

Shenzhen Zhongheng Huafa Co., Ltd.

First Quarterly Report 2012

(Full Text)

§1. Important Notes

1.1 Board of Directors and the Supervisory Committee of Shenzhen Zhongheng Huafa Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

1.2 The Financial Report for the First Quarterly Report of the Company has not been audited by CPAs.

1.3 Principal of the Company Li Zhongqiu, Person in Charge of Financial Works Jiang Yanjun, and Person in Charge of Accounting Organ (Accounting Supervisor) Jiang Yanjun hereby confirm that the Financial Report of the First Quarterly Report is true and complete.

§2. Company Profile

2.1 Main accounting highlights and financial indexes

Unit: RMB

	At the end of the report period	At the period-end of the last year	Changes of increase/decrease (%)
Total assets (RMB)	742,637,407.56	668,385,621.82	11.11%
Owners' equity attributable to shareholders of the listed company (RMB)	281,667,986.01	276,939,153.21	1.71%
Share capital (Share)	283,161,227.00	283,161,227.00	0.00%
Net asset per share attributable to shareholders of listed company (RMB/Share)	0.9947	0.9780	1.71%
	In the report period	The same period of last year	Changes of increase/decrease (%)
Total operating income (RMB)	214,990,907.87	229,257,873.14	-6.22%
Net profit attributable to shareholders of the listed company (RMB)	4,728,832.80	3,338,309.94	41.65%
Net cash flow arising from operating activities (RMB)	-90,160,095.82	-38,039,203.77	-137.02%
Net cash flow arising from operating activities per share (RMB/Share)	-0.31841	-0.13434	-137.02%
Basic earnings per share (RMB/Share)	0.0167	0.01179	41.65%
Diluted earnings per share (RMB/Share)	0.0167	0.01179	41.65%
Weighted average return on equity (%)	1.69%	1.23%	Up 0.46 percentage points
Weighted average return on equity after deducting non-recurring gains and losses (%)	1.69%	1.24%	Up 0.45 percentage points

Item of non-recurring gains/losses

Applicable Inapplicable

Unit: RMB

Items of non-recurring gains and losses	Amount from year-begin to period-end	Remarks (If applicable)
Other item of gains/losses satisfied definition of non-recurring gains/losses	18,951.59	

Influenced amount of income tax	-4,742.90	
Total	14,208.69	-

2.2 Total number of shareholders at the end of the report period and shares held by the top ten shareholders with unrestricted conditions

Unit: Share

Total number of shareholders at the end of report period		28,963
Particulars about the shares held by the top ten tradable shareholders with unrestricted conditions		
Full name of shareholder	Amount of tradable shares with unrestricted conditions held at the end of report period	Type of shares
SEG (HONG KONG) CO., LTD.	16,569,560	Domestically listed foreign shares
GOOD HOPE CORNER INVESTMENTS LTD	13,900,000	Domestically listed foreign shares
JIA WEN JUN	1,335,132	RMB ordinary shares
CHEN HONG YUN	956,650	RMB ordinary shares
BINGHUA LIU	876,213	Domestically listed foreign shares
LI JIAN FENG	781,718	Domestically listed foreign shares
ZHU MING	611,348	Domestically listed foreign shares
DBS VICKERS (HONG KONG)LTD A/C CLIENTS	581,150	Domestically listed foreign shares
ZHENG QIAO FENG	552,601	Domestically listed foreign shares
ZHAO YONG	450,000	Domestically listed foreign shares

§3. Significant Events

3.1 Particulars about material changes in items of main accounting statement and financial index, and explanations of reasons

√Applicable □Inapplicable

Unit: RMB

Item	Amount at period-end	Amount at period-begin	+,- ratio	Reasons for changes
Monetary fund	86,727,094.19	141,426,712.65	-38.68%	Price of raw materials soaring, in order to seize raw material resources and price advantage, amount for goods were paid to suppliers timely
Account receivable	205,673,779.19	85,553,134.14	140.40%	Wuhan Subsidiary shows a period-to-period growth of sales in first quarter, and has a tendency of soaring month by month

Account paid in advance	1,265,792.05	9,724,896.44	-86.98%	Some of the account paid in advance off-setting account payable
Short-term loans	151,575,160.97	104,543,897.22	44.99%	Bank loans increased for current capital supplementation from Wuhan Subsidiary
Account payable	71,444,124.19	43,332,376.94	64.87%	Soaring raw material price, more raw material purchasing increased
Account received in advance	805,783.40	263,497.35	205.80%	Some of the clients are settled by account received in advance
Wages payable	2,687,737.50	4,005,890.25	-32.91%	Wages for employees paid
Taxes paid	6,103,888.19	719,584.69	748.25%	More income tax payable in this period, and input amount of VAT reduced from export tax refund for video business
Item	Jan. – March of 2012	Jan. – March of 2011	+,- ratio	Reasons for changes
Losses of assets impairment	1,209,844.95	0	-	Withdrawal impairment losses for current assets in line with accounting policy of the Company
Operation profit	6,234,328.26	3,730,613.73	67.11%	Sales of video products rebound in price
Income tax	1,524,447.05	433,580.37	251.60%	Profit increased
Tax refund received	4,573,164.35	40,000.00	11332.91%	Export rebate of video business increased
Cash paid for commodity purchased and labor received	242,631,332.16	178,606,493.61	35.85%	Price of raw materials soaring, in order to seize raw material resources and price advantage, amount for goods were paid to suppliers timely
Net cash flow arising from operation activities	-90,160,095.82	-38,039,203.77	-137.02%	Price of raw materials soaring, in order to seize raw material resources and price advantage, amount for goods were paid to suppliers timely
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	457,566.69	7,247,439.49	-93.69%	At same period of last year, investment of fixed assets of technology reformation, newly construction of employees' dormitory and warehouse occurred in Wuhan Subsidiary

Subtotal of cash inflow from financing activities	124,421,788.40	4,882,920.40	2448.10%	Bank loans increased for current capital supplementation from Wuhan Subsidiary
Subtotal of cash outflow from financing activities	88,429,173.74	8,922,541.32	891.08%	Short-term loans due was paid for Wuhan Subsidiary
Net cash outflow arising from financing activities	35,992,614.66	-4,039,620.92	-	Bank loans increased for current capital supplementation from Wuhan Subsidiary

3.2 Analysis and explanation of significant events and their influence and solutions

3.2.1 Particular about Qualified Opinion

Applicable Inapplicable

3.2.2 Particular about fund offered to shareholder or its related parties by the Company and external guarantee with procedure violation

Applicable Inapplicable

3.2.3 Particular about the significant contract of routine operation signed and implemented

Applicable Inapplicable

3.2.4 Other

Applicable Inapplicable

Establishment of internal control: targets of the internal control for 1st quarterly of 2012 mainly focus on proposing reformation opinions for the issues and defects found previously, formulated improvement measures, classified accountability to department and employees, completed reformation of defects for internal control on time; moreover, organized specialist formulated and collected files of internal control, practice efficiency test by comparing with internal control files, and evaluated internal control in vary units by test results, which emphasize the serious-ness of internal control files, reinforce execution of the internal control.

3.3 Implementations of commitments by the Company, shareholders and actual controller

Commitments make within the report period or persisted to the period by listed company and its director, supervisor and senior executives, shareholder with over 5 percent shares held and its actual controller

Applicable Inapplicable

Item of Commitments	Promisee	Content of commitments	Implementation
Commitments for Share Merger Reform	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Promised that the holding non-circulating shares of the Company won't be traded on the market within 36 months since they acquired listed trading right.	The commitment has been implemented on May 18, 2010; Till end of the report period, Wuhan Zhongheng Group applied no release procedures on restricted shares to Shenzhen Stock Exchange due to the 116,489,894 shares of the Company held in mortgaged status.
Commitments made in Acquisition Report or Reports on Change in Interests	Wuhan Zhongheng New Science	Within one year after ownership transfer for equity	1. On Jun. 5, 2008, with examination and approval from the 3 rd temporary meeting of the Board

	& Technology Industrial Group Co., Ltd.	purchased: 1. Related assets of injection business in-put to the Company; 2. 70 percent equity of Hengsheng Photoelectricity held in-put to the Company.	for 2008, the Company took cash RMB 27 million buying relevant assets concerning production of injection products from Wuhan Zhongheng Group, and thus the commitment had been finished; 2. In early of May, 2008, the Company officially started off the significant asset restructures work of purchasing the 70% equities of Wuhan Hengsheng Photoelectricity Industry Co., Ltd.; engaged financial consultant and law consultant to carry out earnest investigation on the restructure assets that may be involved, and negotiated with relevant departments which were in charge of this. However, due to that relevant condition was not mature, there were obstacles in material asset restructure.
Commitments made in Material Assets Reorganization	N/A	N/A	N/A
Commitments made in issuing	N/A	N/A	N/A
Other commitments (including additional commitments)	N/A	N/A	N/A

3.4 Estimation of accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation of reason

Applicable Inapplicable

3.5 Other significant events which need explanations

3.5.1 Particulars about securities investment

Applicable Inapplicable

3.5.2 Registration form for receiving research, communication and interview in the report period

In the report period, there were no receptions from the investors such as spot research, telephone communications and written enquiries.

3.6 Particulars about derivatives investment

Applicable Inapplicable

3.6.1 Particulars about derivatives investment held at the end of report period

Applicable Inapplicable

§4. Appendix

4.1 Balance sheet

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

March 31, 2012

Unit: RMB

Items	Balance at period-end		Balance at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	86,727,094.19	23,667,584.47	141,426,712.65	26,428,341.78

Settlement provisions				
Capital lent				
Transaction finance asset				
Notes receivable	67,500,540.88	1,700,000.00	59,258,576.59	1,905,914.85
Accounts receivable	205,673,779.19	45,302,447.02	85,553,134.14	46,527,773.17
Accounts paid in advance	1,265,792.05		9,724,896.44	
Insurance receivable				
Reinsurance receivables				
Contract reserve of reinsurance receivable				
Interest receivable				
Dividend receivable				
Other receivables	12,785,413.31	67,929,389.75	9,970,760.59	66,524,564.98
Purchase restituted finance asset				
Inventories	63,548,792.67	14,806.50	55,927,484.28	14,806.50
Non-current asset due within one year				
Other current assets				
Total current assets	437,501,412.29	138,614,227.74	361,861,564.69	141,401,401.28
Non-current assets:				
Granted loans and advances				
Finance asset available for sales				
Held-to-maturity investment				
Long-term account receivable				
Long-term equity investment		184,708,900.00		184,708,900.00
Investment property	35,110,966.46	35,110,966.46	35,730,725.03	35,730,725.03
Fixed assets	207,877,118.02	110,717,143.71	207,570,220.77	111,933,449.28
Construction in progress	1,878,320.48	1,623,356.00	2,667,769.50	1,623,356.00
Engineering material				
Disposal of fixed asset				
Productive biological asset				
Oil and gas asset				
Intangible assets	51,581,524.98	5,677,038.57	51,963,537.72	5,713,275.00
Expense on Research and Development				
Goodwill				
Long-term expenses to be apportioned	1,335,766.65	1,335,766.65	1,541,966.67	1,541,966.67
Deferred income tax asset	7,352,298.68	8,056,011.45	7,049,837.44	7,753,550.21

Other non-current asset				
Total non-current asset	305,135,995.27	347,229,182.84	306,524,057.13	349,005,222.19
Total assets	742,637,407.56	485,843,410.58	668,385,621.82	490,406,623.47
Current liabilities:				
Short-term loans	151,575,160.97		104,543,897.22	
Loan from central bank				
Absorbing deposit and interbank deposit				
Capital borrowed				
Transaction financial liabilities				
Notes payable	25,209,646.37		33,795,522.26	
Accounts payable	71,444,124.19	9,518,683.12	43,332,376.94	9,582,988.12
Accounts received in advance	805,783.40	632,633.40	263,497.35	90,347.35
Selling financial asset of repurchase				
Commission charge and commission payable				
Wage payable	2,687,737.50	572,339.23	4,005,890.25	636,334.24
Taxes payable	6,103,888.19	13,056,001.73	719,584.69	12,605,519.17
Interest payable				
Dividend payable				
Other accounts payable	22,722,919.31	13,406,843.06	18,400,291.35	12,930,265.33
Reinsurance payables				
Insurance contract reserve				
Security trading of agency				
Security sales of agency				
Non-current liabilities due within 1 year				
Other current liabilities	149,953.07			
Total current liabilities	280,699,213.00	37,186,500.54	205,061,060.06	35,845,454.21
Non-current liabilities:				
Long-term loans	180,026,000.00	180,026,000.00	186,141,200.00	186,141,200.00
Bonds payable				
Long-term account payable				
Special accounts payable				
Projected liabilities	244,208.55	244,208.55	244,208.55	244,208.55
Deferred income tax liabilities				
Other non-current liabilities				
Total non-current liabilities	180,270,208.55	180,270,208.55	186,385,408.55	186,385,408.55
Total liabilities	460,969,421.55	217,456,709.09	391,446,468.61	222,230,862.76

Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00
Capital public reserve	109,496,837.33	109,496,837.33	109,496,837.33	109,496,837.33
Less: Inventory shares				
Reasonable reserve				
Surplus public reserve	77,391,593.25	77,391,593.25	77,391,593.25	77,391,593.25
Provision of general risk				
Retained profit	-188,381,671.57	-201,662,956.09	-193,110,504.37	-201,873,896.87
Balance difference of foreign currency translation				
Total owner's equity attributable to parent company	281,667,986.01	268,386,701.49	276,939,153.21	268,175,760.71
Minority interests				
Total owner's equity	281,667,986.01	268,386,701.49	276,939,153.21	268,175,760.71
Total liabilities and owner's equity	742,637,407.56	485,843,410.58	668,385,621.82	490,406,623.47

4.2 Profit statement

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

Jan.-Mar. 2012

Unit: RMB

Items	Amount in this period		Amount in last period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	214,990,907.87	12,437,637.38	229,257,873.14	10,335,292.54
Including: Operating income	214,990,907.87	12,437,637.38	229,257,873.14	10,335,292.54
Interest income				
Insurance gained				
Commission charge and commission income				
II. Total operating cost	208,756,579.61	12,168,695.34	225,527,259.41	8,969,451.11
Including: Operating cost	188,935,971.87	1,950,845.21	209,590,258.62	833,053.19
Interest expense				
Commission charge and commission expense				
Cash surrender value				
Net amount of expense of compensation				
Net amount of withdrawal of insurance contract reserve				
Bonus expense of guarantee slip				
Reinsurance expense				
Operating tax and extras	838,415.68	808,754.72	829,972.33	740,596.30
Sales expenses	1,748,619.61		1,469,381.53	153,812.58
Administration expenses	10,859,762.08	5,177,251.62	9,246,367.59	4,200,739.73
Financial expenses	5,163,965.42	3,021,998.84	4,391,279.34	3,041,249.31
Losses of devaluation of asset	1,209,844.95	1,209,844.95		

Add: Changing income of fair value(Loss is listed with “-”)				
Investment income (Loss is listed with “-”)				
Including: Investment income on affiliated company and joint venture				
Exchange income (Loss is listed with “-”)				
III. Operating profit (Loss is listed with “-”)	6,234,328.26	268,942.04	3,730,613.73	1,365,841.43
Add: Non-operating income	18,971.59	12,339.00	101,986.98	61,986.98
Less: Non-operating expense	20.00	20.00	60,710.40	60,710.40
Including: Disposal loss of non-current asset				
IV. Total Profit (Loss is listed with “-”)	6,253,279.85	281,261.04	3,771,890.31	1,367,118.01
Less: Income tax	1,524,447.05	70,320.26	433,580.37	328,108.32
V. Net profit (Net loss is listed with “-”)	4,728,832.80	210,940.78	3,338,309.94	1,039,009.69
Net profit attributable to owner’s equity of parent company	4,728,832.80	210,940.78	3,338,309.94	1,039,009.69
Minority shareholders’ gains and losses				
VI. Earnings per share				
i. Basic earnings per share	0.0167	0.0007	0.01179	0.0037
ii. Diluted earnings per share	0.0167	0.0007	0.01179	0.0037
VII. Other consolidated income				
VIII. Total consolidated income	4,728,832.80	210,940.78	3,338,309.94	1,039,009.69
Total consolidated income attributable to owners of parent company	4,728,832.80	210,940.78	3,338,309.94	1,039,009.69
Total consolidated income attributable to minority shareholders				

Concerning the enterprise consolidation under common control occurred in the period; the merged party realized net profit before consolidation amounting to 0 yuan.

4.3 Cash flow statement

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

Jan.-Mar. 2012

Unit: RMB

Items	Amount in this period		Amount in last period	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows arising from operating activities:				
Cash received from selling commodities and providing labor services	181,805,841.22	9,763,542.25	173,144,496.62	11,704,623.50
Net increase of customer deposit and interbank deposit				
Net increase of loan from central bank				
Net increase of capital borrowed from other financial				

institution				
Cash received from original insurance contract fee				
Net cash received from reinsurance business				
Net increase of insured savings and investment				
Net increase of disposal of transaction financial asset				
Cash received from interest, commission charge and commission				
Net increase of capital borrowed				
Net increase of returned business capital				
Write-back of tax received	4,573,164.35		40,000.00	
Other cash received concerning operating activities	7,445,859.45	5,583,804.31	6,978,930.98	4,342,162.69
Subtotal of cash inflow arising from operating activities	193,824,865.02	15,347,346.56	180,163,427.60	16,046,786.19
Cash paid for purchasing commodities and receiving labor service	242,631,332.16		178,606,493.61	1,971,053.08
Net increase of customer loans and advances				
Net increase of deposits in central bank and interbank				
Cash paid for original insurance contract compensation				
Cash paid for interest, commission charge and commission				
Cash paid for bonus of guarantee slip				
Cash paid to/for staff and workers	12,426,383.59	1,580,385.10	10,029,980.98	1,201,912.05
Taxes paid	1,853,723.56	1,669,741.65	1,684,246.34	1,489,952.93
Other cash paid concerning operating activities	27,073,521.53	5,662,476.76	27,881,910.44	5,133,746.25
Subtotal of cash outflow arising from operating activities	283,984,960.84	8,912,603.51	218,202,631.37	9,796,664.31
Net cash flows arising from operating activities	-90,160,095.82	6,434,743.05	-38,039,203.77	6,250,121.88
II. Cash flows arising from investing activities:				
Cash received from recovering investment				
Cash received from investment income				
Net cash received from disposal of fixed, intangible and other long-term assets				
Net cash received from disposal of subsidiaries and other units				
Other cash received				

concerning investing activities				
Subtotal of cash inflow from investing activities				
Cash paid for purchasing fixed, intangible and other long-term assets	457,566.69	7,450.00	7,247,439.49	226,960.00
Cash paid for investment				
Net increase of mortgaged loans				
Net cash received from subsidiaries and other units				
Other cash paid concerning investing activities				
Subtotal of cash outflow from investing activities	457,566.69	7,450.00	7,247,439.49	226,960.00
Net cash flows arising from investing activities	-457,566.69	-7,450.00	-7,247,439.49	-226,960.00
III. Cash flows arising from financing activities				
Cash received from absorbing investment				
Including: Cash received from absorbing minority shareholders' investment by subsidiaries				
Cash received from loans	124,421,788.40		4,882,920.40	
Cash received from issuing bonds				
Other cash received concerning financing activities				
Subtotal of cash inflow from financing activities	124,421,788.40		4,882,920.40	
Cash paid for settling debts	83,505,724.65	6,115,200.00	4,558,200.00	4,558,200.00
Cash paid for dividend and profit distributing or interest paying	4,923,449.09	3,073,346.60	4,364,341.32	3,015,184.06
Including: Dividend and profit of minority shareholder paid by subsidiaries				
Other cash paid concerning financing activities				
Subtotal of cash outflow from financing activities	88,429,173.74	9,188,546.60	8,922,541.32	7,573,384.06
Net cash flows arising from financing activities	35,992,614.66	-9,188,546.60	-4,039,620.92	-7,573,384.06
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-74,570.61	496.24	-32,232.52	-32,232.52
V. Net increase of cash and cash equivalents	-54,699,618.46	-2,760,757.31	-49,358,496.70	-1,582,454.70
Add: Balance of cash and cash equivalents at the period -begin	141,426,712.65	26,428,341.78	113,686,755.85	29,345,694.04
VI. Balance of cash and cash equivalents at the period -end	86,727,094.19	23,667,584.47	64,328,259.15	27,763,239.34

4.4 Auditor' report

Auditor's opinions: Un-audited

Board of Directors of
Shenzhen Zhongheng Huafa Co., Ltd.

April 26, 2012

Chairman: LI ZHONG QIU