1,018,165,554.75
Net profit (In RMB)	24,605,945.27	23,443,913.38	22,366,988.71	22,366,988.71
Total assets (In RMB)	3,497,660,465.20	3,292,645,661.03	3,123,162,679.94	3,123,162,679.94
Shareholders' equity (In RMB)	2,098,665,983.60	2,099,693,821.68	2,075,281,738.16	2,062,023,464.28
(Excluding minority shareholders' equity)				
Earnings per share (In RMB/share)	0.046	0.044	0.042	0.042
Net asset per share (In RMB/share)	3.957	3.959	3.913	3.888
Net asset per share after the adjustment (In RMB/share)	3.862	3.876	3.854	3.829
Net asset-income ratio (%)	1.17	1.12	1.08	1.08
Net cash flows per share arising from operating activities (In RMB/share)	0.518	0.351	0.333	0.333

Financial and Business Highlights

III. Profit Statement Prepared in Accordance with the Rules for Public Companies to Disclose Information and Prepare Statements (No. 9) Promulgated by China Securities Regulatory Commission

	Net asset-income ratio (%)		Earnings per share (In RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal businesses	10.82	10.83	0.428	0.428
Operating profit	1.65	1.65	0.065	0.065
Net profit	1.17	1.17	0.046	0.046
Net profit after deducting the non-recurring gains and losses	1.15	1.15	0.046	0.046

IV. Changes in Shareholders' Equity in the Report Period

Items	Share capital (In shares)	Capital public reserve	Surplus public reserve	Incl.: Statutory welfare fund	Undistributed profit	In RMB
						Total
At period beginning	530,330,955	1,089,004,647.60	158,718,114.00	44,767,431.92	321,640,105.05	2,099,693,821.68
Increase in the report period		882,764.40	3,690,891.79	1,230,297.26	24,605,945.27	
Decrease in the report period					30,270,439.55	
At period end	530,330,955	1,089,887,412.00	162,409,005.79	45,997,729.18	316,038,610.81	2,098,665,983.60
Reasons of Change:		Equity investment reserves and appropriate funds	Profit allocation	Profit allocation	Net profit increase and dividend issuing	Net profit increased and dividend issuing

Changes in Share Capital and Particulars about Shareholders

I. Changes in Share Capital

1. Statement of Changes in Shares

	Before the Change (In shares)	Increase/Decrease of the Change (+, -)					After the Change (In shares)
		Shares allotted	Bonus shares	Shares converted from public reserve	Shares issued additionally	Others	
I. Non-listed circulating shares							
1. Promoters' shares	225,911,452						225,911,452
Incl.:State-owned shares	201,080,451						201,080,451
Domestic legal person shares	24,831,001						24,831,001
2. Legal person shares placed	103,625,303						103,625,303
3. Employees' shares							
4. Preference shares or others	167,095					-54,031	113,064
Total non-listed circulating shares	329,703,850					-54,031	329,649,819
II. Listed circulating shares							
1. RMB common shares	200,627,105					54,031	200,681,136
2. Others						-54,031	
Total listed circulating shares	200,627,105						200,681,136
III. Total shares	530,330,955						530,330,955

2. Issuing and Listing

- (1) Up to the end of reporting, the company does not publicly reissue new shares
- (2) Within the period of reporting, Mr. Liang Yongfa is not going to be the Director anymore, the shares he held would be convert into circulating shares
- (3) Within the period of reporting, Company has no Employees' shares

II. Shareholders

1. Up to the end of reporting, the Company had totally 91,417 shareholders.

2. Shares held by the principal shareholders

Up to the end of reporting, the top ten shareholders registered.

No	Shareholders	Shares Held at Year End (In shares)	Proportion to Total Shares (%)	Shares Pledged/Frozen (In shares)	Type of Shares
1	Guangdong Fenghua Advanced Technology Group	142,484,170	26.87	71,225,000	State-owned legal person shares
2	Guangdong Yuecai Investment Co., Ltd.	42,335,000	7.98		State-owned legal person shares
3	Shenzhen Yinhua Network Technology Co., Ltd	26,775,000	5.05		Legal person shares
4	Trade Union	22,380,300	4.22		Legal person shares
5	Zhaoqing Weijing Electronic Co., Ltd.	20,211,000	3.81		Legal person shares
6	Shenzhen Jiadexin Investment Co., Ltd.	16,725,000	3.15	13,725,000	Legal person shares
7	Guangdong Guangye Investment Group Co., Ltd.	14,134,700	2.67	6,000,000	State-owned legal person shares
8	USA Meiyun Inc.	8,100,000	1.53		Legal person shares
9	Zhaoqing Yihong Technology Development Co., Ltd	5,625,000	1.06		Legal person shares
10	Guangdong Commodity Exporting Base Construction Zhaoqing Company	4,050,000	0.76	2,000,000	Legal person shares

Changes in Share Capital and Particulars about Shareholders

Notes:

1. Within the reporting period, the shares of former shareholders does not change, and are not listed circulated.
2. Shenzhen Jiadexin Investment Co., Ltd holds 16,725,0000 shares of the company, within there are 13,725,000 shares are exclusive for domestic organizational investor, 3,000,000 are exclusive for domestic organizational imitator.
3. There exists no business relationship among the top ten shareholders. They are not the concerted actors as specified in the Measures for Disclosing the Information concerning Change in Shares Held by Shareholders of Listed Companies, either.

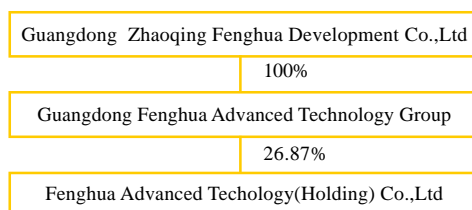
III. Controlling Shareholder

1. Name of the Controlling Shareholder: Guangdong Fenghua Advanced Technology Group
2. Legal Representative: Liang Liping
3. Date of Establishment: December 28, 1996
4. Registered Capital: RMB 120 Million
5. Business Scope: Production, R & D and marketing of various hi-tech basic microelectronic components, the relevant complementary parts, electronic materials and complete electronic instruments; transfer and consulting services of high technologies. Investment, shareholding and marketing self-made products, technology import and export; businesses in connection with raw and auxiliary materials, instruments and meters, mechanical equipment, spares and parts necessary for the Company's production, technology import and export; businesses of processing with materials supplied and "processing with sample, material or technology supplied and compensation trading".

IV. Controlling Shareholder or Actual Controller

Guangdong Fenghua Advanced Technology Group, the Company's controlling shareholder is a solely funded subsidiary of Guangdong Zhaoqing Fenghua Development Co., Ltd. Guangdong Zhaoqing Fenghua Development Co., Ltd., established on September 7, 1994, is an operation company authorized by Zhaoqing Municipal State Assets Administration, with registered capital: RMB 120 million; legal representative: Liang Liping; business scope: investment and shareholding.

V. Property Right and Control Relationship between Company and Practical Controller



VI.Up to the end of Reporting period, the 10 biggest Shareholders of the Company are:

No	Shareholders	Shares held at year end (In shares)	Types
1	Jinxin Securities InvestmentFund	2,422,324	A share
2	Boshi Fuyu Securities InvestmentFund	1,066,477	A share
3	Rongtong Shenzheng 100 Securities InvestmentFund	738,806	A share
4	Lu Jianyuan	670,990	A share
5	Gong Qiao	520,000	A share
6	Changcheng Jiutai Zhongxing Standard and Poor's 300 Securities InvestmentFund	504,296	A share
7	Guangda Baodexin Securities InvestmentFund	409,545	A share
8	Chen Yu	400,000	A share
9	Fu Yumei	397,900	A share
10	Xie Mingyi	390,801	A share

Note: within reporting period, shareholders are not revealed.

Directors, Supervisors, Senior Executives and Staff

I. Directors, Supervisors and Senior Executives

1. Basic Data

Names	Titles	Sex	Office Term	Shares held at year beginning (In shares)	Increase/Decrease in the year (In shares)	Shares held at year end (In shares)
Liang Liping	Chairman of the Board	Male	2003.10-2006.10	67,540		67,540
Chen Yubin	Deputy Chairman of the Board	Male	2004.06-2006.10			
Cao Weijian	Director, General Manager	Male	2003.10-2006.10			
Lai Yongxiang	Director, Deputy General Manager	Male	2003.10-2006.10			
Cai Linsheng	Director	Male	2003.10-2006.10			
Guan Benming	Director	Male	2003.10-2006.10			
Huang Guoxiang	Director	Male	2003.10-2006.10			
Zhang Yuren	Independent Director	Male	2003.10-2006.10			
Liu Heng	Independent Director	Male	2003.10-2006.10			
Huang Zhaojun	Independent Director	Male	2003.10-2006.10			
Ju Jianghua	Independent Director	Male	2003.10-2006.10			
Luo Mongyi	Chairman of the Supervisory Committee	Female	2003.10-2006.10			
Lin Weiqiang	Supervisor	Male	2003.10-2006.10			
Qiu Huikun	Supervisor	Female	2003.10-2006.10	4,000		4,000
Chen Caixia	Supervisor	Female	2003.10-2006.10			
Xie Xing	Supervisor	Female	2003.10-2006.10	1,000		1,000
Liao Yongzhong	Secretary of the Board, Deputy General Manager	Male	2003.10-2006.10			
Li Senpei	Deputy General Manager	Male	2003.10-2006.10			
Li Dechang	Deputy General Manager	Male	2003.10-2006.10			
Hu Wumei	Deputy General Manager	Female	2003.10-2006.10			
Liang Yali	Deputy General Manager	Female	2003.10-2006.10			
Wang Yawen	Deputy General Manager	Female	2003.10-2006.10			
Li Xiaoqiong	Person in charge of financial affairs	Female	2003.10-2006.10			

2. Engagement of Directors and Supervisors in the Shareholders

- (1) Mr. Liang Liping is concurrently the chairman of the board of Guangdong Fenghua Advanced Technology Group;
- (2) Mr. Chen Yubin is concurrently the president of Guangdong Fenghua Advanced Technology Group;
- (3) Mr. Cao Weijian is concurrently the director of Guangdong Fenghua Advanced Technology Group;
- (4) Mr. Cai Linsheng is concurrently the director and the deputy general manager of Guangdong Yuecai Investment Co., Ltd.;
- (5) Mr. Guan Benming is concurrently the chairman of the board and the general manager of Zhaoqing Weijing Electronic Co., Ltd.;
- (6) Mr. Huang Guoxiang is concurrently the chairman of the board and the secretary of committee of communist party of Guangdong Guangye Investment Group Co., Ltd.;
- (7) Ms. Xie Xing is concurrently project manager of Guangdong Yuecai Investment Co., Ltd.

3. The Experience and Current Posts of current Director, Supervisor and Senior Executives.

Liang Liping, male, born in September 1949, graduated from college, senior engineer, was factory director and secretary of branch of communist party of Guangdong Zhaoqing Fenghua Electronics Factory (company's formal) since 1984, became chairman of the board, secretary of committee of communist party and general manager since stock-holding system innovation in 1994, left company's general manager's position since 2003, now is the chairman of the board and secretary of committee of communist party.

Directors, Supervisors, Senior Executives and Staff

Chen Yubin, male, born in August 1954, bachelor, senior engineer, was technician of Hunan Shaoyang Hydroelectric Generator Manufactory, lecturer of Hunan Xiangtan University Engineering Department, engineer, office director, deputy general manager of Zhaoqing Nanhua Group, deputy chairman of the Board of Zhaogong State Property Management Company, became vice-chairman of Guangdong Zhaoqing Political Consultative Conference since April 1997, became president of Guangdong Fenghua Advanced Technology Group since December 2003, became Director of company since June 2004, now is deputy chairman of the Board.

Cao Weijian, male, born in April 1962, master, engineer, was vice-factory director of Guangdong Vacuum Equipment factory, deputy sector chief of Zhaoqing Bureau of Standard Measurement, director of Zhaoqing Economy Union, vice-office director of Zhaoqing Industry Development Office, deputy secretary-general of Zhaoqing People's Government Office, joined company since August 2002, was Director and Deputy General Manager, becomes Director and General Manager since November 2003.

Lai Yongxiang, male, born in August 1958, graduated from college, engineer, became director of technology department and quality management department of Guangdong Zhaoqing Fenghua Electronics Factory in 1987, was manager of Zhaoqing Kehua Electronic Technology Co., Ltd. between March 1994 and March 1998, became deputy general manager of company since March 1998, Director since September 2000, now also is manager of Guanhua Multi-layer Ceramic Capacitor Company.

Cai Linsheng, male, born in June 1965, master, economist, held director, deputy general manager, general manager of Guangdong Yuecai Investment Company since August 1995, deputy general manager of Guangdong Yuecai Trust & Investment Company between June 1997 and February 2003, was Supervisor of company between September 2000 and April 2003, was Director of company since May 2003, now is director, general manager of Guangdong Yuecai Investment Company.

Guan Benming, male, born in May 1963, bachelor, was chairman of the board, general manager of Zhaoqing Weijing development Company since October 1993, became Director of company since September 2000.

Huang Guoxiang, male, born in October 1950, master, held position at Guangdong Taishan Guanghai Shuanglong precinct between November 1968 and December 1974, deputy director general of investment departmentalism of Guangdong Planning Committee between May 1977 and September 1992, general manager of Guangdong Investment and Development Company between September 1992 and September 2002, chairman of the board, secretary of the Party Committee of Guangdong Guangye Investment Group since September 2002, became Director of company since September 2000.

Zhang Yuren, male, born in March 1944, doctor, worked in Sichuan Hejiang Agro-Machine Factory between 1968 and 1971, was technician of Guangdong Shaoguan Tools Factory between January 1971 and September 1978, Lecturer of Guangzhou Huanan between January 1982 and August 1984, research engineer in American Electronic Materials Inc and Ferro-MSI since December 1988, President of East hill Technology(US) since November 1996, became Independent Director of company since May 2002.

Huang Zaojun, male, born in August 1942, bachelor, senior engineer, was technician of Sichuan Chendu 8803 Factory, deputy director of workshop between 1965 and 1978, Lecturer, director of the laboratory, vice-director of the laboratory, vice-director of teaching and research group of South China University of Technology, between October 1978 and May 1984, deputy sector chief, sector chief, deputy director general of Guangdong Electronic Industry Bureau between May 1984 and April 1995, chief of industry section, senior engineer of Guangdong Electron and machine office between April 1995 and June 2000, Vice - president, secretary-general of Guangdong Electronics Association since June 2000, became Independent Director of company since October 2003.

Liu Heng, male, born in January 1964, law post doctorate and economic doctor, professor, tutor of doctor, was Assistant Lecturer and Associate Professor of Sun Yat-Sen University Law Department between 1988 and 1993, Professor of Sun Yat-Sen University Law Department since 1997, Associate Department Head of Sun Yat-Sen University Law Department between 1996 and 2000, Head of Sun Yat-Sen University Administrative Law Research Institute since 2001, now is Professor, Tutor of Doctor and Head of Sun Yat-Sen University Law College, and Independent Director of Guangdong Dongguan Controlling Co., Ltd. and so on as pluralism, became Independent Director of company since October 2003.

Ju Jianhua, male, born in October 1963, Master, associate professor of economic, CPA, was Technician, Manager of Jiangxio Agriculture and Science College Horticulture Develop Company between 1986 and 1991, Associate Section Chief of Zhaoqing University Economic and Management Institute and Chairman, Associate Professor of Finance and Accountant Staff Room between 1994 and 2001, Chief Accountant and Head of Quality Control Department of Guangdong Zhaoqing Zhongpeng Accountant Office since March 2001, became Independent Director of company since October 2003.

Luo Chuyi, female, born in February 1957, graduated from college, accountant, was Accountant Director and Finance leader of Guangdong Xingning Bureau of Coal Industry between 1990 and 1995, joined company since 1996, was Finance Manager of Sales Company, Head of Balance Department, and Associate Chairman of Balance Center, became Supervisor of company since September 2000, now is Chairman of Supervisory Committee.

Lin Weiqiang, male, born in May 1955, graduated from college, senior engineer, was Associate Chairman of Zhaoqing Fenghua Electronic Equipment Department between 1986 and 1991, Deputy Manager, Manager of Zhaoqing Jinhua Electronic Co., Ltd between 1993 and 2000, became Deputy Manager, Manager of Zhaoqing Xinbaohua Electronic Equipment Co., Ltd since 1991, became Supervisor of company since September 2000.

Directors, Supervisors, Senior Executives and Staff

Xie Xin, female, born in September 1968, graduated from college, economist, worked in Guangdong Yuecai Trust & Investment Co., Ltd between July 1988 and February 2003, became Manager of Project Department of Guangdong Yuecai Investment Co., Ltd since February 2003, became Supervisor of company since May 2003.

Qiu Huikun, female, born in May 1958, graduated from college, economist, worked in Guangdong Luoding Education Bureau and Commercial Bureau between 1975 and 1993, was secretary of branch of communist party of Guangdong Luoding Hotel between March 1993 and April 1995, joined company and became Associate Chairman of Development Department, Associate Chairman of Development Center since 1995, became Supervisor of company since May 2002, now is Worker Representative Supervisor of company.

Chen Caixia, female, born in February 1971, graduated from college, accountant, joined company in 1990, became Supervisor of company since May 2002, now is Associate Chairman of Finance Department, Worker Representative Supervisor of company.

Liao Yongzhong, male, born in January 1969, bachelor, joined company and was Applier to Custom of company, Associate Chairman of Imports and Exports Department, Head of Development Department, Head of Development Center since 1993, became Secretary of the Board since April 1998, and became Deputy General Manager since September 2000, was Director of company between May 2002 and October 2003.

Li Senpei, male, born in July 1958, graduated from college, economist, was Secretary of Branch of Communist Youth League of China, Associate Bailiff of Luoding between 1986 and April 1987, director, vice-director of Zhaoqing Foreign Enterprise Office between May 1987 and 1989, Deputy General Manager of Zhaoqing Industrial Company between 1990 and 1993, Deputy General Manager of Zhaoqing Donghua Industrial Group, Manager of Zhaofeng Electronic Co., Ltd between 1993 and 1997, became Deputy General Manager of company since March 1998, was Director of company between September 2000 and May 2003.

Li Dechang, male, born in January 1966, graduated from senior middle school, was Manager of Guangdong Zhaoqing Duanhua Electronic Co., Ltd between January 1999 and September 2000, became Deputy General Manager of company since September 2000.

Hu Wuzhu, female, born in April 1963, graduated from college, was Technician of Zhaoqing Fenghua Electronic Company between August 1984 and May 1994, was Deputy Manager, Manager of Jingxiang Branch of company between June 1994 and May 1995, Manager of Zhaoqing Yuehua New Electronic Component Co., Ltd since June 1995, became Deputy General Manager of company since July 1999.

Liang Yali, female, born in October 1967, graduate, was Works Superintendent of Zhaoqing Fenghua Electronic Company between July 1988 and March 1993, became Deputy General Manager of company since March 1994.

Wang Yawen, female, born in December 1955, graduated from college, was technician of Shanxi Spin Company between January 1982 and January 1983, Head of Management Department and Deputy General Manager of Xi'an Magneto Electronic Co., Ltd between January 1984 and January 1995, Deputy Manager and Manager of Guangdong Zhaoqing Duanhua Electronic Co., Ltd between January 1995 and 2004, became Deputy General Manager of company since April 2002.

Li Xiaoqiong, female, born in October 1955, graduated from college, accountant, was Accountant of Zhaoqing Metal Furniture Company between October 1972 and June 1994, became Chief Accountant, Head of Finance Department of company between July 1994 and September 2000, became Person in charge of financial affairs of company since September 2000.

4. Annual Remuneration to Directors, Supervisors and Senior Executives

The total remuneration paid to directors, supervisors and senior executives in office in the report year was RMB 2.90 million. 5 of them receive above 200,000 Yuan, while 5 between 200,000 and 100,000, 14 below 100,000. The total remuneration to the three directors enjoying highest salaries is RMB 935,400 and that to the three senior executives enjoying the highest salaries is RMB 1,066,400. The independent directors, Mr. Zhang Yuren, Mr. Liu Heng, Mr. Huang Zhaojun, Mr. Ju Jianghu are approved to have their allowance of 3,600 Yuan (tax included) per month; The traveling cost to attend the meetings and training expenditures of the independent directors are reimbursed by the Company. The directors of Mr. Cai Linsheng, Mr. Huang Guoxiang, Mr. Guan Benming, Ms. Xie Xing are paid of a allowance of 1,000 Yuan per month.

Mr Chen Yubin, deputy chairman of the board is not paid with payment or allowance by Company, he is paid by Guangdong Fenghua Advanced Technology Group.

5. Changes of Directors, Supervisors and Senior Executives in the Report Period

On June 30, 2004, through the resolution of 2003 director committee, Mr. Chen Yubin was elected Director of the company, and as while resignation of Director by Mr. Liu Huichong was proved..

II. About Staff

Ended the report year, the Company had 6,744 staff members and paid retirement pension to 29 retired staff members. The professional composition is as follows: Technical personnel 1,472, Finance and Management staffs 419, Sales personnel 326, other is Production, Classified according to the education background: Doctorate 12, Master 28, Bachelor 1,821.

Administrative Structure

I. Administration

The Company revised its Articles of Association, worked out and implemented the Rules according to the Rules for Administration of Listed Companies aiming at standardizing the operation of the Company so that the legal person administrative structure has been unceasingly improved, to ensure the stable and health development of the company, guard the interest of all shareholders and the company itself.

Within the reporting period, according to the resolution of director committee, the company sets up Directorate Strategy Committee, Audit Committee, Nominating Committee, Wages and Assessment Committee, and establishes and executes detail working rules.

Within the reporting period, according to [2003]56 documents declared by China's Securities Regulatory Commission, the company revises Company Constitution, adds foreign sponson affairs.

II. Performances of Independent Directors

Within reporting period, Independent Directors, Mr. Liu Heng, Mr. Huang Zaojun, Mr. Ju Jianhua, participate all directors of committee, Independent Director, Mr. Zhang Yuren does not participate the fourth meeting of the fourth term of directors of committee 2004 because of business, and entrusts Independent Director Mr. Liu Heng attend the meeting and vote for him. All independent directors seriously get knowledge of company's production management and operation, deliberate all proposals presented by the company. they offer series constructive advices and suggestions and made independent comments regarding to relevant transaction, directors and senior executives appointment etc, playing a role of guarding the interest of the Company as a whole and its medium and small shareholders.

III. Separation of Company and Shareholders in Business, Personnel, Assets, Organization, Finance and so on

Company and its biggest shareholder, Guangdong Fenghua Advanced Technology Group and its relevant companies, have normative documents requirement, execute "Five Separations" in business, personnel, assets, organization, finance, ensure company's independent and full business and management ability.

IV. Establishment and Implementation of the Assessment and Encouragement Mechanism of Senior Executives and the Relevant Rewarding System

The Company has worked out a salary assessment plan for senior executives, and has established the encouragement mechanism based on close connection of the salaries with the Company's business results and personal performances. The human resource department finishes assessment to every task of our senior executives and their corresponding departments, and confirms standard of wages, according to yearly planned targets, posts evaluation and relative posts' responsibility. The company executes option Encouraging System in some conditioned subsidiaries, maximize management and company's profit .

Within the period of reporting, the company sets up encouragement fund for semi senior and senior executives and important technical personnel, to attract and keep outstanding staff by cash and shares.

Shareholders' General Meeting

I. Shareholders' General Meeting

The Board of Directors published a notice respectively on China Securities Journal, Shanghai Securities News and Securities Times dated May 29, 2004. All the Company's shareholders registered with China Securities Registration & Clearing Company Shenzhen Branch ended 3:00 p.m., June 18, 2004 were advised to have 2003 Shareholders' General Meeting on June 30, 2004

2003 Shareholders' General Meeting was held on June 30, 2004 at meeting room on the No. 1 Building of Fenghua Electronic Industry City. There were 16 shareholders and shareholders' representatives present at the meeting, representing 310,742,322 shares, taking 58.59% of the total share capital. Shareholders and shareholders' representatives present at the meeting reviewed and adopted the following resolutions by voting:

1. 2003 Work Report of the Board of Directors;
2. 2003 Work Report of the Supervisory Committee;
3. 2003 Financial Settlement Report;
4. 2003 Profit Distribution Proposal;
5. The Proposals of Revision Parts of Company Constitution;
6. The Proposals of Setting Up Company Board of Directors Special Committee;
7. The Proposal of Buying Production and Research Land from Guangdong Fenghua Advanced Technology Group;
8. The Proposal of the Reconstruction of the Board of the Company;
9. The Proposal for Renewing Engagement of Shenzhen NanFang-MinHe Certified Public Accountants and the Remuneration Payment 2003.

The public notice on the resolutions of the meeting was published on China Securities Journal, Securities Times and Shanghai Securities News on July 1, 2004.

II. 2004 1st Exordinary General Shareholders Meeting

The Board of Directors published a notice respectively on China Securities Journal, Shanghai Securities News and Securities Times dated Oct 30, 2004. All the Company's shareholders registered with China Securities Registration & Clearing Company Shenzhen Branch ended 3:00 p.m., Nov 19, 2004 were advised to have the first exordinary general shareholders meeting on Nov 30, 2004.

The first exordinary general shareholders meeting was held on Nov 30, 2004 at meeting room on the No. 1 Building of Fenghua Electronic Industry City. There were 15 shareholders and shareholders' representatives present at the meeting, representing 309,122,322 shares, taking 58.29% of the total share capital. Shareholders and shareholders' representatives present at the meeting reviewed and adopted the following resolutions by voting:

1. The Proposal of Exclusive Buying 41.67% Shares of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. and Convert it to be Subsidiary
2. The Proposal of Guangdong Guangye Investment Group Co., Ltd. Buying Shares of Zhaoqing Fenghua Lithium Battery Co., Ltd.
3. The Proposal of Amending Clauses of Company Constitute;
4. The Proposal of Setting Up Semi Senior and Senior Executives and Technique Backbone Encouraging Fund

The public notice on the resolutions of the meeting was published on China Securities Journal, Securities Times and Shanghai Securities News on Dec 1, 2004

III. Election and Replacement of the Company's Directors and Supervisors

Through 2003 general shareholders meeting, on Jun 30, 2004, Mr Chen Yubin is elected to be members of directors of committee, resignation of Director by Mr. Liu Huichong is proved.

Report of the Board of Directors

I. Operation

1. Principal Businesses and Operation

Principal business scope: development, production and sales of electronic information base products, including up-to-date chip components, integrated circuit, optical-mechanical-electrical integration electronic equipment and electronic materials.

In 2004, global components industry does not go cold during cold season in the first half year, and neither goes hot during hot season in the second half year. Stimulated by the growing demand of IT, communication and consumption electrical products, global electrical components market demand is constantly increasing in the first half year. All manufactures' rates of capacity utilization are near full. The decreasing of prices slows down, some products even lack demand. In the second half year, especially the fourth quarter, because the demand for consumption electrical products is not big as expected, Japan, Taiwan companies released their newly production capacity, and because of the consumption of storages of manufactures, the increasing rate of components market demand is far below the 20 percent of increasing rate in supply, which enlarges the gap between supply and demand and speeds up decreasing in price.

Relative to the fluctuate of international market demand, benefited by good development of domestic electronic information industry, our domestic electronic components industry keeps sharp increasing speed, over 40%. Within the reporting period, the company catches the good chance of industry recovery, enlarges components production, and relatively withdraws the industries in disadvantage such as lithium battery, avoids over-competing in routine and low production. And by interior technology innovation, the company enhances production quality and level, enlarges high profit production capacity, improves company's management, finally conquers discouraging factors like prices decreasing in main production, continuous prices increasing in material and Taxrefund. These actions receive good response. In 2004, the mainstream products, MLCC and R-CHIP, finishes their sales over 50 billion, overcoming the best record in 2000, and makes new highest record. Within the reporting period, the company operation revenue for the year reported is 1.275577100 billion, representing a 20.80% increasing comparing with last year, total amount of profits of 34.0043 million, representing an increase of 3.08% comparing with last year, and net profit of 24,6059 million representing an increase of 4.96% comparing with last year.

In 2004, based on the financial budget, the company concentrates at enlarging market quotient, increasing sales, elevating benefit, and improves sales management, strengthens cost management, optimizes management flow. These executions ensure good tendency of company's production and management, making the best record since 2001 when industry innovated greatly, achieves new highest sales record in mainstream production

1. Increase new product development, adjust production structure, elevate product level. In 2004, the company passes 10 technology appraisals, checks and accepts 12 new products, applies 23 patents, while MLCC electroplate material, non-electroplate copper electrode jointing technique lead the world technology. The nicke electrode MLCC technique upgrade, BaTiO₃ resisting deoxidization dialectical powder technique industrialization projects, which are declared by our company, are listed into national high-tech industry development projects listed by State Development Planning Commission (SDPC), Guangdong Stressed Development and Finance Supporting Programs.

2. Continuously improve sales management, especially to those important strategic customers, establish strategic cooperation relationship; deeply develop current customer resource, and exploit current customer market space by extending and maintaining service and quality. Specially explore east China market.

3. Improve production management, start production flow reform, reduce the cost of production flow, encourage subsidiaries to reduce interior budget department, compress receivable account and storage more greatly; increase current fund demand budget, increase the efficiency of capital usage, reduce the production cost, totally enhance company's management level and working efficiency.

4. The company has been listed one of the twenty Stressed Development Equipment Companies, receiving Guangdong finance supporting in developing exactitude equipment producing, the company has total startup new exploring program in equipment manufacturing.

2. Composition of Turnover and Profit of the Principal Businesses

(1) Based on Sectors

Items	Income from principal businesses (In RMB)	Proportion	Profit from principal businesses (In RMB)	Proportion
Electronic components and parts	975,046,258.95	76.44%	182,084,982.15	80.22%
Others	300,530,845.40	23.56%	44,888,880.31	19.78%
Total	1,275,577,104.35	100%	226,973,862.45	100%

Report of the Board of Directors

(2) Based on Products

Items	Income from principal businesses (In RMB)	Proportion	Profit from principal businesses (In RMB)	Proportion
MLCC	469,548,116.86	36.81%	111,349,790.78	49.06%
Chip resistors	123,573,073.53	9.69%	12,062,491.58	5.31%
Al electrolytic capacitor	113,101,336.43	8.87%	19,842,101.23	8.74%
Ferrite core	107,729,811.94	8.45%	19,212,015.87	8.46%
Lithium batteries	96,958,786.03	7.60%	15,678,314.27	6.91%
Chip resistors	59,237,433.77	4.64%	12,261,162.58	5.40%
Chip diode triodes	53,318,512.74	4.18%	5,636,405.84	2.48%
Electronic material	45,233,292.90	3.55%	5,095,707.14	2.25%
Others	206,876,740.15	16.22%	25,835,873.18	11.38%
Total	1,275,577,104.35	100%	226,973,862.45	100%

(3) Based on Regions

Regions	Income from principal businesses (In RMB)	Proportion	Profit from principal businesses (In RMB)	Proportion
Domestic market	956,090,158.28	74.95%	161,343,844.53	71.08%
Foreign market	319,486,946.07	25.05%	65,630,016.92	28.92%
Total	1,275,577,104.35	100%	226,973,862.45	100%

3. The Products whose Turnover, Sales Cost and Gross Profit rate taking over 10% of the total Revenue or Profit from the Principal Businesses

Items	Sales Revenue (In RMB)	Cost of Sales (In RMB)	Gross Profit Rate
MLCC	469,548,116.86	354,742,893.13	24.45%

4. Operations and Performances of the Company's Controlled Subsidiaries and Associates

Companies	Proportion of Equity (%)	Principal Businesses	Registered Capital In RMB '000	Total Assets In RMB '000	Net Profit In RMB '000
Guanhua multi-layer ceramic capacitor Subsidiary of Company	100	Producing and sales of multi-layer ceramic capacitors	40,000	104,697.15	4,482.28
Lihua lvhua electrolytic capacitor Subsidiary of Company	100	Production and sales of lead chip Al. electrolyte capacitor	3,969	15,440.23	585.93
Zhaoqing Kehua Electronic Technology Co., Ltd.	55.00	Producing and sales of ceramic capacitors	4,483.56	5,480.05	-180.12
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	92.00	Producing and sales of lead MLCCs	2,500	10,299.38	2,178.29
DuanHua Chip resistors Subsidiary of Company	100	Production and sales of chip resistor and thick-film integrated circuit	13,000	23,028.54	113.75
Zhaoqing Baohua Electronics Equipment Co., Ltd.	96.00	Producing, sales and R&D of electronic equipment, components and parts	2,500	16,000.77	-135.32
Guangdong Zhaoqing Yingda Inductor Co., Ltd.	100	Production and sales of lead, laminated chip inductor	2,500	10,987.83	309.31
Guangdong Zhaoqing Micsource Electronic Co., Ltd.	94.77	Producing, sales and R&D of magnetic materials and related components and electronic products.	6,700	11,012.77	-107.63
Zhaoqing Haite Electronic Co., Ltd.	94.07	Producing, sales and R&D of magnetic materials and related components and electronic products.	1,800	5,188.93	63.15
Zhaoqing Dingci Electronic Co., Ltd.	94.00	Producing, sales and R&D of magnetic materials and related components and electronic products.	1,500	4,983.30	167.19
Zhaoqing Fenghua Xinggu Electronic Co., Ltd	90.00	Producing, sales and R&D of integrated circuit and related electronic products.	2,000	6,914.52	193.55
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.	100	R&D, producing and sales of electronic materials, lithium batteries and related products	18,900	45,850.65	-597.33

Report of the Board of Directors

5. Major Suppliers and Customers

In the report year, the total purchase amount from the top five suppliers took 16.06% of the total annual purchase amount; the total sales amount to the top five customers took 12.73% of the annual turnover.

6. Problems and Difficulties occurred in Operation and their Solutions

(1) Due to the fast growing production of Japan and Taiwan competitors, the global market's supply is greater than demand, the prices are still decreasing, and disadvantage with competitors in scale is going larger. Our company has made plans for future years, we would enlarge our production capacity, raise super add-value products weights, improve operation efficiency, reduce its cost, promote company's initiative in the market.

(2) Our main competitors are all global famous components companies, we have disadvantage in person, system, area, finance environment and so on. But by employing international famous management consultant companies, we reform our sales system, wages system, management structure and operation flow, catching up with advanced international management mode. At the same time, by adjusting our encouragement system, setting up technical backbone encouraging fund, we attract and keep outstanding staff, ensure our company's sustainable development.

(3) The continuous increasing in material prices, gives great trouble to our profit promotion. By increasing gathering stocking, we improve production flow efficiency, depress waste during the flow, further depress product cost, and reduce the effect of increasing material prices.

II. Investment

1. Within reporting period, no funds raised by the Company.

2. Investment with Funds not Raised by Share Offering

In 2004, through the resolution of first meeting of fourth term director committee, by investment of 36 million Yuan, The Company sets up "Guangdong Fenghua science and technology Investment Company", and holds 90% of its shares. Its official registration is not finished yet.

III. Financial Position and Operation Summary

Items	2004Y	2003Y	Proportion of Increase/Decrease%
	In RMB'000	In RMB'000	
Total assets	349,766.05	329,264.57	6.23
Accounts receivable	42,075.03	50,199.88	-16.18
Inventories	44,208.90	43,278.63	2.15
Short-term loans	99,600.00	68,100.00	46.26
shareholders' equity	209,866.60	209,969.38	-0.05
Income from principal businesses	127,557.71	105,597.89	20.80
Profit from principal businesses	22,697.39	21,760.81	4.30
finance expenses	4,548.80	2,829.19	60.78
Net profit	2,460.59	2,344.39	4.96
Net increase of cash and cash equivalents	13,717.73	27.90	-

Notes:

1. Increase of total assets by 6.23% over the beginning of the period is mainly due to increase of current fund loans and profit;
2. Decrease of Accounts receivable by 16.18% over the beginning of the period is mainly due to enhancing callback of payment for goods;
3. Increase of Inventories by 2.15% over the beginning of the period is mainly due to increase of shares investment;
4. Increase of short term loans by 46.26% over the beginning of the period is mainly due to technical innovation and increase of the circulating fund reserve aiming at expanding the production output and sales;
5. Decrease of shareholders' equity by 0.05% over the beginning of the period is mainly due to distribution of cash bonus of company;
6. Increase of the Income from principal businesses by 20.80% is mainly due to increase of the sales of products;
7. Increase of the Profit from principal businesses by 4.30% is mainly due to increase of the sales of products;
8. Increase of the finance expenses by 60.78% is mainly due to increasing accrual caused by increasing load from bank;
9. Increase of the net profit by 4.81% over the previous period is mainly due to increase of the profit from the principal businesses and decrease of the investment;
10. Increase of the net increase of cash and cash equivalents by 136.8983 million over the previous period is mainly due to increase of net cash flow from investment activities

Report of the Board of Directors

IV. Influence from the Production and Operation Environment and Macro Policy Changes on the Company

(1) Domestic electronic production manufacturing continues its flourish, especially digital consumption electrical products last year, including MP3, digital camera, liquid crystal television, digital machine and so on. These products continuously enlarge market space for our company, bring up good foreground of our main products.

(2) Global production capacity is still at the situation of supplying greater than demand, the increasing demand cannot stop products prices' decreasing, giving great pressure to company's profit.

(3) Taiwan competitors companies promote their industry status by annexing others, enlarging their production capacity quickly, and moving their keystone to mainland. Their production plan is much greater than our current plan, domestic market will face more competition.

(4) The company's main products require palladium, silver, nickel, copper, zinc and such noble metal and colored metal, the prices of these metals continuously go high, and as while may resulting prices increasing in resources and electricity. These all give great pressure to the cost of material.

(5) National macroeconomic control gives pressure to up-stream and down-stream fund receiving. And it becomes difficult to acquire bank credit to support technique reforming, this would slow down the pace of technique reforming, and enlarge the gap of production scale against foreign and Taiwan companies.

V. Shenzhen NanFang-MinHe Certified Public Accountants produced unqualified Auditors' Report, without any Reservations.

VI. Business Development Plan of the New Year

In 2005, according to IT IS and Paumanok's participation, global chip element market will slow its demand, though still keeping more than 10% increasing. Domestic market will still have faster demand increasing than global market, but by the balance of supply and demand, the prices will stay at a low level for a long term. Based on good expectation of main product market and furious prices competition, company will emphasize following works,

(1) Adjust products structure, concentrate more at leading products. Company plans to enlarge our production capacity of MLCC and Chip resistors to 10 billion per month in the future three years. At the same time, we also will further adjust the structure of products, strengthen ourselves in international market.

(2) Adjust market structure, enhance development in digital consumption products market. Our chip element have advantage in electronic consumption products market, facing increasing demand of digital consumption electronic products, we will exploit more in this market in production, research, develop and sales.

(3) Deeply study efficient production, depress production flow cost. As global homogeneity among all competitors, ability in competition of management cost becomes important part of company's kernel power. This year our company will spend more effort on rebuilding efficient production, raise flow efficiency, depress process cost.

(4) Continue strategy about excellent staff. Attract good management and technique personnel, execute efficient management, perfect wages and encouragement system, increase coherence of our company, let staff and company develop together.

(5) Spend more effort on R&D, improve R&D system and encouragement system, promote enthusiasm of researchers, speed up raising company's key technique, promote high level production weights.

(6) Continue improvement of structure of artificial person, clear power and responsibility of each level, execute criterion operation. Improve system construction, optimize operation flow, and ensure execution of decision.

(7) Promote finance and fund management, enhance cost control, strictly control fund flow of company, raise efficiency of fund usage. By adjusting structure of customers, depress terms of loan, enhance scope of gathering stocking, control storage, ensure increasing of company's cash flow.

VII. Routine Work of the Board of Directors

In the report year, the Company had held five board meetings with the details and resolutions summarized as follows:

1. 2004 1st meeting of the 4th Board of Directors was held on April 10, 2004. The meeting made the following resolution: 2003 Work Report of the General Manager; 2003 Work Report of the Board of Directors; 2003 Annual Report of the Company and the Summary; 2003 Financial Settlement Report; 2003 Profit Distribution Proposal; The Proposal of amending of the Company Constitution; The Proposal of Establishing Management System of Relationship between Company and Investors; The proposal of reconstruction of Members of the Board; The Proposal of Plan to Buy 2.40% Shares of Zhaoqing Lihua Electron Company from Zhaoqing Hualida Investment Co., Ltd. and 8% shares of Guangdong Zhaoqing Yingda Inductor Co., Ltd, and Convert It to Subsidiary; The Proposal of Buying Production and Research Land from Guangdong Fenghua Advanced Technology Group; The Proposal of Investment on Setting Up Guangdong Fenghua Science and Technology Investment Company; The Proposal for Renewing Engagement of Shenzhen NanFang-MinHe Certified Public Accountants and the Remuneration Payment of 2003; The Proposal on Holding 2003 Shareholders' General Meeting.

Report of the Board of Directors

The public notice on the resolutions of the board meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on April 13, 2004.

2. 2004 2nd Meeting of the 3rd Board of Directors was held by means of communication voting on April 21, 2004. The meeting made the following resolution by voting as: 2004 1st Quarterly Report;

The public notice on the resolutions of the board meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on April 23, 2004.

3. 2004 3rd Meeting of the 4th Board of Directors was held on July 26, 2004. The meeting made the following resolution: 2004 Semi-annual Report and the Summary; The Proposal of Deputy Chairman of Board; The Proposal of Establishing Detail Working Rules of Board of Directors Special Committee; The Proposal of Regulating Some Committees of Audit Committee and Nomination Committee.

The public notice on the resolutions of the board meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on July 28, 2004.

4. 2004 4th Meeting of the 4th Board of Directors was held on Sep 25, 2004. The meeting examined and adopted the following resolutions: The Proposal of Plan to Exclusively Buy 41.67% Shares of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. and Convert It to Subsidiary; The Proposal of Guangdong Guangye Investment Group Co., Ltd Buying Shares of Zhaoqing Fenghua Lithium Battery Co., Ltd.; The Proposal of Plan to Sell Zhaoqing Fenghua Xinggu Electronic Co., Ltd Business and Assets; The proposal of amending of the Company Constitution; The Proposal of Setting Up Semi Senior and Senior Executives and Technique Backbone Encouraging Fund; The Proposal of convening of the first ex-ordinary general Shareholders Meeting of 2004;

The public notice on the resolutions of the board meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on Sep 28, 2004.

5. 2004 5th Meeting of the 4th Board of Directors was held by means of communication voting on Oct 26, 2004, the meeting examined and adopted the following resolutions: 2004 3rd Quarterly Report.

The public notice on the resolutions of the board meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on Oct 28, 2004.

VIII. Profit Distribution Proposal or Proposal for Converting the Capital Reserve into Share Capital

As audited by Shenzhen NanFang-MinHe Certified Public Accountants, the after-tax profit in the year 2004 was RMB 24.6059 million. After provision of the statutory public reserve based on 10% of the total after-tax profit amounting to RMB 2.4606 million and the statutory public welfare fund based on 5% of the same amounting to RMB 1.2303 million, plus the undistributed profit at the beginning of the previous year amounting to RMB 295.1236 million, the total profit available for distribution to the shareholders in 2004 was RMB 316.0386 million. Based on the Company's business development strategy, the planned 2004 profit distribution proposal is as follows: Based on the share capital totaling 530,330,955 shares ended December 31, 2004, the Company shall distribute cash dividend at the rate of RMB 0.50 for every ten shares (with tax inclusive) to the whole shareholders, with total amount RMB 26.5165 million, and the retained undistributed profit amounting to RMB 289.5221 million shall be carried down for the future profit distribution.

The Company shall not convert the capital public reserve into share capital.

IX. Other Matters Necessary to be Reported

1. Business Scope: Production, R & D and marketing of various hi-tech basic microelectronic components, the relevant complementary parts, electronic materials and complete electronic instruments; transfer and consulting services of high technologies. Investment, shareholding and marketing self-made products, technology import and export; businesses in connection with raw and auxiliary materials, instruments and meters, mechanical equipment, spares and parts necessary for the Company's production, technology import and export; businesses of processing with materials supplied (subject to the Document of Guangdong Provincial Foreign Economic and Trade Commission [1999] No. 381). Domestic commerce management(those programs prohibited by laws, administrative rules and State Department could not be sold; those programs not prescribed to be permitted by laws, administrative rules and State Department, can be chosen to operate)

2. The affairs of Company's shareholder subsidiary-Zhaoqing Lihua Electronic Company.Guangdong Zhaoqing Kexun Hi-tech Co., Ltd., Guangdong Zhaoqing Yingda Inductor Co., Ltd. are cancelled independent artificial person qualification, and converted to subsidiary officially

(1) The company of Zhaoqing Lihua Electronic Company is changed to be subsidiary of FengHua Advanced Technology (Holding) Co., Ltd; which locate in Fenghua Electronic Industry City, No.18, Fenghua Road, Zhaoqing City, Guangdong; deputy: Liang Yali;

Business Scope: Producing and sales electronic components

(2) Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. and Guangdong Zhaoqing Yingda Inductor Co., Ltd. is cancelled independent artificial person qualification, and converted to subsidiary, Its official registration is not finished yet

3. In the report year, Zhaoqing Fenghua Lithium Battery Co., Ltd. has finished capital increasing and enlarged shares, the company does not hold shares (Attachment four, the unqualified auditor's report)

Report of the Board of Directors

4. Through resolution of 2004 4th Meeting of the 4th Board of Directors, the affairs of planning to sell business and assets of Zhaoqing Fenghua Neo-valley Zhaoqing Fenghua, is blocked because buyer's foreign market plan meet difficulty, because of the stagnancy of global semi-conductor industry. The trade is delayed.

5. The Company has chosen China Securities Journal, Shanghai Securities News and Securities Times as the designated newspapers for disclosing information.

X. The Explanation of Occupation of Funds of relevant Parties and its controlling Shareholder from CPA

According to document of [2003] 56 from China Securities Regulatory Commission, the notification of regulating the public listed company's relevant transaction and offering assuring to outsiders, Shenzhen NanFan-MinHe Certified Public Accountants issue a explanation regarding to relevant party transaction and assuring offering of FengHua Advanced Technology (Holding) Co., Ltd and Shenzhen NanFan-MinHe Certified Public Accountants (SN (2005) No.ZA094), the summary is published as follows:

To all shareholders of FengHua Advanced Technology (Holding) Co., Ltd:

We are entrusted, according to auditing standard of china public accountant, to audit the consolidated balance sheet, loss and profit account and cash flows statement of December 31, 2004 of FengHua Advanced Technology (Holding) Co., Ltd. We issue the auditing report (SNF auditing (2005) No.CA500 with no conservative comments.

Under the supervision of China Securities Regulatory Commission and SASAC, notification of principles of relevant party transaction of public listed company and crossing cash flows and ensuring offer to outsider company, we do auditing on the controlling shareholders of Fenghua Advanced Tech and other relevant party transaction regarding to the occupation of the funds, and the reveal the above information concerned in which all auditing is subject to the information revealed up to Dec 31, 2004, the responsibility of the creditability, completeness is the one of the management of Fenghua Advanced Tech, our responsibility is to explain the funds deployment of its controlling shareholders based on the results of auditing.

Our auditing towards Fenghua Advanced Tech annual accountant report, does not directed at checking the situation of relevant party possessing fund. And as while because of auditing test and audited company's interior control limitation, our auditing cannot be sure of knowing the situation of all shareholders and its relevant parties possessing fund.

The occupation of funds of the controlling party and its relevant parties to Feghua Advanced Tech by 2004y.

(1) The Reinvestment and Payment of the Guangdong Fenghua Advanced Technology Group (Fenghua group) to Feghua Advanced Tech

1. The receivable account of Fenghua Advanced Tech by 2003 is 66,356,658.64 Yuan from Guangdong Fenghua Advanced Technology Group by 2003; receivable account from Fenghua group is 55,259,666.62 Yuan by the end of 2004; representing a fall of 11,096,992.02 Yuan comparing of 2004 with the year of 2003. By the end of 2004, the receivable account from Fenghua group is 55,259,666.62 Yuan, which is the balance of the relevant parties transaction of its subsidiary Fenghua Advanced Tech and the Fenghua group, in which the accumulating transferring loan from Fenghua group to Fenghua Advanced Tech is 40,600,000.00 Yuan, by the end of the year, the actual amount of the funds is 95,859,666.62 Yuan, due to the plenty of numerous relevant party transactions of Fenghua Advanced Tech and Fenghua group, it is hard to specify the amount of funds receivable by the end of period, from the sequence of time, the receivable account from Fenghua group of 95,859,666.62 Yuan is mainly from exporting.

2. Besides the former Related fund relationship between Fenghua Advanced Tech and Fenghua Group, Fenghua Group possesses about 180 million Yuan of Fenghua Advanced Tech monthly, the balances in beginning and end of a year are all 0.

(2) The Reinvestment and Payment of the Hong Kong Willok Technology to Feghua Advanced Tech

The receivable account of Fenghua Advanced Tech from Hong Kong Willok Technology is 18,614,902.27 Yuan, the amount receivable by the end of year is 4,635,642.66 Yuan, and the reduction in account receivable is 13,979,259.61 Yuan. Hong Kong Willok Technology purchases the good from Fenghua Advanced Tech by 810,062.36 Yuan with actual payment of 9,122,908.82 Yuan. Selling goods 7,760,297.32 Yuan, receiving payment for goods 5,791,693.79 Yuan, others less than 3,697,809.62 Yuan.

(3) The Reinvestment and Payment of Fenghua Hi-tech (HK) Limited to Feghua Advanced Tech

By the end of the year, the receivable account of Fenghua Advanced Tech from Fenghua Hi-tech (HK) Limited is 24,088,319.02 Yuan, the receivable account is 16,598,554.86 Yuan by the end of the year of 2004, the decreased account receivable is 7,489,764.16 Yuan. By the end year of 2004, the receivable account from Fenghua Hi-tech (HK) Limited is the account of exporting, by the year of 2004, which act an agent to collect funds of exporting of 287,652,174.04, in which payment of 291,141,044.29 is made to Fenghua Advanced Tech. Help collect commission charge and hold carriage 4,000,893.91 Yuan.

XI. The special and independent Explanation Regarding to Accumulating Ensuring and Implementation of the Plan from the Independent Directors

According to the notification of the regulation of public list companies relevant parties transaction and ensuring offer to outsider, after our consciously inspection, up to Dec 31, 2004, no accumulating and existing ensuring is found.

Report of the Supervisory Committee

In the report period, the Supervisory Committee performed their duties with credibility and due diligence in accordance with the relevant laws and administrative regulations of the state as well as the Articles of Association; three supervisory committee meetings are held, attending two general shareholders meeting, and three meeting of the board. It carefully inspected and supervised proposals of the Shareholders' General Meeting and the Board meetings as well as the meeting procedures, performed supervision over the performances of the directors and senior executives for the purpose of safeguarding the rights and interests of the Company, shareholders and staff.

I. Work Summary:

In the report year, 2004 1st meeting of the 4th Supervisory Committee was held on April 10, 2005, the meeting examined and adopted the following resolutions:

- 1.2003 Work Report of the Supervisory Committee;
- 2.2003 Annual Report and the Summary;
- 3.Company 2003 Annual Finance Final Accounts Report;
- 4.The Proposal of Buying Production and Research Land from Guangdong Fenghua Advanced Technology Group

The public notice on the resolutions of the meeting was published on China Securities Journal, Shanghai Securities News and Securities Times on April 13, 2004.

II. Opinions of the Supervisory Committee

1. Operation According to the Law

In the opinion of the Supervisory Committee, in the report period, the Company was unceasingly improving its legal person based administrative structure in accordance with the prevailing law, administrative regulations of the state and the Articles of Association of the Company, worked out the internal control systems and standard decision making procedures in compliance with the Company's actual situation, and ensured the Company to carry out standardized and practical operation according to the law. The Board of Directors and the management seriously implemented the resolutions of the Shareholders' General Meeting and the Board meetings strictly according to the PRC Company Law and the Articles of Association.

2. Financial Operation

In the opinion of the Supervisory Committee, the unqualified auditor's report without reservations produced by Shenzhen NanFang-MinHe Certified Public Accountants was based on necessary auditory procedures, complied with the Company's practical situation and fairly reflected the Company's financial position and operation results of the Company in the year 2004.

3. Assets Acquisition and Sales

Within the reporting year, the transactions of company buying and selling assets follow necessary procedures, and carry out its information exposure incumbency, the basis of prices is reasonable, they does not harm benefit of either company or shareholders.

4. Related transactions

In the opinion of the Supervisory Committee, within the reporting period, the trades executed by company follow legal progress, follow relative normative documents and Company Constitution, are based on normal commercial condition, obey the criterion of fair and need, complete its information exposure incumbency. The company, its shareholders and relevant third party, have Related transactions in stocking, sales and so on, contract of Related transactions has detail description when new shares issued in 2000. Among daily related transactions between company and shareholders, there is such situation that clearing center of shareholder normally possesses fund of company's clearing center, shareholders have returned all fund on time by beginning or end of the year. Company should improve standardization of its finance and fund management, strictly follows Related transactions Decision System established by company to control Related transactions, follows the progress of application and confirmation.

Important Events

I. Material Lawsuits/Arbitration

In the report year, the Company had never been involved in any material lawsuit or arbitration.

II. Assets Acquisition, Sales, Absorption or Merger

(1) On June 30, 2004, Shareholders' General Meeting of 2003 proved The Proposal of Buying Production and Research Land from Fenghua Advanced Technology Group Co., Ltd., company buy production and research land from Fenghua Group by 37.5 million Yuan, the total area 91,870.86 square meter. The detail content has been published in company's 2004 half year report.

(2) On November 30, 2004, the first temporary Shareholders' General Meeting of 2004 proved The Proposal of Exclusive Buying 41.67% Shares of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd and Convert it to be Subsidiary and The Proposal of Guangdong Guangye Investment Group Co., Ltd. Buying Shares of Zhaoqing Fenghua Lithium Battery Co., Ltd., the main content of contract is as follows:

1. According to [2004]CA555 from Auditing Bureau and Finance Bureau, Guangdong Zhaoqing Kexun Hi-tech Co., Ltd January to June of 2004 Audit Report, the ratio of paper net assets value and registered assets of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd, is 1.056:1. And its sum of transaction with Guangdong Guangye Investment Group Co., Ltd. is confirmed to be 76.83456 million Yuan.

2. According to [2004]CA555 from Auditing Bureau and Finance Bureau, Zhaoqing Fenghua Lithium Battery Co., Ltd. January to June of 2004 Audit Report, on June 30, 2004, the ratio of paper net assets value and registered assets of Zhaoqing Fenghua Lithium Battery Co., Ltd., is 1.227:1. Guangye Investment buy 62.6199 million Yuan registered assets by 76.83456 million Yuan cash and 1.227:1 ratio, possessed capital increased Fenghua Lithium Battery 64.04% of its registered assets.

3. Equity Transferred Agreement is proved by Shareholders' General Meeting, from the effective date, every 15 working days. Payer should pay by one term cash in 20 working days after effective date when Capital Increasing Agreement is proved by Shareholders' General Meeting.

The fund buying equity this time, has been cleared in December 2004. After this equity trade, company would hold 100% shares of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. The official procedure of canceling its independent artificial person qualification, and converting to subsidiary, is undergoing.

The affairs of Fenghua Lithium Battery capital increasing have been checked and accepted by Zhaoqing Tianyuan Xinzhan Certified Public Accountants in Qintiansuo Proved(2004)No.218 capital assessing report, the official registration has been finished.

The public notice on the resolutions of the board meeting, the resolutions of the related transactions and the resolutions of the shareholders' general meeting, documents available for inspection was published on China Securities Journal, Securities Times and Shanghai Securities News on Sep 25, Oct 30, Dec 1, 2004, Internet web site designated by China Securities Regulatory Commission.

III. Significant Related Transactions

1. Within the reporting period, those important Related Transactions happened during company assets buying or equity transferring, can be found in items.

2. Related Transactions in connection with Goods Purchase and Sales

(1) Purchase of Goods

Related Parties	Items of Goods Purchased	Principle of Pricing	Way of Settlement	Transaction Amount (In RMB)	Proportion to Total Goods Purchased
Guangdong Fenghua Import & Export Co., Ltd.	Components and raw materials	At the suppliers' prices	Cash	10,685,284.43	1.44%
Zhaoqing Juhua Electronic Co., Ltd.	Components	At the negotiated price	Cash	6,691,433.45	0.90%
Zhaoqing Fenghua Component and Parts Completion Co., Ltd.	Components	At the market prices	Cash	14,065,412.27	1.90%
Guangdong Zhaoqing Zhenghua Electronic Instrument Plant	Components	At the market prices	Cash	15,692,270.16	2.12%
Zhaoqing Lingguang Electronic Co., Ltd.	chemical engineering materials	At the market prices	Cash	22,808,860.10	3.08%
Hong Kong Willok Technology Ltd.	Components and spare parts	At the suppliers' prices	Cash	7,760,297.32	1.05%
Total				77,703,557.73	10.49%

Important Events

Note: The Company's subsidiaries have to make related procurement of partial components for the products for export and needs the related parties to supply partial consumable parts of the production lines and the raw materials. The imported materials should be supplied by Guangdong Fenghua Import & Export Co., Ltd..

(2) Sales of Goods

Related Parties	Items of Goods Sold	Principle of Pricing	Way of Settlement	Transaction Amount (In RMB)	Proportion to Total Sales
Guangdong Fenghua Import & Export Co., Ltd.	Fine materials, components and parts	At the market prices	Cash	184,183,278.67	14.44%
Guangdong Fenghua Advanced Technology Group	Components and parts	At the customer's prices	Cash	8,455,357.32	0.66%
Zhaoqing Fenghua Electronic Engineering Development Co., Ltd.	Components and parts	At the market prices	Cash	13,918,686.80	1.09%
Guangdong Fenghua Bangke Electronics Co., Ltd.	Components and parts, equipment	At the market prices	Cash	7,216,021.32	0.57%
Total				213,773,344.11	16.75%

Notes:

(1) The Company exported its ceramic powder, size, metal powder material and components by means of general trading via Guangdong Fenghua Import & Export Co., Ltd. as the export agency. This related transaction is mainly of the business relationship of export agency.

(2) When the customers exclusively developed by the Company's parent company need to purchase the Company's products, the Company supplies the products to the parent company. The related transaction and the price arising therefore are based on the customers' actual settlement price.

(3) Hong Kong Willok Technology Ltd. is a shareholder of one of the Company's subsidiaries and distributes part of the Company's products as an agent.

3. Guarantees Acceptance

Up to Dec 31, 2004, Guangdong Fenghua Advanced Technology Group offered a credit guarantee to the Company for the RMB 635 million Short-term loans, the Company pay the ensuring fee of 2.5625 million Yuan to it.

4. Payment for Water, Power, Housing Rent and Public Utilities

Related Parties	Description of Transaction	Way of Settlement	2004Y (Yuan)
	Interest for the loan	Cash	1,089,434.91
	Workers house rent\house public funds reserve\ Pension funds	Cash	13,166,801.73
Guangdong Fenghua Advanced Technology Group	Factory workshop depreciation	Cash	9,019,872.82
	Utilization cost \ refrigeration	Cash	34,135,461.95
	Security cost and public facility cost	Cash	2,945,354.80

Note: Utilization cost, house public reserve, pension, security cost are all payable as it incur, workers house rents, factory workshop depreciation, interest are payable as market prices.

5. Funds Collection on agent

Collection payable at the beginning of the period	Collection of the period	Payment of the period	commission charge of the period	Collection payable suspended at the end of the period
24,088,319.02	287,652,174.04	291,141,044.29	4,000,893.91	16,598,554.86

Note: Due to the demanding of the business and its clients, the company entrust Fenghua Hi-tech (HK) Limited to be its agent to collect part of its funds from exporting. The company pay Fenghua Hi-tech (HK) Limited 4% commission charge for exported goods transition amount, 0.3% commission charge for collecting payment for goods, totally 2,719,687.41 Yuan for those charge in 2004.

Important Events

6. Balance of Accounts receivable of related Parties

Item	Related Parties	In RMB
		Dec 31, 2004
Accounts receivable	Hong Kong Willok Technology	4,635,642.66
	Fenghua Hi-tech (HK) Limited	16,516,861.24
	Guangdong Fenghua Advanced Technology Group *	55,259,666.62

Note: The accounts receivable amounting to RMB 55,259,666.62 in Guangdong Fenghua Advanced Technology Group was the balance after the mutual offsetting of the accounts receivable and payable, including the government bond fund amounting to RMB 40,600,000.00 accumulatively lent to the Company by Guangdong Fenghua Advanced Technology Group through loan conversion with average annual interest rate of 2.73%. The loan actually receivable from Guangdong Fenghua Advanced Technology Group amounting to RMB 95,859,666.62 at the end of the report period was all the loans within the collection term.

IV. Important Contracts

1. In the report year, the Company never kept as custodian, contracted or hired any other company's assets and vice versa.
2. In the report year, the Company had not offered any material guarantee.
3. In the report year, the Company had never entrusted any other party to manage the cash assets or apply for any loan.
4. In the report year, Company has hypothecated some buildings as highest mortgage contract mortgage for 130.06 million Yuan , whose original value is 184,965,939.42 Yuan, net value is 162,160,426.31 Yuan. Now company has receive 100 million Yuan short term loan under the highest mortgage contract. The 191.00 million Yuan balance of bank account at the end of the term has been impawned, for aquiring loan and ensurance of writing acceptance draft and so on.

V. Commitments of the Company or any Shareholder Holding over 5% of the Company's Share Capital.

In the report year, there was no commitment of the Company or any shareholder holding over 5% of the Company's share capital occurred in the report period or carried down from the previous period(s).

VI. Engagement of Certified Public Accountants

With the resolution reviewed and approved at 2003 Shareholders' General Meeting, the Company renewed the engagement of Shenzhen NanFang-MinHe Certified Public Accountants for the year 2004. In the report year, the Company is to pay the annual auditing fee amounting to RMB 600,000 to Shenzhen NanFang-MinHe Certified Public Accountants. The payment is subject to review and approval at 2004 Shareholders' General Meeting. Shenzhen NanFang-MinHe Certified Public Accountants has been engaged by the Company as financial auditor successively for six years.

VII. Within the Reporting Period, Company, Board of Directors and Directors Have never been Administratively Punished or Circulated a Notice of criticism by China Securities Regulatory Commission Checks or by China Securities Regulatory Commission, or publicly condemned by Shenzhen Stock Exchange.

VIII. In the Report year, the Company Had never been Involved in any Significant Events as specified in Article 62 of the PRC Securities Law or Article 17 of the Rules for Information Disclosure by the Public Companies (for Trial Implementation), or any Events Judged as Significant Events by the Board of Directors.

Financial Report

Auditors' Report

SZNFMHCPA AR Zi [2005] No. CA500

To all shareholders of Fenghua Advanced Technology (Holding) Co., Ltd.:

We have audited the accompanying balance sheet of the parent company and consolidated balance sheet of Fenghua Advanced Technology (Holding) Co., Ltd. (hereinafter referred to as the "Company") as of Dec. 31, 2004, and the statement of profit / profit distribution of the parent company and the consolidated statement of profit / profit distribution, the cash flow statement of the parent company and the consolidated cash flow statement for the year then ended. These accounting statements are the responsibility of the Company. Our responsibility is to express an opinion on these accounting statements based on our audits.

Under the supervision of independent auditing standard and procedures of CPA, we conduct our auditing responsibility and report that no significant error in the financial statement. The auditing includes inspection of financial data and its relevance revealed, appraise the accounting policy and all significant account estimation adopted when the management makes its financial statement, and give the reflection given its financial statement. We believe that our auditing give a reasonable base for our comments made.

In our opinion, the aforesaid accounting statements comply with the relevant provisions as specified in the Enterprise Accounting Standards and the Enterprise Accounting System, fairly present, in all material aspects, the financial position of the Company as of Dec. 31, 2004 and the operation results and cash flows for the year then ended.

Shenzhen NanFang MinHe Certified
Public Accountants Co., Ltd.

Chinese Certified Public Accountant
Cui Yan

Chinese Certified Public Accountant
Zhong Ping

Shenzhen, China

April 15, 2005

Consolidated Balance Sheet

Company: Fenghua Advanced Technology (Holding) Co., Ltd.		In RMB	
Assets	Notes	Dec 31, 2004	Dec 31, 2003
Current assets:			
Monetary fund	V (1)	700,238,132.82	372,060,798.81
Short-term investment	V (2)	33,523,248.19	40,270,350.20
Notes receivable	V (3)	21,370,410.57	30,267,743.27
Interest receivable		41,166.67	--
Accounts receivable	V (4)	420,750,284.89	501,998,791.25
Other receivables	V (5)	26,413,305.22	34,261,901.82
Advances to suppliers	V (6)	35,410,152.33	27,086,458.34
Subsidy receivable	V (7)	--	4,447,950.16
Inventories	V (8)	442,088,925.71	432,786,316.29
Expenses to be apportioned	V (9)	4,008,542.01	3,600,194.40
Total current assets		1,683,844,168.41	1,446,780,504.54
Long-term investment:			
Long-term equity investment	V (10)	134,171,051.02	109,362,480.24
Long-term credit investment	V (10)	5,000,000.00	--
Total long-term investment		139,171,051.02	109,362,480.24
Fixed assets:			
Fixed assets - cost	V (11)	2,336,501,479.15	2,284,311,743.45
Less: Accumulative depreciation	V (11)	757,198,953.86	605,333,648.69
Fixed assets - net value	V (11)	1,579,302,525.29	1,678,978,094.76
Less: Provision for devaluation of fixed assets	V (11)	20,707,533.03	20,707,533.03
Fixed assets, net	V (11)	1,558,594,992.26	1,658,270,561.73
Construction in progress	V (12)	39,531,025.97	31,999,797.08
Total fixed assets		1,598,126,018.23	1,690,270,358.81
Intangible and other assets:			
Intangible assets	V (13)	71,074,815.09	39,137,478.28
Long-term expenses to be apportioned	V (14)	5,444,412.45	7,094,839.16
Total intangible and other assets		76,519,227.54	46,232,317.44
Total assets		3,497,660,465.20	3,292,645,661.03

Attached notes are integral part of the accounting statements.

Consolidated Balance Sheet (Cont'd.)

Company: Fenghua Advanced Technology (Holding) Co., Ltd.		In RMB	
Liabilities and shareholders' equity	Notes	Dec 31, 2004	Dec 31, 2003
Current liabilities:			
Short-term loans	V (15)	996,000,000.00	681,000,000.00
Notes payable	V (16)	21,153,000.00	81,257,400.00
Accounts payable	V (17)	254,959,774.78	248,696,250.87
Advance receipt	V (18)	2,619,178.28	4,800,464.53
Wages payable		1,102,417.60	732,960.97
Welfare fund payable		10,365,785.26	8,456,032.81
Dividend payable		7,277,488.44	4,510,834.89
Taxes deliverable	V (19)	12,855,966.72	(6,889,902.05)
Other accounts undelivered	V (20)	765,567.30	667,054.20
Other payables	V (21)	14,537,047.45	19,516,461.66
Accrued expenses	V (22)	7,532,337.73	6,159,684.24
Long-term liabilities due within a year		-	-
Total current liabilities		1,329,168,563.56	1,048,907,242.12
Long-term liabilities:			
Long-term loans		-	-
Long-term accounts payable	V (23)	5,188,264.63	5,248,583.62
Special accounts payable	V (24)	31,645,518.00	17,578,979.52
Other long-term liabilities		-	-
Total long-term liabilities		36,833,782.63	22,827,563.14
Deferred taxes:			
Deferred taxes - credit		-	-
Total liabilities		1,366,002,346.19	1,071,734,805.26
Minority shareholders' equity		32,992,135.41	121,217,034.09
Shareholders' equity:			
Share capital	V (25)	530,330,955.00	530,330,955.00
Capital public reserve	V (26)	1,089,887,412.00	1,089,004,647.60
Surplus public reserve	V (27)	162,409,005.79	158,718,114.00
Including: Statutory welfare fund	V (27)	45,997,729.18	44,767,431.92
Retained earnings	V (28)	289,522,063.06	295,123,557.33
Cash dividend paid	V (29)	26,516,547.75	26,516,547.75
Total shareholders' equity		2,098,665,983.60	2,099,693,821.68
Total liabilities and shareholders' equity		3,497,660,465.20	3,292,645,661.03

Attached notes are integral part of the accounting statements.

Consolidated Statement of Profit

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y	2003Y
1. Income from principal business	V (30)	1,275,577,104.35	1,055,978,947.88
Less: Cost of principal business	V (30)	1,041,552,900.00	830,074,090.24
Taxes and surcharges of principal business	V (31)	7,050,341.90	8,296,731.39
2. Profit from principal business		226,973,862.45	217,608,126.25
Add: Profit from other business lines	V (32)	2,165,598.77	2,263,842.51
Less: Operating expenses		46,078,220.99	41,362,904.64
Administrative expenses		102,994,799.40	104,292,885.58
Financial expenses	V (33)	45,488,020.12	28,291,936.02
3. Operating profit		34,578,420.71	45,924,242.52
Add: Investment revenue	V (34)	(1,367,067.27)	(11,505,878.61)
Subsidy income	V (35)	1,197,277.00	1,388,926.00
Non-operating income	V (36)	499,336.34	361,809.92
Less: Non-operating expenses	V (37)	903,666.24	1,083,797.80
4. Total profit		34,004,300.54	35,085,302.03
Less: Income tax	V (38)	9,900,257.40	7,389,766.84
Minority shareholders' gains and losses		(501,902.13)	4,251,621.81
Add: Unconfirmed investment losses		--	--
5. Net profit		24,605,945.27	23,443,913.38
Supplementary information:			
Items		2004Y	2003Y
1. Income from selling or disposal of departments or investees			(170,291.06)
2. Losses occurred due to natural calamity		--	--
3. Total amount of profit increased (or decreased) due to change of accounting policies		--	--
4. Total amount of profit increased (or decreased) due to change of accounting estimation		--	--
5. Losses on debt reorganization		--	--
6. Others		--	--

Attached notes are integral part of the accounting statements.

Consolidated Profit Distribution

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y	2003Y
1. Net profit		24,605,945.27	23,443,913.38
Add: Undistributed profit at year beginning		295,123,557.33	301,712,778.71
2. Distributable profit		319,729,502.60	325,156,692.09
Less: Allotting statutory public reserve		2,460,594.53	2,344,391.34
Allotting statutory public welfare fund		1,230,297.26	1,172,195.67
3. Profit distributable to shareholders		316,038,610.81	321,640,105.08
Less: Dividend distributed for preference shares		-	-
Payable dividend for common shares		26,516,547.75	26,516,547.75
4. Undistributed profit		289,522,063.06	295,123,557.33

Attached notes are integral part of the accounting statements.

Consolidated Cash Flow Statement

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y
1. Cash flows from operating activities:		
Cash received from selling commodities and providing labor service		1,514,582,592.90
Refunded tax received		5,431,259.27
Other cash received concerning operating activities	V (39)	57,822,377.24
Subtotal of cash inflows		1,577,836,229.41
Cash paid for purchasing commodities and receiving labor service		944,307,130.47
Cash paid to / for employees		134,374,192.72
Various taxes paid		50,378,756.41
Other cash paid concerning operating activities	V(39)	174,004,129.80
Subtotal of cash outflows		1,303,064,209.40
Net cash flow from investment activities		274,772,020.01
2. Cash flows from investment activities:		
Cash received from recovering investment		-
Cash received from investment income		17,673,676.89
Net cash received from disposal of fixed, intangible and other long-term assets.		487,477.48
Cash received connection with other investment activities		53,310,000.00
Subtotal of cash inflows		71,471,154.37
Cash paid for purchasing fixed, intangible and other long-term assets.		118,386,304.20
Cash paid for investment	V(39)	95,106,413.82
Other cash paid in connection with investment activities	V(39)	139,456.40
Subtotal of cash outflows		213,632,174.42
Net cash flow from investment activities		(142,161,020.05)
3. Cash flows from fund raising activities:		
Cash received by absorbing investment		-
Cash received from loans		1,095,000,000.00
Other cash received in connection with fund raising activities		-
Subtotal of cash inflows		1,095,000,000.00
Cash paid for settling debts		780,000,000.00
Cash paid for distributing dividend, profit or paying interest		66,105,665.95
Cash paid for distributing dividend of minority shareholders'		640,000.00
Cash paid in connection with fund raising activities	V(39)	243,688,000.00
Subtotal of cash outflows		1,090,433,665.95
Net cash flows from fund raising activities		4,566,334.05
4. Influence of fluctuation in exchange rate on cash		
		-
5. Net increase of cash and cash equivalents		
		137,177,334.01

Attached notes are integral part of the accounting statements.

Consolidated Cash Flow Statement
(Supplementary Information)

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y
1. Cash flow in adjusting the net profit for operating activities		
Net profit		24,605,945.27
Less: Unconfirmed investment losses		-
Add: Minority shareholders' gain and losses		(501,902.13)
Provisions allocated for assets devaluation		22,555,636.03
Depreciation of fixed assets		165,606,223.84
Amortization of intangible assets		3,005,929.83
Amortization of long-term expenses to be apportioned		2,756,416.59
Decrease (less: Increase) of expenses to be apportioned		(408,347.61)
Increase (less: Decrease) of accrued expenses		1,372,653.49
Losses (less: Gains) on disposal of fixed, intangible and other long-term assets		(396,869.75)
Financial expenses		44,821,189.95
Losses in investment (less: Gains)		(8,858,388.56)
Decrease of inventories (Less: Increase)		(71,636,622.11)
Deferred taxes - credit (less: Debt)		-
Decrease of receivables in operation (less: Increase)		33,515,559.78
Increase of payables in operation (less: Decrease)		58,334,595.39
Other		-
Net cash flows from operating activities		274,772,020.01
2. Investment and fund raising activities without cash incomings / outgoings involved		
Liabilities converted into share capital		-
Convertible company bond due within a year		-
Financing for hiring the fixed assets		-
3. Particulars about net increase of cash and cash equivalents		
Balance of cash at period end		700,238,132.82
Less: terminal deposit receipt impawn		191,000,000.00
Less: Balance of cash at period beginning		372,060,798.81
Add: Balance of cash equivalents at period end		-
Less: Balance of cash equivalents at period beginning		-
Net increase of cash and cash equivalent		137,177,334.01

Attached notes are integral part of the accounting statements.

Balance Sheet

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Assets	Notes	Dec 31, 2004	Dec 31, 2003
Current assets:			
Monetary fund		697,869,143.97	369,592,482.91
Short-term investment		33,523,248.19	40,270,350.20
Notes receivable		11,443,832.72	15,470,749.33
Interest receivable		41,166.67	--
Accounts receivable	VI(1)	856,031,783.85	1,110,994,265.87
Other receivables	VI(2)	21,084,932.34	21,908,061.65
Advances to suppliers		2,768,660.09	1,307,352.88
Subsidy receivable		--	4,447,950.16
Inventories		247,259,670.06	181,006,907.87
Expenses to be apportioned		3,021,968.40	1,935,266.11
Total current assets		1,873,044,406.29	1,746,933,386.98
Long-term investment:			
Long-term equity investment	VI(3)	486,766,468.92	482,085,597.27
Long-term credit investment		5,000,000.00	--
Total long-term investment		491,766,468.92	482,085,597.27
Fixed assets:			
Fixed assets - cost		1,734,780,145.24	1,455,943,818.03
Less: accumulative depreciation		538,896,085.70	342,716,044.56
Fixed assets - net value		1,195,884,059.54	1,113,227,773.47
Less: Provision for devaluation of fixed assets		19,516,099.61	17,661,189.77
Fixed assets, net		1,176,367,959.93	1,095,566,583.70
Construction in progress		32,918,906.65	17,530,648.61
Total fixed assets		1,209,286,866.58	1,113,097,232.31
Intangible and other assets:			
Intangible assets		53,480,513.43	20,431,979.90
Long-term expenses to be apportioned		3,606,029.35	4,956,416.97
Total intangible and other assets		57,086,542.78	25,388,396.87
Total assets		3,631,184,284.57	3,367,504,613.43

Attached notes are integral part of the accounting statements.

Balance Sheet (Cont'd.)

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Liabilities and shareholders' equity	Notes	Dec 31, 2004	Dec 31, 2003
Current liabilities:			
Short-term loans		995,000,000.00	680,000,000.00
Notes payable		21,153,000.00	81,257,400.00
Accounts payable		420,730,357.62	448,251,190.04
Advance receipt		491,143.18	67,986.61
Wages payable		525,390.29	491,417.64
Welfare fund payable		7,131,213.80	3,016,976.65
Dividend payable		7,277,488.44	4,509,895.61
Taxes deliverable		9,996,471.07	(9,810,644.20)
Other accounts undelivered		10,916,399.61	543,389.14
Other payables		664,490.39	13,926,686.54
Accrued expenses		4,068,378.23	1,736,097.01
Long-term liabilities due within a year		-	-
Total current liabilities		1,477,954,332.63	1,223,990,395.04
Long-term liabilities:			
Long-term loans		-	-
Long-term accounts payable		5,188,264.63	5,248,583.62
Special accounts payable		20,827,518.00	6,100,000.00
Total long-term liabilities		26,015,782.63	11,348,583.62
Total liabilities		1,503,970,115.26	1,235,338,978.66
Shareholders' equity:			
Share capital		530,330,955.00	530,330,955.00
Capital public reserve		1,096,877,116.48	1,095,994,352.08
Surplus public reserve		162,409,005.79	158,718,114.00
Including: Statutory welfare fund		45,997,729.18	44,767,431.92
Retained earnings		311,080,544.29	320,605,665.94
Cash dividend paid		26,516,547.75	26,516,547.75
Total shareholders' equity		2,127,214,169.31	2,132,165,634.77
Total liabilities and shareholders' equity		3,631,184,284.57	3,367,504,613.43

Attached notes are integral part of the accounting statements.

Statement of Profit

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y	2003Y
1. Income from principal business	VI(4)	927,743,220.78	779,647,176.26
Less: Cost of principal business	VI(4)	816,608,647.30	753,853,826.00
Taxes and surcharge of principal business		4,550,715.59	5,179,483.11
2. Profit from principal business		106,583,857.89	20,613,867.15
Add: Profit from other business lines		3,609,833.16	--
Less: Operating expenses	VI(5)	26,303,244.38	18,870,785.43
Administrative expenses	VI(6)	59,414,598.36	45,828,491.46
Financial expenses	VI(7)	17,908,642.37	(23,000,162.10)
3. Operating profit		6,567,205.94	(21,085,247.64)
Add: Investment revenue	VI(8)	19,657,045.07	40,219,347.03
Subsidy income		1,197,277.00	1,388,926.00
Non-operating income		483,363.58	--
Less: non-operating expenses		556,715.10	65,452.91
4. Total profit		27,348,176.49	20,457,572.48
Less: Income tax		6,665,858.60	--
5. Net profit		20,682,317.89	20,457,572.48
Supplementary Information:			
Items		2004Y	2003Y
1. Income from selling or disposal of departments or investees		--	(170,291.06)
2. Losses occurred due to natural calamity		--	--
3. Total amount of profit increased (or decreased) due to change of accounting policies		--	--
4. Total amount of profit increased (or decreased) due to change of accounting estimation		--	--
5. Losses on debt reorganization		--	--
6. Others		--	--

Attached notes are integral part of the accounting statements.

Profit Distribution

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y	2003Y
1. Net profit		20,682,317.89	20,457,572.48
Add: Undistributed profit at year beginning		320,605,665.94	330,181,228.22
2. Distributable profit		341,287,983.83	350,638,800.70
Less: Allotting statutory public reserve		2,460,594.53	2,344,391.34
Allotting statutory public welfare fund		1,230,297.26	1,172,195.67
3. Profit distributable to shareholders		337,597,092.04	347,122,213.69
Less: Dividend distributed for preference shares		-	-
Payable dividend for common shares		26,516,547.75	26,516,547.75
4. Undistributed profit		311,080,544.29	320,605,665.94

Attached notes are integral part of the accounting statements.

Cash Flow Statement

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Notes	2004Y
1. Cash flows from operating activities:		
Cash received from selling commodities and providing labor service		1,114,979,045.36
Refunded tax received		5,431,259.27
Other cash received concerning operating activities		265,235,759.91
Subtotal of cash inflows		1,385,646,064.54
Cash paid for purchasing commodities and receiving labor service		972,599,004.99
Cash paid to / for employees		64,036,217.02
Various taxes paid		27,906,400.46
Other cash paid concerning operating activities		65,528,155.84
Subtotal of cash outflows		1,130,069,778.31
Net cash flows from operating activities		255,576,286.23
2. Cash flows from investment activities:		
Cash received from recovering investment		-
Cash received from investment income		25,033,676.89
Cash received from payable loan of its subsidiaries		131,274,735.93
Cash received from loan interest of its subsidiaries		27,806,921.89
Other cash received concerning investment activities		398,294.27
Subtotal of cash inflows		184,513,628.98
Cash paid for purchasing fixed, intangible and other long-term assets.		106,449,870.80
Cash paid for investment		95,106,413.82
Cash issued for loan to its subsidiaries		155,773,062.66
Other cash paid concerning investment activities		-
Subtotal of cash outflows		357,329,347.28
Net cash flow from investment activities		(172,815,718.30)
3. Cash flows from fund raising activities:		
Cash received from loans		1,095,000,000.00
Other cash received concerning fund raising activities		-
Subtotal of cash inflows		1,095,000,000.00
Cash paid for settling debts		780,000,000.00
Cash paid for distributing dividend, profit or paying interest		66,341,344.98
Cash paid for interest of subsidiaries's fund		454,561.89
Other cash paid concerning fund raising activities		193,688,000.00
Subtotal of cash outflows		1,040,483,906.87
Net cash flows from fund raising activities		54,516,093.13
4. Influence of fluctuation in exchange rate on cash		
		-
5. Net increase of cash and cash equivalents		
		137,276,661.06

Attached notes are integral part of the accounting statements.

Cash Flow Statement (Supplementary Information)

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	2004Y
1. Cash flow in adjusting the net profit for operating activities	
Net profit	20,682,317.89
Add: Minority shareholders' gain and losses	-
Provisions allocated for assets devaluation	16,997,632.06
Depreciation of fixed assets	133,241,042.79
Amortization of intangible assets	2,491,267.51
Amortization of long-term expenses to be apportioned	2,364,658.23
Decrease (less: Increase) of expenses to be apportioned	855,162.28
Increase (less: Decrease) of accrued expenses	683,389.02
Losses (less: Gains) on disposal of fixed, intangible and other long-term assets	398,294.27
Financial expenses	20,484,624.20
Losses in investment (less: Gains)	(19,657,045.07)
Decrease of inventories (Less: Increase)	(23,761,733.06)
Deferred taxes - credit (less: Debt)	-
Decrease of receivables in operation (less: Increase)	210,682,474.57
Increase of payables in operation (less: Decrease)	(109,885,798.46)
Other	-
Net cash flows from operating activities	255,576,286.23
2. Investment and fund raising activities without cash incomings / outgoings involved	
Liabilities converted into capital	-
Convertible company bond due within a year	-
Financing for hiring the fixed assets	-
3. Particulars about net increase of cash and cash equivalents	
Balance of cash at period end	697,869,143.97
Less: terminal deposit receipt impawn	191,000,000.00
Less: Balance of cash at period beginning	369,592,482.91
Add: Balance of cash equivalents at period end	-
Less: Balance of cash equivalents at period beginning	-
Net increase of cash and cash equivalents	137,276,661.06

Attached notes are integral part of the accounting statements.

Consolidated Detailed Statement of Provision for Assets Devaluation

Company: Fenghua Advanced Technology (Holding) Co., Ltd.		2004Y				In RMB
Items	Balance at period beginning	Increase in the period	Amount reversed in the period			Balance at period end
			For the appreciation of the value of its fixed asset	Other reasons	Total	
1. Total provision for bad debt	54,318,972.64	2,922,794.05	--	6,119,784.57	6,119,784.57	51,121,982.12
Including: Accounts receivable	35,409,312.21	1,730,683.20	--	4,665,516.98	4,665,516.98	32,474,478.43
Other receivables	18,909,660.43	1,192,110.85	--	1,454,267.59	1,454,267.59	18,647,503.69
2. Total provision for devaluation of short-term investment	1,426,462.27	10,225,455.83	--	--	--	11,651,918.10
Including: Stock investment	1,426,462.27	10,225,455.83	--	--	--	11,651,918.10
Bond investment	--	--	--	--	--	--
3. Total provision for devaluation of inventories	34,971,822.38	17,247,268.41	--	7,374,818.94	7,374,818.94	44,844,271.85
Including: Finished products	30,650,460.16	7,693,549.82	--	6,877,907.05	6,877,907.05	31,466,102.93
Raw materials	2,879,345.99	6,026,921.32	--	496,911.89	496,911.89	8,409,355.42
Products in process	843,717.02	3,348,310.43	--	--	--	4,192,027.45
Low-value consumptable products	598,299.21	178,486.84	--	--	--	776,786.05
4. Total provision for devaluation of long-term investment	--	--	--	--	--	--
Including: Long-term equity investment	--	--	--	--	--	--
Long-term credit investment	--	--	--	--	--	--
5. Total provision for devaluation of fixed-assets	20,707,533.03	--	--	--	--	20,707,533.03
Including: Houses and buildings	--	--	--	--	--	--
Plant and machinery	20,661,742.18	--	--	--	--	20,661,742.18
Electrical equipment	10,743.06	--	--	--	--	10,743.06
Other equipment	35,047.79	--	--	--	--	35,047.79
6. Provisions for devaluation of intangible assets	--	--	--	--	--	--
Including: Patent right	--	--	--	--	--	--
Trademark right	--	--	--	--	--	--
7. Provisions for devaluation of construction in progress	--	75,669.96	--	--	--	75,669.96
8. Provisions for devaluation of entrusted loans	--	--	--	--	--	--

Consolidated Changes in Increase/Decrease of Shareholders' Equity

Balance Sheet - Attachment 2

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	2004Y	2003Y
1. Share capital:		
Balance at period beginning	530,330,955.00	530,330,955.00
Increase in the period	-	-
Including: Capital public reserve - transferred-in	-	-
Surplus public reserve - transferred-in	-	-
Profit distribution - transferred-in	-	-
Newly added share capital	-	-
Decrease in the period	-	-
Balance at period end	530,330,955.00	530,330,955.00
2. Capital public reserve		
Balance at period beginning	1,089,004,647.60	1,074,778,203.58
Increase in the period	882,764.40	14,226,444.02
Including: Share capital premium	-	-
Denoted provision for non-cash asset received	-	-
Receiving cash demotion	-	-
Provision for equity investment	882,764.40	2,226,444.02
Appropriate funds transferred	-	12,000,000.00
Other capital public reserve	-	-
Decrease in the period	-	-
Including: Asset capitalized	-	-
Balance at period end	1,089,887,412.00	1,089,004,647.60
3. Statutory and discretionary surplus public reserve		
Balance at period beginning	113,950,682.08	111,606,290.74
Increase in the period	2,460,594.53	2,344,391.34
Including: Amount allotted from net profit	2,460,594.53	2,344,391.34
Including: Statutory surplus public reserve	2,460,594.53	2,344,391.34
Discretionary surplus public reserve	-	-
Decrease in the period	-	-
Including: Make-up losses	-	-
Share capital capitalized	-	-
Distributing cash dividends or profit	-	-
Distributing share dividends	-	-
Balance at period end	116,411,276.61	113,950,682.08
Including: Statutory surplus public reserve	91,995,458.37	89,534,863.84
4. Statutory welfare funds		
Balance at period beginning	44,767,431.92	43,595,236.25
Increase in the period	1,230,297.26	1,172,195.67
Including: Amount allotted from net profit	1,230,297.26	1,172,195.67
Decrease in the year	-	-
Balance at period end	45,997,729.18	44,767,431.92
5. Retained earnings		
Retained earnings at period beginning	295,123,557.33	301,712,778.71
Net profit in the period	24,605,945.27	23,443,913.38
Profit distribution in the period	30,207,439.54	30,033,134.76
Retained earnings at period end	289,522,063.06	295,123,557.33

Consolidated Detailed Statement of VAT Payable

Balance Sheet - Attachment 3

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In RMB

Items	Dec 31, 2004
I. VAT payable	
1. Amount undedicated at year beginning	(5,611,199.47)
2. Output VAT	212,507,762.71
Export rebates	38,253,649.05
Input VAT - transferred-out	12,810,858.40
Over paid VAT - transferred-out	1,375,008.01
3. Input VAT	181,090,097.58
Tax delivered	6,422,159.61
Tax exempted	-
Amount offset with the export rebate	37,033,365.96
Unpaid VAT - transferred-out	35,487,948.35
4. Amount undedicated at period end	(697,492.80)
II. VAT undelivered	
1. Undeliverable at year beginning	(9,054,298.43)
2. Amount transferred-in the period	34,112,940.34
3. Amount delivered in the period	23,391,861.99
4. Amount undelivered at period end	1,666,779.92

Consolidated Statement of Calculating Net Assets - Income Ratio and Earnings per Share

2004Y

Company: Fenghua Advanced Technology (Holding) Co., Ltd.

In: RMB

Profit in the report period	Net Assets - Income Ratio		Earnings per Share (RMB/Share)	
	Fully diluted	Average weighted	Fully diluted	Average weighted
1. Related indexes:				
Profit from principal businesses	10.82%	10.83%	0.4280	0.4280
Business profit	1.65%	1.65%	0.0652	0.0652
Net profit	1.17%	1.17%	0.0464	0.0464
Net profit after deduction of non-recurring loss / gain	1.15%	1.15%	0.0455	0.0455

2. Calculation method

(1) Calculation formula of net assets - income ratio and earnings per share (fully diluted):

Net assets-income ratio fully diluted = profit of the report period / net assets at the period end

Earnings per share fully diluted = profit of the report year / total shares at period end

(2) Calculation formula of net assets-income ratio, weighted average:

$$ROE = \frac{P}{E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0}$$

Where: P refers to the profit of the report period; NP refers to the net profit of the report period; E0 refers to the net assets at the period beginning; Ei refers to the newly added net assets arising from the issuance of new shares or conversion of the debts into shares in the report period; Ej refers to the net assets reduced due to the equity buy back or cash dividends in the report period; M0 refers to the number of months involved in the report period; Mi refers to the number of months from the next month after the newly added net assets to the end of the report period; Mj refers to the number of months from the next month after the reduced net assets to the end of the report period.

(3) Calculation formula of earnings per share, weighted average

$$EPS = \frac{P}{S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0}$$

Where: P refers to the profit of the report period; S0 refers to the total shares at the period beginning; S1 refers to the shares increased due to conversion of the public reserve into share capital or the bonus shares involved in the profit distribution in the report period; Si refers to the number of shares increased due to issuance of new shares or conversion of the debts into shares in the report period; Sj refers to the number of shares reduced due to buy-back or shrinkage of the shares; M0 refers to the number of months in the report period; Mi refers to the number of months from the next month after the increase of shares to the end of the report period; Mj refers to the number of months from the next month after decrease of the shares to the end of the report period.

(4) Non-recurring loss / gain items deducted include:

1. Income of short-term stock investment: RMB6,728,221.06;

2. Subsidy income: RMB 1,197,277.00;

3. Non-operating income: RMB499,336.34;

4. Non-operating expenses (excluding provision for devaluation): RMB827,996.28;

5. Amortization of difference of equity investment: RMB 7,033,082.16;

Total: RMB 563,755.96; amount of non-recurring loss / gain items deducted after less influence of income tax: RMB479,192.57.

Fenghua Advanced Technology (Holding) Co., Ltd.

Notes on the Financial Statements

Ended Dec 31, 2004

In RMB

Note I: Company Profile

The Company is a joint stock limited company incorporated through designated issuing by overall reorganization approved by Guangdong Provincial Commission for Restructuring the Economic Systems with Document GCRES [1994] No. 30. on March 23, 1994, holding the business license No. 19037945-2. Through approval by China Securities Regulatory Commission with Document RSRC Company Zi (1996) No. 308, the Company issued 13.50 million RMB common shares on October 31, 1996 and the shares were listed with Shenzhen Stock Exchange on November 29, 1996. The Company was granted the legal entity business license by Guangdong Provincial Administration for Industry and Commerce on September 30, 2000, with the registration No. 4400001001279 and the share capital and registered capital amounting to RMB 530,331,000.

Scope of Principal Businesses: Production, R & D and marketing of various hi-tech electronic components, integrated circuits, electronic materials and special electronic equipment and instruments and computer networking equipment. Transfer and consulting services of high technologies. Selling self-made electrical and machinery products. Businesses in connection with raw and auxiliary materials, instruments and meters, mechanical equipment, spares and parts necessary for the complete set of equipment, relevant technology export, production and research (subject to the Document of Guangdong Provincial Foreign Economic and Trade Commission [1999] No. 381). Domestic commerce management (those programs prohibited by laws, administrative rules and State Department could not be sold; those programs not prescribed to be permitted by laws, administrative rules and State Department, can be chosen to operate)

Note II: Principal Accounting Policy, Accounting Estimation and Preparation of Consolidated Accounting Statements

1. Accounting system

The Company implements the PRC Enterprise Accounting Standards and the PRC Enterprise Accounting System and the complementary provisions promulgated by the State Ministry of Finance.

2. Fiscal year

The Company uses the calendar year for its fiscal year. A fiscal year is from January 1 to December 31 of years.

3. Standard currency for bookkeeping

The Company uses Renminbi as the standard currency for bookkeeping.

4. Bookkeeping basis and valuation principle

The Company takes the accrual system as the basis for bookkeeping and historical cost as the basis of pricing. Short-term investment and inventories, etc. were un-devaluated at year end and were allocated corresponding provisions for devaluation according to relevant regulations.

5. Foreign Currency Translation

Foreign currency transactions are stated in Renminbi after conversion at the exchange rate published by the People's Bank of China on the first day of the month of incurrence. Foreign currency based assets and liabilities at the end of a year are stated in the exchange gain/loss statement of the year after adjustment based on the year end market rate published by the People's Bank of China; or in the long term expenses to be apportioned in case they incur during the preparation period. Exchange gain/loss arising from foreign currency loans borrowed for purchasing or constructing fixed assets shall be capitalized.

6. Recognition of Cash Equivalent

Cash equivalents refer to the investments held by the Company with short term, high liquidity, easy to be converted into cash with known amount, with very small risk of value variation.

7. Short-term investment:

The short term investments refer to the investments purchased by the Company that are realizable at any time and the holding time will not exceed one year.

Short-term investments are stated based on the actual cost when they were purchased, i.e. the actual payment less the cash dividends or interest as have been announced or due but not yet received to distribute. The cash dividends or interest arising from the short-term investment while holding are used to offset the book value of investment; however, the cash dividends or interest already stated in the accounts receivable are used to offset the original accounts receivable.

The short term investment is charged based on the lower of the cost and the market price at the end of the period and the reserve for price falling is provided on individual investment basis.

8. Criteria for recognizing bad debts

The Company adopts the allowance method when calculating bad debts. Reserve for bad debts is provided based on the accounts receivable at the end of the year (including accounts receivable and other receivables) less the balance of the accounts receivable from the related parties according to the aging, at the proportions as follows: 5% for those within a year; 10% for 1 to 2 years; 15% for 2 to 3 years; 20% for over 3 years; By the end of every year, based on the account receivable and its actual financial situation, cash flows and other information synthesized, for those account receivable with high possibility of default, the percentage of bad debt reserves increased, even to 100% of bad debt reserves.

Criteria for recognizing doubtful debts:

a. The receivables are actually impossible to be recovered because of bankruptcy or death of a debtor and after the liquidation of the bankrupt's or decedent's estates;

b. The receivables are actually impossible to be recovered because the debtor has failed to implement his repayment obligations after the time is overdue.

For the account receivable actually impossible to be recovered, it shall be recognized as loss of bad debt through approval; and the reserve for the bad debt already provided shall be written off.

9. Inventories:

Inventories consist of five types, including raw materials, products in process, finished products, goods delivered and low-priced and easily worn articles, etc. The Company adopts the perpetual inventory system as its inventory system. All the inventories are charged according to the actual costs at the time of purchase and entry and charged based on the weighted average at the time of delivery; Easily-consumed articles with low value is to be amortized in lump sum or in batches at the time of requisition. Inventories at the end of a period are charged at the lower of cost or net realizable value, and the reserve for price falling of inventories is provided based on individual inventories.

At the end of a year, while making thorough check of the inventories, the damaged, completely or partially obsolete inventories or the inventories with sales price lower than the costs are charged based on the lower of the costs and net realizable value; the reserve for price falling of inventories is provided based on the balance of the net realizable value lower than the costs on individual inventory basis.

10. Long-term investment:

1) Long-term equity investment

a. Valuation of long-term equity investments

Stock investment: The Company purchased stocks with monetary fund which is stated in the cost based on the actual payment. Should the actual payment contain cash dividends which have been announced for distribution but not yet been received, the net amount of the actual amount less the dividends is stated as the investment cost. For the shares obtained by giving up non-cash assets, the book value of the given up non-cash assets plus the relevant taxes payable are stated as the investment cost, the cost of appraisal, auditing and consultancy incurred resulting from the implementation of long term equity investment.

Other equity investment: Should the Company make the investment in monetary fund, the actual payment is stated in the cost; For the long term equity as acquired by giving up non-cash assets, its investment cost is determined based on the fair value of the non-cash assets as given up plus the relevant taxes payable.

The lower value between the book value of long-term equity investment and the retractable value is taken account

b. Method of income confirmation

For the stock investments and other equity investment, should the Parent Company hold below 20% of the investee's total capital with voting power, or hold over 20% but with no material significance, the calculation is based on the cost method. Should the Parent Company hold over 20% of the investee's total capital with voting power or below 20% but with material significance, the calculation is based on the equity method.

For the calculation based on the cost method, the investment income is recognized when the investee has announced to distribute cash dividend. For the calculation based on the equity method, the investment income is recognized based on the shares of the net profit as realized by the investee enjoyable by the Company or the share of the net loss suffered by the same the Company has to undertake. In addition, the book value of the long-term equity investment has to be adjusted.

Disposing the equity investment, take the return of the investment as difference between the actual cost of the investment and book value of the investment plus all its cash dividends.

c. Equity investment difference

As for long-term equity investment calculated with equity method, if there is a difference between the cost at the time of obtaining long-term equity investment and the share in the owners' equity of the invested companies and the accounting method of long-term equity investment changes from cost method to equity method, the Company will set up classification item "equity investment difference" for accounting.

At the beginning of the period, the difference that the cost of investment exceeds the returns of investors from investment debited into the account of difference of long term investment and equity investment, which is amortizing within the period as defined in contract, given that no specified time defined in contract for amortization, the amortization is defaulted to be 10 years; at the beginning of the period, the difference that cost of investment is less than returns of investors from investment credited into the account of difference of long term investment and equity investment.

2) Long-term credit investment

a. Valuation of long-term crediting investment

The acquirement of long-term crediting investment, the actual investment cost when it is acquired which is taken as initial cost of investment; the initial cost of investment refers to all payment minus all interest receivable within the payment days, or all book value of all non cash equity forgiven, plus the corresponding duty payable. The differences between the actual cost and the par value of bonds is overpricing or price depreciations

The actual duty paid, handing charges and other relevant cost are all of initial investment cost. Given the amount of cost is small, which can be taken account into profit and loss account when the transaction happens; given the amount of cost is large enough, which can be taken as investment cost and account it independently, the cost can be amortized after the purchase of bonds and pre expiration of the bonds interest payable, take it account into profit and loss of that period.

The value of long-term creditable investment is the lower one between its book value and the value of retractable.

b. Method of income confirmation

The way of income recognition: The calculation of the interest receivable from the bond investment is based on the period. The amount of the bond investment interest income as calculated is recognized as the investment income after the conversion of the adjusted bond investment premium or the conversion into money. The interest receivable of the other bond investment as calculated according to the term is recognized as the investment income of the very period.

All creditable investment sold or retracted, the return of the investment is accounted as the difference of actual payment from the investment and book value of that investment plus all interest receivables.

3) Reserve for devaluation of long-term investment

The Company provides the reserve for the devaluation of the long-term investments. At the end of the year, the Company conducted inspection over the long-term investments item by item. Should the book value of the investment is lower than the amount recoverable due to the continuous dropping of the market price of the long term investments or the operation status of the investees being worsened, the balance from the recoverable amount lower than the book value of the long term investment shall be used as the reserve for the devaluation of the long term investments and shall be recognized as the investment loss of the period. Once the value of the long-term investment as recognized as the loss is recovered, the amount of the investment loss as recognized shall be reversed.

11. Fixed assets and depreciation:

Fixed assets are defined as the premises, buildings, plants and machinery, motor vehicles and other equipment, appliances and tools, etc. in connection with production and operation with the service life of more than one year. The main equipment not in connection with the production or operation but with unit price of mover RMB 2,000 and the service life more than 2 years is still classified as the fixed assets.

a. The fix assets are stated based on the actual cost. The leased fixed assets based on financing are charged based on the lower of original book value of the assets on the date of starting leasing and the present value of the lowest leasing payment. The fixed assets at the end of a year are charged based on the lower of the book value of the fixed assets and the recoverable amount; in case the recoverable amount is lower than the net book value, provision for devaluation of fixed assets is made based on single items.

b. The depreciation of fixed assets is provided on average with straight-line method. The depreciation rate is determined according to the estimated useful lives and cost of fixed assets with their estimated residual value (5% of their cost) being deducted from their cost. The classified depreciation rates are as follows:

Assets	Useful life	Annual depreciation rate
Housings and buildings	10-35 years	9.5-2.71%
Machinery equipment	5-10 years	19-9.5%
Electrical equipment	5-10 years	19-9.5%
Transportation means	6 years	15.83%
Other equipment	5 years	19%

12. Construction in process

Construction-in-progress represents factory buildings under construction and machinery pending installation and so on and is stated at actual cost at the time of incurrence. This includes the cost of construction, the cost of machinery and equipment, interest charges and the exchange loss and gain arising from loan used to finance these project during the period of construction or installation and testing. Construction-in-progress is recognized as fixed assets when it is completed in construction and handed over for use; and at the same time interest capitalization stops. At the end of a year, overall inspection is made over the construction-in-progress. If there is evidence that shows the occurrence of depreciation, construction-in-progress depreciation reserve is provided correspondingly.

13. Calculation of loan cost

1) Loan expenses include the interest, amortization at discount or at premium and additional expenses incurred by loans, the exchange difference incurred by foreign exchange loan as well as the interest, amortization at discount or at premium and exchange difference incurred by special loans. The loan expenses shall be capitalized when the following three conditions are all available:

- a. Assets expenditure has incurred;
- b. Loan costs have already incurred;
- c. Purchase/construction activities for the assets to reach the predicted application status have already started.

Other loan interest, amortization at discount or at premium and exchange difference are confirmed as expenses in the period during which they are incurred.

2) Amounts capitalized

The amount of the capitalized interest arising from purchase/construction of fixed assets in the current period is equal to the weighted average of the accumulated payments times the capitalization rate. The capitalization rate is recognized based on the following principle:

- a. If only one loan is borrowed for purchase/construction of fixed assets, the capitalization rate is the interest rate of the loan;
- b. If more than one loan are borrowed for purchase/construction of fixed assets, the capitalization rate is the weighted average interest rate of the loans borrowed.

3) Capitalization Suspension

If the purchase/construction of fixed assets are discontinued abnormally for over three consecutive months, the capitalization of loan expenses shall be suspended and the loan expenses shall be stated as the expenses of the current period until the purchase/construction of fixed assets resumes.

4) Capitalization Termination

When the fixed assets purchased/constructed have reached the predicted application status, the capitalization of the loan expenses shall stop. Any loan expenses incurring afterwards shall be recognized as the expenses of the current period.

14. Intangible assets and amortization

The purchased intangible assets are stated based on the actual payment; the intangible assets contributed by investors are stated based on the value confirmed by all the investors; for the intangible assets developed by the Company itself and obtained through legal procedure application, the expenses arising from the process of obtaining according to the law, including registration fee, lawyer service fee, and whatsoever, are stated in the actual cost of intangible assets; the research and development expenses are directly stated in the gain/loss of the current period. The intangible assets at the end of a period are measured based on the lower of the book value of the intangible assets and the recoverable amount; in case the recoverable amount is lower than the net book value, reserve for devaluation of intangible assets is provided.

Various intangible assets are amortized over the shorter of the beneficiary term and the valid term. Amortization during the amortization term is made based on the straight-line method; the amortization term shall not exceed 10 years in case there is no definite beneficiary term or valid term specified. In usual cases, the amortization terms are specified as follows:

- a. Land use rights: 50 years;
- b. Proprietary technologies: 10 years.

15. Accounting method for other assets

- a. Initial expenditure: Initial expenditure is included in the operating result of the month of commencing production and operation in lump sum.
- b. The long-term expenses to be apportioned are averagely amortized over the benefited period.

16. Principle of recognizing the estimated liabilities

Liabilities shall be recognized when the obligation in connection with the contingent events complies with the following conditions:

- 1) Such an obligation is a current one the enterprise should assume;
- 2) Implementation of such obligation may possibly cause economic loss of the enterprise;
- 3) The amount involved in such obligation can be reliably counted.

The amount is the best estimated amount for repaying such liabilities. Should there exist a range of amount necessary for repayment, use the average of the maximum and minimum of the range to determine the best estimated amount. Should there exist no such range, the best estimated amount should be determined according to the following methods:

(1) When contingent item involves a single item, the best estimated amount should be determined based on the amount which most possibly incurs;

(2) When contingent item involves several items, the best estimated amount should be determined based on various amounts which may possibly incur as well as the probability of incurrence.

In case the determined liabilities payable should completely or partially be compensated by a third party or other party, while the amount of compensation can be basically confirmed receivable, it should be individually recognized as assets. However, the amount of compensation as recognized should not exceed the book value of the liabilities as recognized.

17. Principle of Income Recognition

Sales of commodities: Sales income are recognized when the significant risks and rewards of ownership of the goods have been transferred to customers, and the amount of sales-related revenue and costs can be measured reliably.

Labor services offered (excluding those involved in a long term contract): Income from the labor services started and completed in the same fiscal year is recognized upon completion of the services; income from the labor services carried over to the next year is recognized based on the percentage of the work completed. In determining the labor service income, the total income of the labor service contract and completion of the labor services can be reliably determined and the relevant economic benefit can flow to the Company and the completion of the labor services can be reliably measured.

Income from assignment of the intangible assets use right is recognized based on the chargeable term and calculation method as specified in the relevant contract/agreement.

18. Accounting Treatment of Income Tax

Income tax is stated based on the tax payable method.

19. Method of preparing the consolidated accounting statements

The consolidated statements are prepared based on the principle that the parent company consolidates the financial statements of its investees whose capital is held by the parent company by more than 50% with voting power or the subsidiaries whose equity is held by the parent company by less than 50% but with actual control power.

The accounting method used in the consolidation is based on the accounting statements of the Company and such subsidiaries within the scope of consolidation. All the inter company investments, credit and debts, inventories as supplied and purchased have been eliminated. Calculation is made of minority shareholders' loss/gain and their interests. The assets, liabilities, revenue, expenses and profit, etc. of the joint venture companies in compliance with the proportion based consolidation method are consolidated based on the proportion the Company enjoys in the joint venture companies.

Note III: Taxation

Principal taxes and tax rates applicable to the Company

Taxes	Allocation basis	Tax rate
VAT	Income from selling products and commodities	17%
Business taxes	Income from services, labor supplying and others	5%
Income tax	Taxable income amount	15%
Urban construction taxes	Actually paid amount of VAT, business tax and consumption tax.	7%
Education surcharge	Actually paid amount of VAT, business tax and consumption tax.	3%

Note IV: Subsidiaries and joint venture

1. Subsidiaries stated into consolidated accounting statements:

Companies	Registration place	Legal representative	Registered capital (RMB'000)	Actual investment (RMB'000)	Shares held	Principal businesses
Zhaoqing Lihua Electronics Co., Ltd.*1	Zhaoqing, Guangdong	Liang Yali	RMB3,969	RMB4,019.75	100%	Manufacturing and sales of electronic components
Zhaoqing Kehua Electronic Technology Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	USD500	USD279.83	55%	Manufacturing and sales of all kinds of chip electronic components and apparatus.
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	RMB2,500	RMB2,300	92%	Manufacturing and sales of all kinds of modern electronic components, apparatus
Zhaoqing Baohua Electronics Equipment Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	RMB2,500	RMB2,400	96%	Manufacturing, sales and R&D of electronic equipment, devices and electronic apparatus.
Guangdong Yingda Inductor Co., Ltd*1	Zhaoqing, Guangdong	Liang Liping	RMB2,500	RMB2,500	100%	Manufacturing, sales and R&D of inductors and related materials.
Guangdong Zhaoqing Micsource Electronic Co., Ltd.	Zhaoqing, Guangdong	Liu Huichong	RMB6,700	RMB5,930	94.77%	Manufacturing, sales and R&D of magnetic materials and related components
Zhaoqing Dingci Electronic Co., Ltd.	Zhaoqing, Guangdong	Liu Huichong	RMB1,500	RMB1,340	94.00%	Manufacturing, sales and R&D of magnetic materials and related components
Zhaoqing Haite Electronic Co., Ltd.	Zhaoqing, Guangdong	Liu Huichong	RMB1,800	RMB1,600	94.07%	Manufacturing, sales and R&D of magnetic materials and related components
Zhaoqing Fenghua Neo-valley Microelectronics Co., Ltd.	Zhaoqing, Guangdong	Chen Jinqing	RMB2,000	RMB1,800	90%	Manufacturing, sales of universal integrated circuit module
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. *2	Zhaoqing, Guangdong	Liang Liping	RMB18,900	RMB19,845	100%	R&D, Manufacturing and sales of a series of electronic materials, lithium battery, battery core and related products.

*1. On April 2004, the company signed agreement with Zhaoqing Hualida Investment Co., Ltd, of transferring shares, the Company purchase the shares of its subsidiary of Zhaoqing Lihua Electronics Co., Ltd, for the price of 1.53 Yuan per share, for total value of 1.4575 million, 2.40% shares of its total equity;for the price of 1.00 Yuan, for the total value of 2 million to purchase its subsidiary of Guangdong Yingda Inductor Co., Ltd, 8% shares of its total equity, all purchasing payments are made by the time of June, 2004. After the shares purchasing, the company holds 100% shares of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Yingda Inductor Co., Ltd. According the resolution of its fourth term board in its first meeting by 2004, the companies of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Yingda Inductor Co., Ltd have been changed to be its subsidiaries by the time of May 2004.

According to the resolution of finance ministry of accounting standard regarding to public listed company, 1998 No.66 under the principle of priority of date of share purchasing, the date of June 30, 2004 is set to be the date of shares purchasing. According to Answering Relevant Questions (Two) about Execution of Enterprise Accountant System and Relevant Accountant Criterion by Finance Department, the Company would take into account of consolidated financial statement, the balance sheet on December 31, 2004, and profit and loss statement and cash flow statement from July 2004 to December 2004 of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Yingda Inductor Co., Ltd

*2. On Oct 2004, the company signed agreement with Guangdong science and technology investment company, of transferring shares, the Company purchase the shares of its subsidiary of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd, for the price of 1.056 Yuan per share, for total value of 6.336 million, 3.17% shares of its total equity;The company signed agreement with Guangdong Guangye Investment Group Co., Ltd., of transferring shares, the Company purchase the shares of its subsidiary of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd, for the price of 1.056 Yuan per share, for total value of 76.834 million, 38.50% shares of its total equity;all purchasing payments are made by the time of Dec, 2004. After the shares purchasing, the company holds 100% shares of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd

2. Subsidiaries listed in the consolidation of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. are summarized as follows:

Companies	Registration place	Legal representative	Registered capital (RMB'000)	Actual investment (RMB'000)	Shares held	Principal businesses
Zhaoqing Xianhua New Sensitive Components Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	RMB550	RMB480	87.27%	Manufacturing and sales of new sensitive materials, components and functional unit.
Guangdong Zhaoqing Fenghua Electronic Engineering Development Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	RMB2,913.90	RMB2,879.50	98.82%	Development and manufacturing of hi-tech electronic information functional materials and components.
Zhaoqing Linghua Co., Ltd.	Zhaoqing, Guangdong	Liang Liping	RMB752.60	RMB702.60	93.36%	Manufacturing all kinds of electronic chemical materials and products.
Zhaoqing Fenghua Lithium Battery Co., Ltd.	Zhaoqing, Guangdong	Cao Weijian	RMB9,778.37	RMB2,700	27.61%	Manufacturing, sales and R&D of new battery materials, products and related products.
Siping Jihua Advanced Technology Co., Ltd.	Shiping, Jilin	Wang Yawen	RMB645	RMB387	60%	Manufacturing and sales of electronic film circuits

The company's holding shares subsidiary Guangdong Zhaoqing Kexun Hi-tech Co., Ltd signs capital increasing agreement with Guangdong Guangye Investment Group Co., Ltd. and Guangdong science and technology investment company on October 26, 2004. It would add the registered assets of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.'s holding shares subsidiary Zhaoqing Fenghua Lithium Battery Co., Ltd., from 30.00 million Yuan to 97.7837 million Yuan.while 62.6199 million Yuan is from Guangdong Guangye Investment Group Co., Ltd.,which is 64.04% of converted registered assets,5.1638 million Yuan is from Guangdong Science and Technology Investment Company,which is 5.28% of converted registered assets.The registered assets ratio of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd, decreases from 90% to 27.61%. The reinvestment is audited by Zhaoqing Tianyuan Xinzhan Certified Public Accountants with auditing report of [2004]NO. 218. The balance sheet of Zhaoqing Fenghua Lithium Battery Co., Ltd. On December 31, 2004 would not be taken into account of consolidated financial statement of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd, profit and loss statement and cash flow statement from January 2004 to November 2004 will be taken.

3. Joint venture and associated companies

Companies	Registration place	Legal representative	Registered capital (RMB'000)	Actual investment (RMB'000)	Shares held	Principal businesses
Changchun Aopu Opto-Electronic Co., Ltd.	Changchun, Jilin	Xuan Ming	RMB2,500	RMB1,512.29	20%	R&D, manufacturing and sales of optical technology materials, apparatus and advanced opto electronic device
Shenzhen Fenghua Technology Development Co., Ltd.	Shenzhen, Guangdong	Liang Liping	RMB8,000	RMB2,900	36.25%	R&D of electronic information products
Changchun Guanghua MicroelectronicEngineering Center Co., Ltd.*	Changchun, Jilin	Xuan Ming	RMB1,600	RMB589.62	36.42%	Debugging, research, manufacturing and Equipment sales of special optical, electronic and microelectronics equipment

* On Dec 2004, Guotou Chuangye Investment Co., Ltd, invests in Changchun Guanghua Microelectronic Engineering Center Co., Ltd 4 million Yuan. After reinvestment the total equity of Changchun Guanghua Microelectronic Engineering Center Co., Ltd is changed from 12 million Yuan to be 16 million Yuan, the shares held by the Company changed from 38% to 28.5%, the shares held by Zhaoqing Baohua Electronics Equipment Co., Ltd changed from 11% to 8.25%. Up to Dec 31, 2004, the actual shares holding by the Company is 36.42%.

Note V: Notes to major items in accounting statements

1. Monetary funds

Types	Currency	Dec. 31, 2004			Dec. 31, 2003		
		Amount of original current	Exchange rate	Translated into RMB	Amount of original current	Exchange rate	Translated into RMB
Cash	RMB	6,407.77	-	6,407.77	15,028.25	-	15,028.25
	HKD	-	-	-	-	-	-
Sub-total of cash				6,407.77			15,028.25
Bank deposit	RMB	668,173,124.84	-	668,173,124.84	335,971,757.92	-	335,971,757.92
	HKD	-	-	-	71,919.55	1.0657	76,644.66
	USD	-	-	-	3.77	8.2758	31.20
Sub-total of bank deposit				668,173,124.84			336,048,433.78
Other monetary funds	RMB	32,058,600.21	-	32,058,600.21	35,997,336.78	-	35,997,336.78
Total				700,238,132.82			372,060,798.81

The other monetary funds are mainly the cash for investment of short term stock investment balance.

The monetary funds increase 88.21% from term beginning to term end, mainly because of increasing loan.

The 191.00 million Yuan term end balance of bank deposit has been impawned, for acquiring loan and promises of writing acceptance draft and so on.

2. Short-term investment

Items	Dec. 31, 2004		Dec. 31, 2003	
	Amount invested	Provision for devaluation	Amount invested	Provision for devaluation
Equity investment	45,175,166.29	11,651,918.10	41,696,812.47	1,426,462.27
Including: Stock investment	45,175,166.29	11,651,918.10	41,696,812.47	1,426,462.27
Total	45,175,166.29	11,651,918.10	41,696,812.47	1,426,462.27

Up to Dec 31, 2004, the equity value is 33,649,124.41 Yuan.

3. Notes receivable

Types	Period	Dec 31, 2004	Dec 31, 2003
Bank acceptable draft	1 to 3 months	5,582,944.67	8,002,808.41
Bank acceptable draft	4 to 6 months	14,749,816.12	20,259,768.21
Bank acceptable draft	1 to 3 months	790,049.78	1,837,345.65
Bank acceptable draft	4 to 6 months	247,600.00	167,821.00
Total		21,370,410.57	30,267,743.27

The amount of not at term discount Bank acceptance draft is 21,856,612.00 Yuan.

4. Accounts receivable

Aging	Dec 31, 2004			Dec 31, 2003		
	Amount	Provision	Provision for bad debts	Amount	Provision	Provision for bad debts
Within 1 year	361,218,519.47	79.71%	15,137,761.04	431,289,088.73	80.25%	18,188,209.01
1 to 2 years	7,454,507.56	1.64%	747,174.52	50,368,032.45	9.37%	5,036,803.25
2 to 3 years	40,205,872.42	8.87%	6,081,969.71	12,884,580.16	2.40%	1,932,687.02
Over 3 years	44,345,863.87	9.78%	10,507,573.16	42,866,402.12	7.98%	10,251,612.93
Total	453,224,763.32	100 %	32,474,478.43	537,408,103.46	100%	35,409,312.21

In the accounts receivable, there are no arrears from the shareholders that hold more than 5% (including 5%) of the Company's shares in the balance of accounts payable at the end of the period. Please refer to Note VII (3).

Of the accounts receivable at the end of the period, the total amount owed by the top five debtors was RMB61,321,918.77, taking 13.53% of the total accounts receivable.

5. Other receivables

Aging	Dec 31, 2004			Dec 31, 2003		
	Amount	Provision	Provision for bad debts	Amount	Provision	Provision for bad debts
Within 1 year	10,604,973.31	23.54%	470,313.95	44,943,004.67	84.52%	17,025,941.50
1 to 2 years	26,987,534.06	59.89%	15,476,139.74	1,842,612.09	3.47%	184,261.21
2 to 3 years	1,104,074.53	2.45%	226,467.35	838,234.00	1.58%	125,735.10
Over 3 years	6,364,227.01	14.12%	2,474,582.65	5,547,711.49	10.43%	1,573,722.62
Total	45,060,808.91	100%	18,647,503.69	53,171,562.25	100%	18,909,660.43

Of the balance at the end of the period, there were no arrears from the shareholders holding over 5% (including 5%) of the Company's shares.

Of the other receivables at the end of the period, the total amount owed by the top five debtors was RMB 11,720,302.05, taking 26.01% of the total other receivables.

6. Advances to suppliers

Aging	Dec. 31, 2004		Dec. 31, 2003	
	Amount	Provision	Amount	Provision
Within 1 year	30,185,002.74	85.24%	24,398,620.83	90.08%
1 to 2 years	3,369,876.44	9.52%	2,476,344.12	9.14%
2 to 3 years	1,849,203.15	5.22%	167,542.10	0.62%
Over 3 years	6,070.00	0.02%	43,951.29	0.16%
Total	35,410,152.33	100%	27,086,458.34	100%

Of the balance of advances to the suppliers at the end of the report period, there were no arrears from the shareholders holding over 5% (including 5%) of the Company's shares.

Of the advances to the supplier at the end of the period, the total amount owed by the top five debtors was RMB 8,968,068.77, taking 25.33% of the total.

7. Subsidies receivable

Items	Dec 31, 2004	Dec 31, 2003
Export rebate receivable	-	4,447,950.16
Total	-	4,447,950.16

The receivable allowance is lower than the end of period which is due to the tax drawback of exporting.

8. Inventories

Items	Dec. 31, 2004		Dec. 31, 2003	
	Amount	Provision for devaluation	Amount	Provision for devaluation
Raw materials	90,755,107.22	8,409,355.42	87,776,516.45	2,879,345.99
Products in process	137,076,809.09	4,192,027.45	130,647,272.83	843,717.02
Finished products	219,188,995.19	31,466,102.93	232,569,428.29	30,650,460.16
Low-value consumptable articles	1,958,715.14	776,786.05	2,097,634.04	598,299.21
Material in transit	38,568.13	-	35,742.25	-
Consigned materials for processing	568.38	-	89,341.73	-
Packages	23,222.82	-	16,046.37	-
Goods sent out	37,891,211.59	-	14,526,156.71	-
Total	486,933,197.56	44,844,271.85	467,758,138.67	34,971,822.38

The net realizable value of the inventories at the end of the period is determined based on the latest sales price on the date of statement and reserve for price falling of inventories is provided on this basis.

9. Expenses to be apportioned

Items	Balance at period beginning	Increase in the period	Amortization in the period	Balance at period end	Reason of balance
Auxiliary accessories	3,492,704.11	8,639,802.28	8,162,814.59	3,969,691.80	Having not amortized yet.
Others	107,490.29	35,487.04	104,127.12	38,850.21	Having not amortized yet.
Total	3,600,194.40	8,675,289.32	8,266,941.71	4,008,542.01	

10. Long-term investment

Items	Balance at period beginning	Increase in the period	Decrease in the period	Balance at period end
Long-term equity investment				
Including: Other equity investment *A	57,215,612.66	29,139,805.74	720,000.00	85,635,418.40
Difference of equity investment *B	52,146,867.58	3,421,847.20	7,033,082.16	48,535,632.62
Total	109,362,480.24	32,561,652.94	7,753,082.16	134,171,051.02
Long-term credit investment	-	5,000,000.00	-	5,000,000.00
Less: Provision for devaluation of long-term investment	-	-	-	-
Long-term investment - net	109,362,480.24	37,561,652.94	7,753,082.16	139,171,051.02

The increased fund 28,605,306.96 Yuan of this other equity investment term, is caused by that Zhaoqing Fenghua Lithium Battery Co., Ltd. does not take its holding shares subsidiary Guangdong Zhaoqing Kexun Hi-tech Co., Ltd into account of consolidated financial statement. Please refer to Note V (2).

*A. Other equity investment

Investees	Amount invested			Balance at period end	Investment Provision
	Initial investment	Equity adjustment in the year	Accumulative equity adjustment		
Changchun Aopu Opto-Electronic Technology Co., Ltd.	15,122,964.46	1,022,027.54	2,416,751.08	17,539,715.54	20%
Shenzhen Fenghua Technology Development Co., Ltd.	29,000,000.00	(1,031,429.84)	(1,796,451.95)	27,203,548.05	36.25%
Changchun Guanghua Microelectronic Equipment Engineering Center Co., Ltd.*1	5,896,200.00	(156,098.92)	(773,371.37)	5,122,828.63	36.42%
Taiyuan Fenghua Information Equipment Co., Ltd.	7,164,019.22	-	-	7,164,019.22	15.19%
Yingkou Yinghua Hi-tech Co., Ltd.	15,198,600.00	-	(15,198,600.00)	-	70%
Guangdong Shaoguan Gaojian Magnetic Material Co., Ltd.*2	4,850,000.00	-	(4,850,000.00)	-	-
Zhaoqing Fenghua Lithium Battery Co., Ltd	27,000,000.00	(2,338,055.79)	1,605,306.96	28,605,306.96	27.61%
Total	104,231,783.68	(2,503,557.01)	(18,596,365.28)	85,635,418.40	

*1. 1. The share of investment by Changchun Guanghua Microelectronic Equipment Engineering Center Co., Ltd is changed from 48.56% to be 36.42%, which is due to increased paid-up capital by invest company this year. See note V(3)

*2. According to SICP (2004) No.7 6-2 Civil Ruling Paper of Guangdong Shaoguan Intermediate People's Court, Guangdong Shaoguan Gaojian Magnetic Material Co., Ltd has completed bankruptcy liquidation, its credit of bankrupt becomes 0.

*B. Difference of equity investment

Investees	Initial amount	Amortization period	Amortization method	Amortization in the period	Accumulative amortization	Balance at period end
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd	73,752,669.88	10 years	Straight line method	7,033,082.16	25,217,037.26	48,535,632.62
Total	73,752,669.88	-	-	7,033,082.16	25,217,037.26	48,535,632.62

* Difference of equity investment of initial capital increases by 3,421,847.20 Yuan than last year, that is due to the difference of our company buying equity from some shareholders of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. See note V(2)

11. Fixed assets and accumulative depreciation

Types of fixed assets	Balance at period beginning	Increase in the period	Decrease in the period	Balance at period end
Cost				
Housings and buildings	664,042,910.77	47,911,912.30	-	711,954,823.07
Production equipment	1,463,824,711.98	35,027,196.19	41,378,189.88	1,457,473,718.29
Electrical equipment	110,651,235.51	9,342,304.83	666,331.37	119,327,208.97
Vehicles	11,233,721.70	838,689.39	893,380.00	11,179,031.09
Other equipment	34,559,163.49	3,016,474.23	1,008,939.99	36,566,697.73
Total	2,284,311,743.45	96,136,576.94	43,946,841.24	2,336,501,479.15
Accumulative depreciation				
Housings and buildings	60,752,788.02	28,192,217.53	579,977.58	88,365,027.97
Production equipment	485,845,502.38	99,393,103.92	11,523,782.82	573,714,823.48
Electrical equipment	38,253,254.39	25,253,178.85	222,153.49	63,284,279.75
Vehicles	6,891,833.03	2,089,445.30	566,061.41	8,415,216.92
Other equipment	13,590,270.87	10,678,278.24	848,943.37	23,419,605.74
Total	605,333,648.69	165,606,223.84	13,740,918.67	757,198,953.86
Net	1,678,978,094.76			1,579,302,525.29
Less: provision of devaluation of fixed assets*	20,707,533.03			20,707,533.03
Net	1,658,270,561.73			1,558,594,992.26

Of the aforesaid fixed assets, the amount of the construction-in-process converted into fixed assets in the report year was RMB 45,026,379.44

The values decreasing of the fixed assets is mainly due to Zhaoqing Fenghua Lithium Battery Co., Ltd are not taken into account of consolidated financial statement of Guangdong Zhaoqing Kexun Hi-tech Co., Ltd

Up to Dec 31, 2004, The some of the formal housings and buildings, whose origin value is 184,965,939.42Yuan and net value is 162,160,426.31 Yuan, have been guaranty of 130.06 million Yuan highest mortgage contract. Now our company has received 100 million Yuan short term loan under highest mortgage contract. Among the machinery equipments, some parts whose origin value is 2,194,750.00 Yuan and net value is 1,450,911.13 Yuan have been guaranty, receiving short-term load 1 million Yuan.

The house property title certificate with value of RMB262,219,486.44 is still in process of handling procedures.

* Provision of devaluation of fixed assets

Types	Balance at period beginning	Increase in the period	Decrease in the period	Balance at Balance at
Machinery equipment	20,661,742.18	-	-	20,661,742.18
Electrical equipment	10,743.06	-	-	10,743.06
Other equipment	35,047.79	-	-	35,047.79
Total	20,707,533.03	-	-	20,707,533.03

12. Construction in progress

Projects	Balance at period beginning	Increase in the period	Fixed asset-transferred-in in the period	Other decrease	Balance at period end	Fund sources	Project progress
Structural engineering							
Dachong magnetic material factory	641,622.05	-	-	-	641,622.05	self-raised	Pre-starting
21 items of water and power engineering of the electronics city	2,860,209.66	-	2,860,209.66	-	-	self-raised	-
Other structural engineering	2,100,445.22	3,133,140.18	430,391.68	150,394.60	4,652,799.12	self-raised	-
Sub-total	5,602,276.93	3,133,140.18	3,290,601.34	150,394.60	5,294,421.17		
Equipment installing	26,397,520.15	49,694,048.39	41,735,778.10	43,515.68	34,312,274.76	self-raised	Under debugging
Total	31,999,797.08	52,827,188.57	45,026,379.44	193,910.28	39,606,695.93		
Less: Provision for devaluation of structural engineering	-	75,669.96	-	-	75,669.96		
Net	31,999,797.08				39,531,025.97		

No project under construction that expected retractable funds is lower than book value, no depreciation needed in project construction.

13. Intangible assets

Types	Way of obtaining	Cost	Balance at period beginning	Increase in the period	Transferred out in the period	Amortization in the period	Accumulative amortization	Balance at period end	Residual amortized
Land use right	Purchase	77,554,219.28	33,089,676.89	41,500,000.00	6,500,000.00	1,236,805.24	4,201,347.63	66,852,871.65	49.58
Proprietary technology	Purchase	6,920,619.24	2,402,635.59	204,600.00	-	1,053,561.27	5,366,944.92	1,553,674.32	5.12
Technology use right	Purchase	4,877,318.00	3,645,165.80	-	261,333.36	715,563.32	1,947,715.52	2,668,269.12	7.56
Total		89,352,156.52	39,137,478.28	41,704,600.00	6,761,333.36	3,005,929.83	11,516,008.07	71,074,815.09	
Less: Provision of devaluation of intangible assets			-					-	
Net			39,137,478.28					71,074,815.09	

Intangible assets increase by 81.60% from term beginning to term end, mainly due to buying land-use right 37.5million Yuan from Guangdong Fenghua Advanced Technology Group this term.

At the end of the term, there is a still 37.5million Yuan of Intangible asset not finishing its land-use right certificate.

No intangible asset that expected retractable funds is lower than book value, no depreciation needed in intangible asset.

14. Long-term expenses to be apportioned

Items	Initial occurred amount	Balance at period beginning	Increase in the period	Amortization in the period	Accumulative mortization	Balance at period end	Residual amortized years
Reform of factory area	11,571,503.71	6,560,583.14	630,809.45	2,422,717.96	6,802,829.08	4,768,674.63	1.75-4.5
Others	1,448,452.99	534,256.02	475,180.43	333,698.63	772,715.17	675,737.82	-
Total	13,019,956.70	7,094,839.16	1,105,989.88	2,756,416.59	7,575,544.25	5,444,412.45	

15. Short-term loans

Conditions for loans and currency	Monthly interest rate	Dec 31, 2004		Dec. 31, 2003	
		Original currency	Translated into RMB	Original currency	Translated into RMB
Secured loans:					
RMB	2.9250‰-4.6500‰	635,000,000.00	635,000,000.00	400,000,000.00	400,000,000.00
Credit loans:					
RMB	3.9825‰-4.8750‰	150,000,000.00	150,000,000.00	280,000,000.00	280,000,000.00
Secured Loans:					
RMB	4.4225‰-5.7525‰	101,000,000.00	101,000,000.00	1,000,000.00	1,000,000.00
impawn Loans:					
RMB	4.1850‰	110,000,000.00	110,000,000.00	-	-
Total			996,000,000.00		681,000,000.00

The secured loans are guaranteed by Guangdong Fenghua Advanced Technology Group, see note VII (2)

Short term loans increases by 46.26% from term beginning to term end, mainly due to increasing company cash flow and demand of loan for programs.

16. Notes payable

Types	Dec 31, 2004	Dec 31, 2003
Bank acceptable draft	21,153,000.00	81,257,400.00
Total	21,153,000.00	81,257,400.00

Notes payable decrease by 73.97% from term beginning to term end, mainly due to paying former term notes payable at this term.

17. Accounts payable

Of the balance of accounts payable at period end (RMB254,959,774.78), there were none owed to the shareholders holding over 5% of the Company's shares.

18. Advances from customers

Of the balance of advances from customers at period end (RMB2,619,178.28), there were none owed to the shareholders holding over 5% of the Company's shares.

19. Taxes payable

Taxes	Dec 31, 2004	Dec 31, 2003
VAT	969,287.12	(14,665,497.90)
Business tax	410.00	48,863.00
Urban maintenance construction tax	1,632,813.73	1,391,069.14
Enterprise income tax	9,948,543.32	6,053,986.86
Withholding individual income tax	301,276.54	279,498.38
Others	3,636.01	2,178.47
Total	12,855,966.72	(6,889,902.05)

The duty payable is increased greatly, the main reason is due to the increasing of domestic sales with corresponding of duty increasing.

20. Other deliverables

Taxes	Dec 31, 2004	Dec 31, 2003
Education surcharge	699,777.30	605,544.76
Others	65,790.00	61,509.44
Total	765,567.30	667,054.20

21. Other payables

Of the balance of other payables at period end (RMB14,537,047.45), there were none owed to the shareholders holding over 5% of the Company's shares.

22. Accrued expenses

Items	Reason of balance	Dec 31, 2004	Dec 31, 2003
Wages and rewards	Having not paid yet	2,172,724.90	751,373.88
Expenses of contracted sales	Having not paid sales expenses provided based on collected amount	1,211,048.84	1,839,538.62
Interest	Providing in advance loan interest	1,314,917.23	867,475.68
Rent, water and power fee	Having not paid yet	1,365,253.11	1,587,384.34
Processing charge and commission	Having not paid yet	160,546.02	321,693.64
Others	Providing in advance risk funds	1,307,847.63	792,218.08
Total		7,532,337.73	6,159,684.24

23. Long-term accounts payable

Fund providers	Item	Dec 31, 2004	Dec 31, 2003
Guangdong Provincial Department of Finance	Fund provided in hi-tech development	188,264.63	248,583.62
Guotou Chuangye Investment Co., Ltd	Low interest loan for sensitive component project completeness	5,000,000.00	5,000,000.00
Total		5,188,264.63	5,248,583.62

24. Special accounts payable

Fund providers	Item	Dec 31, 2004	Dec 31, 2003
Guangdong Finance Municipal Bureau	Fund provided for the three expenses in hi-tech development and special fund for developing trade with science and technology	31,645,518.00	17,578,979.52
Total		31,645,518.00	17,578,979.52

Special accounts payable increase by 80% from term beginning to term end, because:

According to YETT [2004] No.420 "Inform of 2004 Provincial Finance Technique Innovation Special Supporting Fund Program Plan" by Guangdong Provincial Department of Finance, Guangdong Provincial Economic and Trade Commission, our company receives 6,000,000.00 Yuan of Technique Innovation Special Supporting Fund from Guangdong Provincial Department of Finance; according to YDIH [2004] No.1052"Transferring Inform of 2004 National Hi-Tech Industrial Development Programs and Industrial Technique Research and Development Fund Programs Plan" by Guangdong Provincial Department of Finance and Guangdong Development and Innovation Commission, our company receives 2,000,000.00 Yuan of Industrial Special Fund; according to YETT [2004] No.663 " Inform of 2004 Guangdong Provincial Finance Supporting Technique Innovation Invitation Public Bidding Programs Fund Plan "by Guangdong Provincial Department of Finance, Guangdong Provincial Economic and Trade Commission, our company receives 4,500,000.00 Yuan of Technique Innovation Fund from Guangdong Provincial Department of Finance.

25. Share capital

Items	Dec 31,2003	Changes in the report period		Dec 31,2004
		Shares issued additionally	Others	
I. Non-circulating shares				
1. Promoters' shares				
Incl.: State-owned shares	201,080,451.00	-	-	201,080,451.00
Domestic legal person shares	24,831,001.00	-	-	24,831,001.00
2. Legal person shares placed	103,625,303.00	-	-	103,625,303.00
3. Employees' shares		-	-	
4. Preference shares or others	167,095.00	-	(54,031)	113,064.00
Total non-circulating shares	329,703,850.00	-	-	329,649,819.00
II. Circulating shares				
1. RMB common shares listed domestically	200,627,105.00	-	54,031	200,681,136.00
Total circulating shares	200,627,105.00	-	-	200,681,136.00
III. Total shares	530,330,955.00	-	-	530,330,955.00

The Company has totally 530,330,955 shares of share capital with par value of RMB 1.00 per share, converted into RMB common shares amounting to RMB 530,330,955.00. The aforesaid share capital has been verified by Shenzhen NanFang Certified Public Accountants by issuing the capital verification report (SNCPC Verification Zi (2000) No. YA119).

26. Capital public reserve

Items	Dec 31,2003	Increase in the report period	Decrease in the report period	Dec 31,2004
Capital stock premium	1,058,291,486.35	-	-	1,058,291,486.35
Provision for equity investment*1	5,668,585.25	882,764.40	-	6,551,349.65
Reserve for increase in asset valuation	13,041,948.70	-	-	13,041,948.70
Appropriate funds	12,000,000.00	-	-	12,000,000.00
Provision for donations received by investees	2,627.30	-	-	2,627.30
Total	1,089,004,647.60	882,764.40	-	1,089,887,412.00

*1. The increasing of equity investment is due to increasing of public capital reserve.

27. Surplus public reserve

Items	Dec 31,2003	Increase in the report period	Decrease in the report period	Dec 31,2004
Statutory public reserve	89,534,863.84	2,460,594.53	-	91,995,458.37
Discretionary surplus reserve	24,415,818.24	-	-	24,415,818.24
Subtotal	113,950,682.08	2,460,594.53	-	116,411,276.61
Statutory welfare fund	44,767,431.92	1,230,297.26	-	45,997,729.18
Total	158,718,114.00	3,690,891.79	-	162,409,005.79

Increase of the Company's statutory public reserve and the statutory public welfare fund in the report period is mainly due to that the Company provided the statutory public reserve and the statutory public welfare fund respectively based on 10% and 5% of the after-tax profit of the year according to the resolution of the Board meeting.

28. Undistributed profit

Items	2004Y
Net profit	24,605,945.27
Add: Undistributed profit at period beginning	295,123,557.33
Less: Allotting legal surplus reserve	2,460,594.53
Allotting welfare fund	1,230,297.26
Allotting discretionary surplus reserve	-
Dividends distribution	26,516,547.75
At period end	289,522,063.06

According to the proposal of profit dividend paid for 2004 made by fourth term board in its first meeting 2005, after the provision of the statutory public reserve and the statutory public welfare fund based on 10% and 5% respectively of the after-tax profit in 2004, with the total share capital as the base, the Company is to distribute cash dividends to the whole shareholders at the rate of RMB 0.50 (including tax) for every 10 shares. The aforesaid profit distribution proposal shall be submitted to the Shareholders' General Meeting for review and approval before being implemented. In case of difference occurred between the corresponding resolution of the Shareholders' General Meeting and this proposal, the said resolution shall prevail.

29. Cash dividend payable

Item	Dec 31, 2004	Dec 31, 2003
Cash dividend	26,516,547.75	26,516,547.75
Total	26,516,547.75	26,516,547.75

30. Income from and cost of principal businesses

(1) Based on businesses

Items	Operating income		Operating cost		Gross operating spread (In RMB)	
	(In RMB)		(In RMB)			
	2004Y	2003Y	2004Y	2003Y	2004Y	2003Y
Electronic components	2,441,409,801.79	2,171,609,784.36	2,215,424,406.66	1,947,965,201.51	225,985,395.13	223,644,582.85
Electronic equipment	46,495,042.61	44,190,982.01	39,997,049.72	38,415,845.33	6,497,992.89	5,775,136.68
Mutual offsetting in the sector inside the Company	1,212,327,740.05	1,159,821,818.49	1,213,868,556.38	1,156,306,956.60	(1,540,816.33)	3,514,861.89
Total	1,275,577,104.35	1,055,978,947.88	1,041,552,900.00	830,074,090.24	234,024,204.35	225,904,857.64

(2) Based on regions

Regions	2004Y	2003Y
East China	96,981,532.33	54,830,015.52
South China	612,694,203.00	498,142,611.95
North China	35,928,621.46	19,030,744.43
Northeast China	10,900,142.14	6,039,623.57
Southwest China	15,402,380.68	34,612,538.67
Overseas	319,486,946.07	261,095,660.18
Others	184,183,278.67	182,227,753.56
Total	1,275,577,104.35	1,055,978,947.88

(3) Sales to the top five customers

For the year of 2004, the 5 biggest client sales is 162,427,217.65 Yuan, represents 12.73% out of all sales.

31. Main business taxes and surcharge

Items	2004Y	2003Y
Business tax	136,495.48	642,028.00
Urban development and maintenance tax	4,730,018.11	5,346,729.32
Educational surcharge	2,027,229.80	2,290,468.99
Others	156,598.51	17,505.08
Total	7,050,341.90	8,296,731.39

32. Profit from other business lines

Items	Income from other business lines (In RMB)		Cost of other business lines (In RMB)		Profit from other business lines (In RMB)	
	2004Y	2003Y	2004Y	2003Y	2004Y	2003Y
Sales of materials	304,855.01	2,457,428.74	277,149.15	2,025,787.72	27,705.86	431,641.02
Sales of spoilage and defective work	208,179.66	1,239,565.51	-	37,705.04	208,179.66	1,201,860.47
Processing on commission	3,322,624.62	395,132.01	2,232,658.56	447,395.07	1,089,966.06	(52,263.06)
Others	1,070,554.01	2,635,292.46	230,806.82	1,952,688.38	839,747.19	682,604.08
Total	4,906,213.30	6,727,418.72	2,740,614.53	4,463,576.21	2,165,598.77	2,263,842.51

33. Financial expenses

Items	2004Y	2003Y
Interest expenditure	45,338,806.00	31,100,927.27
Less: Interest income	5,503,401.93	4,571,462.12
Exchange loss	1,045,393.66	101,753.98
Less: Exchange gain	149,180.45	2,440,553.65
Others	4,756,402.84	4,101,270.54
Total	45,488,020.12	28,291,936.02

Financial expenses increase 60.78% than last term, mainly due to increasing interests caused by increasing loans.

34. Investment income

Items	2004Y	2003Y
Short-term investment income	6,728,221.06	(1,182,031.76)
Long-term investment income		
----Equity method	(1,103,372.84)	(3,120,473.22)
----Amortization of difference in equity investment	(7,033,082.16)	(7,033,082.57)
The return of equity investment transferring	-	(170,291.06)
Bond interest income	41,166.67	-
Total	(1,367,067.27)	(11,505,878.61)

Investment income increases 88.12% than last term, mainly due to increasing short-term investment income.

35. Subsidy income

Item	2004Y	2003Y
Discount of the export income	1,197,277.00	1,388,926.00
Total	1,197,277.00	1,388,926.00

36. Non-operating income

Items	2004Y	2003Y
Gain on disposal of fixed assets	490,050.20	346,235.62
Income from penalties	2,170.50	1,746.66
Donation/compensation income	-	7,164.00
Others	7,115.64	6,663.64
Total	499,336.34	361,809.92

37. Non-operating expenditure

Items	2004Y	2003Y
Loss on disposal of fixed assets	93,180.45	163,580.95
Penalty payment	-	33,866.93
Indemnity payment	592,169.00	-
Provision for devaluation of construction in progress	75,669.96	-
Provision for devaluation of fixed assets	-	786,753.70
Non-commonweal donation	120,500.00	-
Others	22,146.83	99,596.22
Total	903,666.24	1,083,797.80

38. Income tax

Items	Amount (In RMB)
Total profit	34,004,300.54
Less: Independent tax subsidiary profit	(3,216,000.16)
Less: R&D expenses deduction	19,475,843.49
Less: Export discount incomes	1,197,277.00
Less: Other adjustment	2,016,350.38
Add: Adjustment of wages and three expenses	16,709,254.03
Add: Adjustment of business service expenses	2,798,610.88
Add: Provisions allocated for assets devaluation	18,017,742.94
Add: Non-commonweal donation	120,500.00
Add: Customer Encouragement Fund and Sales Commission	6,646,592.95
Add: Amortization of equity investment difference	7,033,082.16
Taxable income after adjustment	65,856,612.79
Tax rate	15%
Accrual income tax this term	9,878,491.92
Add: Independent tax subsidiary accrual income tax	21,765.48
Total income tax	9,900,257.40

39. Consolidated cash flows statement notes:

(1) Explanation of making up

Because Zhaoqing Fenghua Lithium Battery Co., Ltd. does not take its holding shares subsidiary Guangdong Zhaoqing Kexun Hi-tech Co., Ltd. into account of consolidated financial statement, according to Answering Relevant Questions (Two) about Execution of Enterprise Accountant System and Relevant Accountant Criterion by Finance Department, our company would take profit and loss statement and cash flow statement from January 2004 to November 2004 into account of consolidated financial statement. Consolidating cash flow statement, is based on comparative balance sheet on December 31, 2004 and income statement of 2004, and also considering the amount of balance sheet of Zhaoqing Fenghua Lithium Battery Co., Ltd on November 30, 2004.

(2)The items of subsidiaries of financial statement on Nov 30,2004

On Nov 30, 2004, the main items of monetary amount in financial statement of Zhaoqing Fenghua Lithium Battery Co., Ltd are as following:

Item	Amount
Assets	
Monetary fund	139,456.40
Settling center balance	9,592,933.46
Accounts receivable	49,327,555.96
Receivables	218,809.07
Advances to suppliers	2,596,986.30
Inventories	50,517,956.66
Fixed assets	39,644,984.82
Less: accumulative depreciation	10,589,763.93
Construction in progress	150,394.60
Liabilities:	
Accounts payable	14,568,889.21
Advance receipt	488,098.00
Welfare fund payable	1,224,385.46
Taxes deliverable	(952,372.24)
Other payables	417,850.83

(3) Other cash relating to operating activities

Item	2004Y	
	Proceeds	Payments
Cash received in connection with export discount and financial appropriations	15,263,815.48	-
Cash received relating to penalty income, income from spoilage and defective work and other incomes	9,286.14	-
Cash received relating to deposit interest	5,503,401.93	-
Cash received relating to current account	37,045,873.69	-
Other cash paid relating to operating expenses	-	30,613,449.90
Other cash paid relating to administrative expenses	-	36,153,239.99
Other cash paid relating to overhead costs	-	88,406,978.90
Cashes relevant to Technique Program Fund	-	60,318.99
Cashes relevant to indemnity and other payment	-	614,315.83
Other cash paid relating to current account	-	18,155,826.19
Total	57,822,377.24	174,004,129.80

(4) Cash received relating to relative investing activities

Items	2004Y
Cashes of Calling Back loan to former subsidiaries caused by consolidation scope changing	53,310,000.00
Total	53,310,000.00

(5) Cash paid relating to investing activities

Item	2004Y
Cash paid for short-term investment	3,478,353.82
Cash paid for the minority shareholders' equity of subsidiary transferred	86,628,060.00
Cashes paid to long term creditor's rights investment	5,000,000.00
Total	95,106,413.82

(6) Cash paid relating to relative investing activities

Item	2004Y
Cash reduction from consolidation of financial statement	139,456.40
Total	139,456.40

(7) Cash paid relating to financing activities

Item	2004Y
Bank Receipt Hypothecation	191,000,000.00
Cashes relevant to reimbursing subsidiaries' acceptance draft discount	50,000,000.00
Cash paid relate to relevant party transaction handing charges and ensuring commissions	2,567,500.00
Cash paid and contribution relevance	120,500.00
Total	243,688,000.00

(8) Net increase of cash and cash equivalents

Item	2004Y
Balance of cash at period end	700,238,132.82
Less: Bank Receipt Hypothecation	191,000,000.00
Less: balance of cash at period beginning	372,060,798.81
Net increase of cash and cash equivalents	137,177,334.01

Note 6. Notes to Main Items of the Financial Statements of the Parent Company

1. Accounts receivable

Aging	Dec 31, 2004			Dec 31, 2003		
	Amount	Provision	Provision for bad debts	Amount	Provision	Provision for bad debts
Within 1 year	796,877,833.29	90.23%	12,395,823.12	1,039,786,526.79	91.27%	13,489,955.60
1 to 2 years	6,145,780.80	0.70%	613,909.31	46,958,828.25	4.12%	4,695,882.82
2 to 3 years	38,372,433.05	4.34%	5,748,572.41	12,124,270.20	1.07%	1,818,640.53
Over 3 years	41,803,323.12	4.73%	8,409,281.57	40,341,200.34	3.54%	8,212,080.76
Total	883,199,370.26	100%	27,167,586.41	1,139,210,825.58	100%	28,216,559.71

For the arrears from the shareholders that hold more than 5% (including 5%) of the Company's shares in the accounts receivable, please refer to Note VII (3).

2. Other receivables

Aging	Dec 31, 2004			Dec 31, 2003		
	Amount	Provision	Provision for bad debts	Amount	Provision	Provision for bad debts
Within 1 year	8,577,968.38	22.12%	365,650.27	35,950,780.01	90.95%	16,612,534.23
1 to 2 years	26,174,057.47	67.48%	15,415,907.87	248,948.50	0.63%	24,894.05
2 to 3 years	28,764.57	0.07%	21,237.66	525,057.40	1.33%	78,758.61
Over 3 years	4,007,908.54	10.33%	1,900,970.82	2,803,052.02	7.09%	903,589.39
Total	38,788,698.96	100%	17,703,766.62	39,527,837.93	100%	17,619,776.28

3. Long-term investments

1) Long-term investments:

Items	Dec31,2003				Dec31,2004	
	Amount	Provision for devaluation	Increase in the report period	Decrease in the report period	Amount	Provision for devaluation
Other equity investment	429,938,729.69	-	113,915,005.59	105,622,898.98	438,230,836.30	-
Difference in equity investment	52,146,867.58	-	3,421,847.20	7,033,082.16	48,535,632.62	-
Total	482,085,597.27	-	117,336,852.79	112,655,981.14	486,766,468.92	-

This term, after the parent company buys equity from some shareholders of shares holding subsidiaries Guangdong Zhaoqing Yingda Inductor Co., Ltd. and Zhaoqing Lihua Electronics Co., Ltd., taking their balance sheet into consolidated account of parent company which correspondingly reduce the long term investment made by parent company on its subsidiaries. The details information of reduction on long-term investment as follows:

Investees	Initial investment	Additional and recovered investment	Adjustment of equity in the report period	Profit distributed	Accumulative adjustment of equity	Total long-term investment
Guangdong Zhaoqing Yingda Inductor Co., Ltd	23,000,000.00	2,000,000.00	3,015,640.77	-	2,124,461.55	27,124,461.55
Zhaoqing Lihua Electronics Co., Ltd.	38,740,000.00	1,457,500.00	9,584,351.81	-	30,220,937.43	70,418,437.43
Total	61,740,000.00	3,457,500.00	12,599,992.58	-	32,345,398.98	97,542,898.98

2) Detailed long-term investments

Other equity investment

Investees	Initial investment	Additional and recovered investment	Adjustment of equity in the report period	Profit distributed	Accumulative adjustment of equity	Investment at period end
Zhaoqing Kehua Electronic Technology Co., Ltd	23,268,195.49	-	(990,662.19)	-	(2,164,238.41)	21,103,957.08
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	23,000,000.00	-	20,040,245.54	7,360,000.00	51,742,135.30	74,742,135.30
Zhaoqing Baohua Electronics Equipment Co., Ltd.	24,000,000.00	-	(1,299,066.10)	-	2,062,878.26	26,062,878.26
Guangdong Zhaoqing Micsource Electronic Co., Ltd	59,300,000.00	-	(593,255.41)	-	(35,696,001.79)	23,603,998.21
Zhaoqing Dingci Electronic Co., Ltd.	13,400,000.00	-	1,571,572.80	-	726,614.98	14,126,614.98
Zhaoqing Haite Electronic Co., Ltd.	16,000,000.00	-	594,026.41	-	(1,242,050.35)	14,757,949.65
Guangdong Shaoguan Gaojian Magnetic Material Co., Ltd.*	4,850,000.00	-	-	-	(4,850,000.00)	-
Yingkou Yinghua Hi-tech Co., Ltd.	15,198,600.00	-	-	-	(15,198,600.00)	-
Taiyuan Fenghua Information Equipment Co., Ltd	6,830,516.00	-	-	-	333,503.22	7,164,019.22
Zhaoqing Fenghua Neo-valley Microelectronics Co., Ltd.	18,000,000.00	-	1,741,962.55	-	(1,242,208.82)	16,757,791.18
Changchun Aopu Opto-Electronic Technology Co., Ltd.	15,122,964.46	-	1,722,027.54	720,000.00	2,416,751.08	17,539,715.54
Shenzhen Fenghua Technology Development Co., Ltd.	29,000,000.00	-	(1,031,429.84)	-	(1,796,451.95)	27,203,548.05
Changchun Guanghua Microelectronic Equipment Engineering Center Co., Ltd.	4,560,000.00	-	(156,098.92)	-	(773,371.37)	3,786,628.63
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.	128,119,177.32	79,748,712.80	(3,490,522.10)	-	(16,486,289.92)	191,381,600.20
Total	380,649,453.27	79,748,712.80	18,108,800.28	8,080,000.00	(22,167,329.77)	438,230,836.30

* According to SICP (2004) No.7 6-2 Civil Ruling Paper of Guangdong Shaoguan Intermediate People's Court, Guangdong Shaoguan Gaojian Magnetic Material Co., Ltd has completed bankruptcy liquidation, its credit of bankrupt becomes 0.

4. Income from and cost of principal businesses

Items	Operating income		Operating cost		Gross operating spread (In RMB)	
	(In RMB)		(In RMB)			
	2004Y	2003Y	2004Y	2003Y	2004Y	2003Y
Electronic components	927,743,220.78	779,647,176.26	816,608,647.30	753,853,826.00	111,134,573.48	25,793,350.26
Total	927,743,220.78	779,647,176.26	816,608,647.30	753,853,826.00	111,134,573.48	25,793,350.26

The rate of gross profit of parent company this term is 11.98%, while 3.31% last term. The main reason is that parent company does not take interior gross profit amount of offset into consolidation this term.

5. Operation cost

The Operation cost of the year is increased by 39.39% comparing with last year, main reason comes from parent company increasing consolidation.

6. Administrative expenses

The Administrative expenses of the year is increased by 29.65% comparing with last year, main reason comes from parent company increasing consolidation.

7. Financial expenses

The Financial expenses of the year is increased by 177.86% comparing with last year, main reason comes from parent company increasing consolidation.

8. Investment income

Item	2004Y	2003Y
Short-term investment income	6,728,221.06	(1,182,031.76)
Long-term investment income:		
Equity method	19,920,739.50	48,604,752.42
Amortization of difference in equity investment	(7,033,082.16)	(7,033,082.57)
The return of equity investment transferring		(170,291.06)
Bond interest income	41,166.67	
Total	19,657,045.07	40,219,347.03

Investment income decreases by 51.13%, mainly due to account of consolidated financial statement changing, resulting in investment income checked by equity method decreasing.

9. The explanation of cash flows statement of headquarters

In the reporting period, the company purchase the equity of Zhaoqing Hualida Investment Co., Ltd., of the shares of the subsidiary of the Company, Zhaoqing Lihua Electronics Co., Ltd, Guangdong Zhaoqing Yingda Inductor Co., Ltd., after purchasing, the payment is made by the time of June, 2004. The Company owns the shares of 100% of the companies of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Zhaoqing Yingda Inductor Co., Ltd. According to the accounting resolution of accounting standard regarding to public listed company from finance ministry, the Company take the financial statement of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Zhaoqing Yingda Inductor Co., Ltd. into account to be in the consolidated financial statement. Zhaoqing Lihua Electronics Co., Ltd and Guangdong Zhaoqing Yingda Inductor Co., Ltd. Profit and loss statement and cash flow statement from July 2004 to December 2004 would be taken into account of consolidated financial statement. Parent company's cash flow statement, is based on parent company's comparative balance sheet on December 31,2004 and income statement of 2004, and also considering the amount of balance sheet of Zhaoqing Lihua Electronics Co., Ltd and Guangdong Zhaoqing Yingda Inductor Co., Ltd on June 30.2004.

Note 7. Relationship with related parties and transactions

(I) Related parties

1. Related parties with control relationship:

Related Parties	Economic nature	Legal Representative	Registered Place	Relationship with the Company	Principal Businesses
Guangdong Fenghua Advanced Technology Group	State-owned	Liang Liping	Zhaoqing, Guangdong	Parent company	Production and sales of electronic components
Zhaoqing Lihua Electronics Co., Ltd.	Limited liability	Liang Yali	Zhaoqing, Guangdong	Subsidiary	Production and sales of electronic components
Zhaoqing Kehua Electronic Technology Co., Ltd.	Joint venture	Liang Liping	Zhaoqing, Guangdong	Subsidiary	Production and sales of electronic chip components and parts
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	Limited liability	Liang Liping	Zhaoqing, Guangdong	Subsidiary	Production and sales of new-type electronic components
Yingkou Yinghua Hi-tech Co., Ltd.	Limited liability	Liang Liping	Yingkou, Liaoning	Subsidiary	Production and sales of lead, multi-layer ceramic capacitor
Zhaoqing Baohua Electronics Equipment Co., Ltd.	Limited liability	Liang Liping	Zhaoqing, Guangdong	Subsidiary	Producing, sales and R&D of electronic equipment and components
Guangdong Zhaoqing Yingda Inductor Co., Ltd.	Limited liability	Liang Liping	Zhaoqing, Guangdong	Subsidiary	Producing, sales and R&D of inductance components and related materials and products.
Guangdong Zhaoqing Micsource Electronic Co., Ltd.	Limited liability	Liu Huichong	Zhaoqing, Guangdong	Subsidiary	Producing, sales and R&D of magnetic materials and related components and electronic products
Zhaoqing Dingci Electronic Co., Ltd.	Limited liability	Liu Huichong	Zhaoqing, Guangdong	Subsidiary	Production and sales of magnetic materials; R&D of electronic components
Zhaoqing Haite Electronic Co., Ltd.	Limited liability	Liu Huichong	Zhaoqing, Guangdong	Subsidiary	Producing, sales and R&D of magnetic materials and related components and electronic products.
Zhaoqing Fenghua Neo-valley Microelectronics Co., Ltd.	Limited liability	Chao Weijian	Zhaoqing, Guangdong	Subsidiary	Production and sales of universal integrated circuit module and other electronic products
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.	Limited liability	Liang Liping	Zhaoqing, Guangdong	Subsidiary	R&D, production and sales of series of electronic materials, lithium batteries, battery cores and related products.

2. The changes in registered capital of related parties with control relationship are as follows:

Related Parties	Dec 31,2003	Increase in the report period	Decrease in the report period	Dec 31,2004
Guangdong Fenghua Advanced Technology Group	RMB120,000,000.00	-	-	RMB120,000,000.00
Zhaoqing Lihua Electronics Co., Ltd.	RMB39,690,000.00	-	-	RMB39,690,000.00
Zhaoqing Kehua Electronic Technology Co., Ltd.	USD5,000,000.00	-	-	USD5,000,000.00
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	RMB25,000,000.00	-	-	RMB25,000,000.00
Yingkou Yinghua Hi-tech Co., Ltd.	RMB21,700,000.00	-	-	RMB21,700,000.00
Zhaoqing Baohua Electronics Equipment Co., Ltd.	RMB25,000,000.00	-	-	RMB25,000,000.00
Guangdong Zhaoqing Yingda Inductor Co., Ltd.	RMB25,000,000.00	-	-	RMB25,000,000.00
Guangdong Zhaoqing Micsource Electronic Co., Ltd.	RMB67,000,000.00	-	-	RMB67,000,000.00
Zhaoqing Dingci Electronic Co., Ltd.	RMB15,000,000.00	-	-	RMB15,000,000.00
Zhaoqing Haite Electronic Co., Ltd.	RMB18,000,000.00	-	-	RMB18,000,000.00
Zhaoqing Fenghua Neo-valley Microelectronics Co., Ltd.	RMB20,000,000.00	-	-	RMB20,000,000.00
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.	RMB189,000,000.00	-	-	RMB189,000,000.00

3. Changes in shares held or equity owned by related parties with control relationship.

Related Parties	Dec 31,2003		Increase in the	Decrease in the	Dec 31,2004	
	Amount RMB	Percentage %	report period	report period	Amount RMB	Percentage %
Guangdong Fenghua Advanced Technology Group	142,484,171.85	26.87%	-	-	142,484,171.85	26.87%
Zhaoqing Lihua Electronics Co., Ltd.	38,740,000.00	97.61%	1,457,500.00	-	40,197,500.00	100%
Zhaoqing Kehua Electronic Technology Co., Ltd.	23,268,195.49	55.00%	-	-	23,268,195.49	55.00%
Zhaoqing Yuehua Modern Electronic Components Co., Ltd.	23,000,000.00	92.00%	-	-	23,000,000.00	92.00%
Yingkou Yinghua Hi-tech Co., Ltd.	15,198,600.00	70.00%	-	-	15,198,600.00	70.00%
Zhaoqing Baohua Electronics Equipment Co., Ltd.	24,000,000.00	96.00%	-	-	24,000,000.00	96.00%
Guangdong Zhaoqing Yingda Inductor Co., Ltd.	23,000,000.00	92.00%	2,000,000.00	-	25,000,000.00	100.00%
Guangdong Zhaoqing Micsource Electronic Co., Ltd.	59,300,000.00	94.77%	-	-	59,300,000.00	94.77%
Zhaoqing Dingci Electronic Co., Ltd.	13,400,000.00	94.00%	-	-	13,400,000.00	94.00%
Zhaoqing Haite Electronic Co., Ltd.	16,000,000.00	94.07%	-	-	16,000,000.00	94.07%
Guangdong Shaoguan Gaojian Magnetic Material Co., Ltd.	4,850,000.00	97.00%	-	-	4,850,000.00	97.00%
Zhaoqing Fenghua Neo-valley Microelectronics Co., Ltd.	18,000,000.00	90.00%	-	-	18,000,000.00	90.00%
Guangdong Zhaoqing Kexun Hi-tech Co., Ltd.	110,250,000.00	58.33%	79,748,712.80	-	189,998,712.80	100%

4. Related parties without control relationship

Related Parties	Relationship with the Company
Guangdong Fenghua Import & Export Co., Ltd.	Same parent company
Zhaoqing Jinghua Electronics Co., Ltd.	Same parent company
Zhaoqing Shenghua Electronics Co., Ltd.	Same parent company
Zhaoqing Fenghua Electronic Engineering Development Co., Ltd.	Same parent company
Hong Kong Willok Technology co.,Ltd.	Another shareholder of the subsidiary
Zhaoqing Fuhua Electronics Co., Ltd.	Same parent company
Guangdong Zhaoqing Zhenghua Electronic Instrument Plant	Same parent company
Zhaoqing Zhihua Optical Electronic Technology Co., Ltd.	Same parent company
Zhaoqing Juhua Electronic Co., Ltd.	Same parent company
Zhaoqing Jianhua Standard Parts Co., Ltd.	Same parent company
Zhaoqing Lingguang Electronic Co., Ltd.	Same parent company
Feng Hua Advanced Technology (HK) Limited	Same parent company
Zhaoqing Electronic Components Factory	Same parent company
Shenzhen Fenghua Haotian Web Tech Co., Ltd.	Same parent company
Guangdong Fenghua Dadong Hi-tech Co., Ltd.	Same parent company
Shenzhen Fenghua Telecom Co., Ltd.	Same parent company
Shenzhen Huaqin Co., Ltd.	Same parent company
Zhaoqing Tongwei photo- electricity displayer Co., Ltd.	Same parent company
Guangdong Fenghua Bangke Electronics Co., Ltd.	Same parent company

(II) Related transactions

1. Purchase of goods

Related Parties	2004Y		2003Y	
	Amount	Proportion	Amount	Proportion
Hong Kong Willok Technology Ltd.	7,760,297.32	1.05%	5,068,600.92	0.81%
Zhaoqing Fenghua Electronic Engineering Development Co., Ltd.	838,195.50	0.11%	8,480,371.92	1.36%
Guangdong Fenghua Import & Export Co.	10,685,284.43	1.44%	26,392,613.93	4.23%
Zhaoqing Fenghua Component and Parts Completion Co., Ltd.	14,065,412.27	1.90%	6,856,472.46	1.10%
Zhaoqing Juhua Electronic Co., Ltd.	6,691,433.45	0.90%	7,280,890.02	1.17%
Zhaoqing Jianhua Standard Parts Co., Ltd.	1,503,984.10	0.20%	1,398,876.94	0.22%
Guangdong Zhaoqing Zhenghua Electronic Instrument Plant	15,692,270.16	2.12%	12,113,692.55	1.94%
Zhaoqing Lingguang Electronic Co., Ltd.	22,808,860.10	3.08%	15,772,956.46	2.53%
Zhaoqing Jinghua Electronics Co., Ltd.	2,178.47	-	175,509.17	0.03%
Zhaoqing Zhihua Optical Electroinc Technology Co., Ltd.	2,324,734.87	0.31%	60,521.27	0.01%
Shenzhen Fenghua Haotian Web Tech Co., Ltd.	711,740.62	0.10%	534,775.42	0.09%
Guangdong Fenghua Bangke Electronics Co., Ltd.	537,135.74	0.07%	-	-
Other companies	4,457.69	-	200,020.15	0.03%
Total	83,625,984.72	11.28%	84,335,301.21	13.53%

Pricing basis: it was priced based on the market price.

2. Sales of goods

Related Parties	2004Y		2003Y	
	Amount	Proportion	Amount	Proportion
Guangdong Fenghua Import & Export Co. Ltd.	184,183,278.67	14.44%	182,227,753.56	17.26%
Hong Kong Willok Technology Ltd.	810,062.36	0.06%	360,830.95	0.03%
Zhaoqing Fenghua Component and Parts Completion Co., Ltd.	13,918,686.80	1.09%	11,686,438.88	1.11%
Guangdong Fenghua Advanced Technology Group	8,455,357.32	0.66%	17,617,047.98	1.67%
Zhaoqing Jinghua Electronics Co., Ltd.	-	-	(15,744,829.06)	-1.49%
Zhaoqing Fuhua Electronics Co., Ltd.	-	-	(18,324,786.23)	-1.74%
Guangdong Zhaoqing Zhenghua Electronic Instrument Plant	2,569,458.14	0.20%	2,162,741.78	0.20%
Zhaoqing Juhua Electronic Co., Ltd.	1,724.40	-	1,527.00	0.00%
Zhaoqing Jianhua Standard Parts Co., Ltd.	5,458.12	-	-	-
Zhaoqing Zhihua Optical Electroinc Technology Co., Ltd.	1,294,355.39	0.10%	1,070,702.44	0.10%
Zhaoqing Lingguang Electronic Co., Ltd.	-	-	905,240.06	0.09%
Guangdong Fenghua Bangke Electronics Co., Ltd.	7,216,021.32	0.57%	-	-
Other companies	161,978.63	0.01%	761,089.62	0.07%
Total	218,616,381.15	17.14%	182,723,756.98	17.30%

Pricing basis: it was priced based on the market price.

3. Purchase of fixed assets and Intangible assets

Related Parties	2004Y	2003Y
Zhaoqing Juhua Electronic Co., Ltd.	2,900.00	2,771,079.02
Shenzhen Fenghua Haotian Web Tech Co., Ltd.	217,600.00	1,560,729.00
Guangdong Fenghua Advanced Technology Group	37,700,629.63	-
Web Engineering Company	41,911.00	-
Haotian Web Market	22,814.00	-
Total	37,985,854.63	4,331,808.02

Pricing basis: it was priced based on the market price.

4. Accepting ensuring and paying ensuring cost

Up to Dec 31, 2004, Guangdong Fenghua Advanced Technology Group offered credit guarantee to the Company amounting to RMB 635 million in the report year. For the year, the Company pay ensuring cost of 2,562,500.00 Yuan to Guangdong Fenghua Advanced Technology Group.

5. Payment of water and power fees and rentals, etc.

Related Parties	Description of Transactions	2004Y	2003Y
Guangdong Fenghua Advanced Technology Group	Loan interest	1,089,434.91	1,092,512.42
Guangdong Fenghua Advanced Technology Group	Worker house rant/house public reserve/Pension	13,166,801.73	12,561,364.01
Guangdong Fenghua Advanced Technology Group	Factory depreciation	9,019,872.82	9,996,007.07
Guangdong Fenghua Advanced Technology Group	Utilization/refrigeration	34,135,461.95	33,298,863.05
Guangdong Fenghua Advanced Technology Group	Security etc.	2,945,354.80	14,922,635.89

Pricing basis: Utilization, house public reserve, pension and security is payable as it actually incur, workers house rent, factory depreciation, and loan interest rate is payable as market prices.

6. Loan collection

Due to the business demanding , the company entrust Fenghua Hi-tech (HK) Limited to collect its exporting revenue, the sales revenue collected for 2004;

Collection at the beginning of period	Collection for the period	Remitting for the period	Commission charge Checked off for the period	Collection owed at the end of period
24,088,319.02	287,652,174.04	291,141,044.29	4,000,893.91	16,598,554.86

The company pay Fenghua Hi-tech (HK) Limited 4% commission charge for exported goods transition amount, 0.3% commission charge for collecting payment for goods, totally 2,719,687.41 Yuan for those charges this year.

7. Fund Relationship with Shareholders

The company has comparatively large related transactions in stocking, sales and so on with Guangdong Fenghua Advanced Technology Group. To ensure normal running of business, saving collective capital cost, there are some cases that shareholder Guangdong Fenghua Advanced Technology Group normally possesses assets of our company's settling center. In 2004, the accruing amount of related assets is 1,609,178,629.31 Yuan, about 180 million Yuan per month, the possessed amounts of beginning of the year and end of the year have all been returned.

8. Remuneration to the senior executives

In 2004, the total remuneration to directors and senior executives was RMB2, 899,965.26. The total remuneration to the three directors enjoying highest remuneration was RMB935, 362.99 and that to the three senior executives enjoying the highest remuneration was RMB1, 066,390.28; 5 enjoying a remuneration over RMB 200,000, and 5 enjoying from RMB 100,000 to 200,000 and 14 enjoying below RMB 100,000.

(III) Balance of accounts receivable of related parties

Items	Related Parties	Dec 31, 2004	Dec 31, 2003
Accounts receivable	Guangdong Fenghua Advanced Technology Group	55,259,666.62	66,356,658.64
	Hong Kong Willok Technology Ltd.	4,635,642.66	18,614,902.27
	Feng Hua Advanced Technology (HK) Limited	16,516,861.24	24,088,319.02

*The accounts receivable amounting to RMB 55,259,666.6 in Guangdong Fenghua Advanced Technology Group was the balance after the mutual offsetting of the accounts receivable and payable, including the government bond fund amounting to RMB 40,600,000.00 accumulatively lent to the

Company by Guangdong Fenghua Advanced Technology Group through loan conversion with average annual interest rate of 2.73%. The loan actually receivable from Guangdong Fenghua Advanced Technology Group amounting to RMB 95,859,666.62 at the end of the report period.

Note 8: Contingent Events

Ended December 31, 2004, the Company had no contingent event which may produce impact on the Company's normal production and operation activities and be necessary to be disclosed.

Note 9: Asset Mortgage

1. Until December 31, 2004, the company has hypothecated some housings and buildings as highest mortgage contract mortgage for 130.06 million Yuan, whose original value is 184,965,939.42 Yuan, net value is 162,160,426.31 Yuan. Now company has receive 100 million Yuan short term loan under the highest mortgage contract. Among the machinery equipments, some parts whose origin value is 2,194,750.00 Yuan and net value is 1,450,911.13 Yuan have been guaranty, receiving short-term load 1 million Yuan.

2. The 191.00 million Yuan balance of bank account at the end of the term has been impawned, for acquiring loan and promises of writing acceptance draft and so on.

Note 10: Commitments

Ended December 31, 2004, the Company had no commitment that may produce impact on the Company's normal production and operation activities and necessary to be disclosed.

Note 11: Sequential Events after the Date of Balance Sheet

On April 15, 2005, 2005 1st Meeting of the 4th Board of Directors examined and adopted the following resolutions:

1. According to the proposal of profit dividend paid for 2004 made by fourth term board in its first meeting, with the total share capital as the base, the Company is to distribute cash dividends to the whole shareholders at the rate of RMB 0.50 (including tax) for every 10 shares. The aforesaid profit distribution proposal shall be submitted to the Shareholders' General Meeting for review and approval before being implemented.

Note 12: Other Important Events

The Company had no other important events which may produce impact on the Company's normal production/operation activities and be necessary to be specially explained.

The above statements of the parent company, consolidated statements and the notes for the year 2004 were all prepared by us according to the Enterprise Accounting Standards and the Enterprise Accounting System promulgated by the State Ministry of Finance dated December 29, 2000 and other relevant regulations.

Legal representative: Liang Liping

Date: 2005.4.15

Chief Financial Officer: Cao Weijian

Date: 2005.4.15

Financial Department Manager: Li Xiaoqiong

Date: 2005.4.15

Contents of Documents Available for Inspection

Documents Available for Inspection All the relevant documents for inspection are placed at the head office of the Company and are available to China Securities Regulatory Commission, the Stock Exchange and the Company's shareholders. They include:

1. Originals of Annual Reports.
2. Financial Statements carried with personal signatures and seals of legal representative, chief financial officer and financial supervisor.
3. Original copy of the Auditors' Report under the seal of the accounting firm and signed by and under the seals of certified public accountants.
4. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public on Securities Times, China Securities Journal and Shanghai Securities News in the report period.

Fenghua Advanced Technology (Holding) Co., Ltd.

The Board of Directors

April 15, 2005