

**SHENZHEN ZHONGHENG HUAFA CO., LTD.**  
**ANNUAL REPORT 2012**



**Short Form of the Stock: SHEN HUAFA-A, SHEN HUAFA-B**  
**Stock Code: 000020, 200020**

## **Section I. Important Notice, Contents and Paraphrase**

Board of Directors, Supervisory Committee, all directors, supervisors and senior executives of SHENZHEN ZHONGHENG HUAFA CO., LTD.(hereinafter referred to as the Company) 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.

Li Zhongqiu, Principal of the Company, Jiang Yanjun, person in charger of accounting works and Wu Aijie, person in charge of accounting organ (accounting principal) hereby confirm that the Financial Report of 2012 Annual Report is authentic, accurate and complete.

All directors are attended the Board Meeting for report deliberation.

The Company has no plan of cash dividends carried out, bonus issued and capitalizing of common reserves either.

Concerning the forward-looking statements with future planning involved in the Report, they do not constitute a substantial commitment for investors. Majority investors are advised to exercise caution of investment risks.

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## Paraphrase

Items	Refers to	Contents
Company, Shen Huafa	Refers to	SHENZHEN ZHONGHENG HUAFA CO., LTD.
Wuhan Zhongheng Group	Refers to	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.
HK Yutian	Refers to	Hong Kong Yutian International Investment Co., Ltd.
Hengsheng Photoelectricity	Refers to	Wuhan Hengsheng Photoelectricity Industry Co., Ltd.
Hengsheng Yutian	Refers to	Wuhan Hengsheng Yutian Industrial Co., Ltd.
Hengshen Photoelectricity	Refers to	Wuhan Hengshen Photoelectricity Industry Co., Ltd.
Hengfa Technology company	Refers to	Wuhan Hengfa Technology Co., Ltd.
Huafa Property Company	Refers to	Shenzhen Zhongheng Huafa Property Co., Ltd
Huafa Lease Company	Refers to	Shenzhen Huafa Property Lease Management Co., Ltd
Huafa Trade Co., Ltd.	Refers to	Wuhan Zhongheng Huafa Trade Co., Ltd.

## **Warning of major risks**

**Please pay attention to the risks factors, the Company facing, that well-described in section IV “Report of the Board of Directors”**

## Section II Company profile

### I. Company information

Short form of the stock	SHEN HUAFA-A, SHEN HUAFA- B	Stock code	000020, 200020
Stock exchange for listing	Shenzhen Stock Exchange		
Name of the Company (in Chinese)	深圳中恒华发股份有限公司		
Short form of the Company (in Chinese)	深华发		
Foreign name of the Company(if applicable)	SHENZHEN ZHONGHENG HUAFA CO., LTD.		
Legal representative	Li Zhongqiu		
Registrations add.	411 Bldg., Huafa (N) Road, Futian District, Shenzhen		
Code for registrations add	518031		
Offices add.	6/F, East Tower of 411 Bldg., Huafa (N) Road, Futian District, Shenzhen		
Codes for office add.	518031		
Website of company	<a href="http://www.hwafa.com.cn">http://www.hwafa.com.cn</a>		
E-mail	hwafainvestor@126.com.cn		

### II. Person/Way to contact

	Secretary of the Board	Rep. of security affairs
Name	Weng Xiaojue	Niu Yuxiang
Contact add.	6/F, East Tower, Huafa (N) Road, Futian District, Shenzhen	6/F, East Tower, Huafa (N) Road, Futian District, Shenzhen
Tel.	(0755) 83352206	(0755)61389198
Fax.	(0755) 61389001	(0755)61389001
E-mail	hwafainvestor@126.com.cn	hwafainvestor@126.com.cn

### III. Information disclosure and preparation place

Newspaper appointed for information disclosure	<i>China Securities Journal; Securities Times; Hong Kong Commercial Daily</i>
Website for annual report publish appointed by CSRC	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Preparation place for annual report	Office of the Board of SHENZHEN ZHONGHENG HUAFA CO., LTD.

**IV. Registration changes of the Company**

	Date for registration	Place for registration	Registration NO. for enterprise legal license	No. of taxation registration	Organization code
Initial registration	1981-12-08	411 Bldg., Huafa (N) Road, Futian District, Shenzhen	440301501120670	440301618830372	61883037-2
Registration at end of report period	2007-11-23	411 Bldg., Huafa (N) Road, Futian District, Shenzhen	440301501120670	440301618830372	61883037-2
Changes of main business since listing (if applicable)	<p>Before the change of controlling shareholders: the main business was production and sales of color TV, printed circuit board and injection molded parts etc.</p> <p>After the change of controlling shareholders: the main business gradually adjusted to production and sales of injection molded parts, foam part (light packaging materials) and LCD whole machine.</p>				
Previous changes for controlling shareholders (if applicable)	<p>The Company's predecessor was Shenzhen Huafa Electronic Co., LTD, which was founded in 1981, initiated and established by three legal persons-- Shenzhen Electronics Group Co., LTD, China Zhenhua Electronic Group Co., LTD and Hong Kong Luks Industrial Co., LTD. In June 2005, Wuhan Zhongheng Group transferred the 44.12% equity of company, held by original first and second largest shareholder of the Company Shenzhen Electronics Group Co., LTD and China Zhenhua Electronic Group Co., LTD, and equity transfer formalities completed in April 2007; Wuhan Zhongheng Group became the controlling shareholder of the Company. In September 2007, the company officially changed its name to "Shenzhen Zhongheng Huafa Co., Ltd".</p>				

**V. Other relevant information**

CPA engaged by the Company

Name of CPA	Shinewing Certified Public Accountants LLC
Offices add. for CPA	9/F, Block A, Fu Hua Mansion No.8 Chaoyang Men, Bei da jie, Dong Cheng District, Beijing, P.R.China
Signing Accountants	Zhang Weijian, Zhang Yongde

Sponsor engaged by the Company for performing continuous supervision duties in reporting period

 Applicable     Not applicable

Financial consultant engaged by the Company for performing continuous supervision duties in reporting period

 Applicable     Not applicable

## Section III. Accounting data and summary of financial indexes

### I. Main accounting data and financial indexes

Whether it has retroactive adjustment or re-statement on previous accounting data for accounting policy changed and accounting error correction or not

Yes  No

	2012	2011	Changes over last year (%)	2010
Operating income (RMB)	723,891,496.54	875,778,275.09	-17.34%	745,580,123.38
Net profit attributable to shareholders of the listed company(RMB)	3,241,897.70	10,374,521.20	-68.75%	9,177,262.81
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses(RMB)	3,856,768.38	10,892,370.66	-64.59%	11,252,462.92
Net cash flow arising from operating activities(RMB)	18,419,090.98	48,170,937.23	-61.76%	56,799,807.76
Basic earnings per share (RMB/Share)	0.0115	0.0366	-68.58%	0.0397
Diluted earnings per share (RMB/Share)	0.0115	0.0366	-68.58%	0.0397
Return on Equity (%)	1.16%	3.82%	2.66 percentage points down	3.44%
	End of 2012	End of 2011	Changes over end of last year (%)	End of 2010
Total assets (RMB)	681,645,093.97	668,385,621.82	1.98%	725,894,326.42
Net assets attributable to shareholder of listed company (Owners' equity attributable to shareholder of listed company ) (RMB)	280,181,050.91	276,939,153.21	1.17%	266,564,632.01

**II. Items and amounts of extraordinary profit (gains)/loss**

Unit: RMB

Item	Amount in 2012	Amount in 2011	Amount in 2010	Note
Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets)	3,843.23	-285,821.40	113,185.39	
Governmental subsidy reckoned into current gains/losses (not including the subsidy enjoyed in quota or ration according to national standards, which are closely relevant to enterprise's business)			200,000.00	
Other non-operating income and expenditure except for the aforementioned items	-978,232.33	-360,193.92	-2,393,270.85	
Impact on income tax	-359,518.42	-128,165.86	-4,885.35	
Total	-614,870.68	-517,849.46	-2,075,200.11	--

Concerning the extraordinary profit (gain)/loss defined by *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, and the items defined as recurring profit (gain)/loss according to the lists of extraordinary profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, explain reasons

Applicable  Not applicable

## Section IV. Report of the Board of Directors

### I. Introduction

In 2012, as the domestic economy growth continued to present slow, home appliances industry begun to fall back since the supporting policies were withdrawn and economy declined. Injection molding and polystyrene businesses providing matching products for home appliances industry were depressed accordingly. The downstream customers required bringing down the purchase price, and raw materials and labor costs continued to increase. These unfavorable situations were particular obvious in the first half year. Besides, property leasing business which was the major profit contributor experienced leasing gap period due to readjustment for expiration of certain premise lease, thus further affected operating results. Under this situation, the operation level of the Company adopted active measures to face such challenges and strive to prevent profit decline resulting from unfavorable factors. In the reporting period, the Company realized operating income of RMB723, 891,500, representing decrease of 17% year-on-year. The Company realized total profit of RMB4, 632,100, representing decrease of 47% year-on-year.

- operating income of RMB193, 748,400 was realized in injection molding business segment, representing an increase of 19% year-on-year. In front of the great decline in production, sales and profit in the first half year, the segment adopted active measures. In particular, it extended internal potentials, adjusted products structure and introduced the new client Green Air Conditioning which became the largest client of the segment in plastic components on the basis of maintaining the existing customer relation. Meanwhile, the segment continued to implement new technology reform and craft upgrade. Through overall promotion of application of machine hand and upgrade of server system, the segment received obvious effects in capacity enhancement and energy saving. The Company received good appraisal from Wuhan Development and Reform Commission and was awarded the honor title of “green low carbon efficiency enterprise” from Wuhan Human Environment Commission and Wuhan Cycle Economy Institution.

- operating income of RMB63, 422,000 was realized in polystyrene business segment, representing an increase of 14% year-on-year. Although the competition was furious and economic environment gradually declined, the polystyrene business segment has always maintained steady growth based on market demand. Holding the opportunity of product upgrade, the segment continued to improve product structure and enlarge market occupation. Approximately 140 new products were launched in 2012. Meanwhile, the segment strengthened management in detail, controlled and prevented any unhealthy waste in production process, reduced consumption of raw materials and invalid labor, promoted equipment upgrade and craft reform and further reduced costs and improved capacity.

- operating income of RMB418, 081,100 was realized in LCD whole set business segment, representing a decrease of 31% year-on-year. As liquid crystal industry gradually warmed back since last year end, selling price of LCD whole set experienced minor increase. Supply of liquid crystal display panels of major sizes from upstream suppliers decreased, resulting in reduced production of relevant display products. Besides, the segment adjusted its sales strategy to give up orders with low profit margin. Therefore, the video whole set business presented to decrease in quantity while increase in profit. As for production control, in order to make up for the capacity gap arising from insufficient supply of panels of major sizes, the video business segment developed several displays in large size and applied design patents during the reporting period. It also introduced self-made base plug-in line body and large size display production lines, which made it become one of the comprehensive OEM factory producing liquid crystal products in size 7 inches to 82 inches. With the consideration that normal display products were hard to satisfy existing market demands, the segment begun to make trial operation in areas with differentiation and high added-value like liquid crystal TV, smart display, all-in-one machine, outdoor advertisement machine, electronic whiteboard, etc.

- operating income of RMB38, 460,000 was realized in property leasing business, representing a decrease of about 15% year-on-year.

Due to that the Company replanted its own property (level 1 to 3 of Huafa Building) upon expiration of the relevant leasing contracts in the 3<sup>rd</sup> quarter of 2012, the property was under temporary decoration and leasing introduction during the period from September 2012 to the end of this reporting period, which resulted in fluctuation of property leasing income and profit of the Company in short term. However, leasing prices of certain properties increased a bit and leasing rate was relatively good, which eased the negative affects on entire property leasing business performance from the aforesaid adjustment.

## II. Main business analysis

### 1. Introduction

The major business of the Company was production and sales of injection molding pieces, foam pieces (light material package) and LCD whole sets. Sales are mainly focused in Central China and Hong Kong.

Review and summary of the progress of development strategy and operation plan as disclosed in previous period during the reporting period

Nil

Reasons for difference of actual operation performance has 20% lower or higher than profit forecast of the Year disclosed

Applicable  Not applicable

### 2. Revenue

Statement

The Company achieved operation income amounting as RMB 723,891,500 in report period, a 17% down over same period of last year

Whether income from physical sales larger than income from labors or not

Yes  No

Industries	Item	2012	2011	Increase/decrease y-o-y (%)
Display	Sales	840,765	1,249,805	-33%
	Production	828,639	1,194,839	-31%
	Inventory	2,515	19,615	-87%
Plastic injection hardware	Sales	9,158.28	7,958.7	15%
	Production	10,777.8	9,106.11	18%
	Inventory	808.3	796.13	1.5%
Foam	Sales	3,108.11	2,767.72	12%
	Production	3,307.1	2,858.28	16%
	Inventory	257.29	101.33	154%

Reasons for y-o-y relevant data with over 30% changes

Applicable  Not applicable

Material orders in hands

Applicable  Not applicable

Material changes or adjustment for products or services of the Company in reporting period

Applicable  Not applicable

Major sales of the Company

Total top five clients in sales (RMB)	541,975,320.20
Proportion in total annual sales volume for top five clients (%)	79.27%

Information of top five clients of the Company

Applicable  Not applicable

Serial	Name	Sales (RMB)	Proportion in total annual sales (%)
1	Yutian International	317,640,248.36	43.88%
2	Qingdao Haier Part Purchasing Co., Ltd.	172,518,259.68	23.83%
3	Gree Electric Appliances (Wuhan) Co.,Ltd.	21,469,475.19	2.97%
4	TCL Air-conditioner (Wuhan) CO., Ltd.	18,683,393.69	2.58%
5	Hefei Haier Logistic Co., Ltd.	11,663,943.21	1.61%
Total	—	541,975,320.20	79.27%

Reasons for y-o-y relevant data with over 30% changes

Applicable  Not applicable

Reasons on dramatic decline of sales, production and inventory of display: relevant display products decreased due to the supply declined for main trend size of LCD panel from upstream; furthermore, the Company adjusted sales strategy moderately to give up orders with low gross margins.

Reasons on major growth of inventory of foam: sales of Styrofoam growth

### 3. Cost

Industry classification

Unit: RMB

Industry classification	Item	2012		2011		Y-o-y changes (%)
		Amount	Ratio in operation cost (%)	Amount	Ratio in operation cost (%)	
Display	Raw materials	384,793,038.45	95.64%	593,544,197.50	98.91%	-3.28%
Display	Labor wages	2,014,651.80	0.50%	2,519,121.50	0.42%	0.08%
Display	Depreciation	1,871,372.00	0.47%	1,568,931.46	0.26%	0.20%
Display	Energy	0.00	0.00%	0.00	0.00%	0.00%
Plastic injection hardware	Raw materials	123,712,537.73	72.84%	99,431,125.26	72.60%	0.23%
Plastic injection hardware	Labor wages	11,651,906.62	6.86%	13,672,291.42	9.98%	-3.12%

Plastic injection hardware	Depreciation	5,119,158.90	3.01%	4,499,594.34	3.29%	-0.27%
Plastic injection hardware	Energy	0.00	0.00%	0.00	0.00%	0.00%
Foam	Raw materials	35,839,741.46	66.41%	31,378,426.39	66.00%	0.42%
Foam	Labor wages	2,661,223.19	4.93%	2,301,997.78	4.84%	0.09%
Foam	Depreciation	1,317,468.59	2.44%	1,238,851.84	2.61%	-0.16%
Foam	Energy	5,213,976.19	9.66%	6,395,120.15	13.45%	-3.79%

## Main suppliers of the Company

Total purchase amount from top five suppliers (RMB)	479,823,629.58
Proportion in total annual purchase amount for top five suppliers (%)	87.4%

## Information of top five suppliers of the Company

√Applicable □Not applicable

Serial	Name	Purchase amount (RMB)	Proportion in total annual purchase amount (%)
1	Hong Kong Yutian International Investment Co., Ltd.	298,552,577.72	54.38%
2	Qingdao Haier Part Purchasing Co., Ltd.	116,856,475.22	21.28%
3	Gree Electric Appliances (Wuhan) Co.,Ltd.	35,546,795.76	6.47%
4	Hong Kong Admiral Investment Co.,Ltd	18,297,159.41	3.33%
5	Shenzhen Wote Advance Materials Co.,Ltd	10,570,621.47	1.93%
Total	—	479,823,629.58	87.4%

## 4. Expenses

Item	2012	2011	Y-o-y changes (%)
Sales expenses	8,068,151.58	5,407,314.52	49.21%
Administration expenses	45,568,945.84	37,608,576.76	21.17%
Financial expenses	21,670,454.84	18,979,860.46	14.18%
Income tax expenses	1,390,222.88	4,161,951.04	-66.60%

Reasons on major growth of sales expenses: after sales service 1.06 million yuan was charged back from Shenzhen

Video in last year, plastic injection transfer the salary of accounting personnel into the calculation of sales expenses;

Reasons on major declined of income tax expenses:

## 5. Cash flow

Unit: RMB

Item	2012	2011	Y-o-y changes (%)
Subtotal of cash in-flow from operation activity	734,514,147.17	863,550,267.21	-14.94%
Subtotal of cash out-flow from operation activity	716,095,056.19	815,379,329.98	-12.18%
Net cash flow from operation activity	18,419,090.98	48,170,937.23	-61.76%
Subtotal of cash in-flow from investment activity	414,329.90	0	-
Subtotal of cash out-flow from investment activity	10,335,206.09	17,857,671.45	-42.12%
Net cash flow from investment activity	-9,920,876.19	-17,857,671.45	-44.44%
Subtotal of cash in-flow from financing activity	501,877,880.19	533,472,156.93	-5.92%
Subtotal of cash out-flow from financing activity	516,346,647.28	527,630,511.85	-2.14%
Net cash flow from financing activity	-14,468,767.09	5,841,645.08	-347.68%
Net increased amount of cash and cash equivalent	-7,496,224.95	33,107,685.11	-

Reasons for y-o-y relevant data with over 30% changes

√Applicable □Not applicable

Reasons on major declined y-o-y of net cash flow from operation activity: sales income declined y-o-y

Reasons on major declined y-o-y of net cash flow from investment activity: fixed assets and payment for projects decreased in this year

Reasons on major declined y-o-y of net cash flow from financing activity: more bank loans paid in this year;

Reasons of major difference between the cash flow of operation activity in report period and net profit of the Company

□Applicable √Not applicable

## III. Composition of main business

Unit: RMB

	Operating revenue	Operating cost	Gross profit ratio (%)	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y (%)	Increase/decrease of gross profit ratio y-o-y (%)

				(%)		
According to industries						
Display	418,081,081.14	402,355,565.95	3.76%	-31.47%	-32.95%	2.13%
Plastic injection hardware	193,512,708.20	169,843,686.67	12.23%	19.29%	24.02%	-3.34%
Foam	63,210,118.42	53,964,618.56	14.63%	14.17%	13.50%	0.5%
According to products						
Display	418,081,081.14	402,355,565.95	3.76%	-31.47%	-32.95%	2.13%
Plastic injection hardware	193,512,708.20	169,843,686.67	12.23%	19.29%	24.02%	-3.34%
Foam	63,210,118.42	53,964,618.56	14.63%	14.17%	13.50%	0.5%
According to region						
Hong Kong	418,081,081.14	402,355,565.95	3.76%	-31.47%	-32.95%	2.13%
Central China	256,722,826.62	223,808,305.23	12.82%	17.99%	21.31%	-2.39%

Under circumstances of adjustment in reporting period for statistic scope of main business data, adjusted main business based on latest one year's scope of period-end

Applicable  Not applicable

#### IV. Assets and liability analysis

##### 1. Major changes of assets

Unit: RMB

	End of 2012		End of 2011		Ratio changes (%)	Notes of major changes
	Amount	Ratio in total assets (%)	Amount	Ratio in total assets (%)		
Monetary fund	112,834,841.39	16.55%	141,426,712.65	21.16%	-4.61%	
Account receivable	161,782,907.79	23.73%	85,553,134.14	12.8%	10.93%	Part of the account receivables at last year are collected in advance
Inventory	42,771,061.45	6.27%	55,927,484.28	8.37%	-2.1%	
Investment real estate	33,784,177.90	4.96%	35,730,725.03	5.35%	-0.39%	
Long-term equity investment		0%			0%	
Fix assets	202,743,248.34	29.74%	207,570,220.77	31.06%	-1.32%	
Construction in progress	2,043,356.00	0.3%	2,667,769.50	0.4%	-0.1%	

## 2. Major changes of liability

Unit: RMB

	2012		2011		Ratio changes (%)	Notes of major changes
	Amount	Ratio in total assets (%)	Amount	Ratio in total assets (%)		
Short-term loans	109,694,640.00	16.09%	104,543,897.22	15.64%	0.45%	
Long-term loans	163,718,800.00	24.02%	186,141,200.00	27.85%	-3.83%	

## V. Core competence analysis

1. All industrial lands of the Company located in Shenzhen were taken into the first batch of plan under 2010 Shenzhen urban upgrade unit planning formulation plan. In future, development and operation of self-owned land resources would become the income source of the Company on a long-term and stable basis.

2. The Company has three plants in Wuhan economic technology park where various famous enterprises are located in this area. Benefiting from radiation radius requirements for processing matching services, the Company enjoys superior and stable customer resources; in particular, its injection molding business and polystyrene businesses have been operated for almost 10 years with steady management group and abundant production experiences, which makes the Company enjoying high recognition in Central China.

## VI. Investment analysis

### 1. Main subsidiaries and stock-jointly companies

Particular about main subsidiaries and stock-jointly companies

Company name	Type	Industries	Main products or service	Register capital	Total assets (RMB)	Net Assets (RMB)	Operating revenue (RMB)	Operating profit (RMB)	Net profit (RMB)
Huafa Lease Company	Subsidiary	Property management	Property leasing and management of self-owned property	1,000,000.00	1,900,692.20	-5,026,990.71	0.00	31.01	31.01
Huafa Property Company	Subsidiary	Property management	Property leasing and management of self-owned property	1,000,000.00	651,536.28	-321,143.43	1,565,403.40	-562,990.66	-562,990.66
Hengfa Technology company	Subsidiary	Production sales	R&D, production, sales of products and	181,643,111.00	527,296,496.72	203,585,407.45	667,837,457.56	6,262,222.83	4,380,559.76

			import and export business etc.						
Huafa Trade Co., Ltd.	Subsidiary	Sales	Sales of Photoelectricity products, Imp&Exp business of goods	100,000.00	1,149,207.58	-901,301.47	77,207,391.72	-689,468.98	-689,468.98

Notes of main subsidiaries and stock-jointly companies

Nil

Particular about subsidiaries obtained or disposed in report period

Applicable  Not applicable

## VII. Prospect for future development of the Company

### (I) Industry development and market analysis

Looking forward to 2013, as certain crisis and risks of global economy were released and eased gradually, the global economy under deep structure adjustment predicted to continue slow recovery. Both abroad and domestic economic environments are complicated, uncertainties and active factors existed both. On the one hand, capability of technical innovation was insufficient. Challenged by the new round of industry revolution where digitalization and intelligence are the core theme of manufacture industry, the difference between domestic enterprise and western developed countries in area of high-end technology is going to become larger. Enterprises will suffer temporary difficulty from structure adjustment during the industrial upgrade procedure. On the other side, the general consumption demands in current economic areas are not so satisfying. There are relatively big spaces in enhancement of resident income, acceleration of urbanization as well as upgrade of consumption structure. The new development spirit determined by the 18<sup>th</sup> national congress of communist party of China emphasizes more that economic transition shall focus on quality and efficiency based on stable growth. With the aim to enlarge domestic demand, it shall cultivate and develop domestic market during the expansion. Enterprises are encouraged to accelerate adjustment to structures, improve contribution from science and technology innovation for economic growth and promote industry upgrade to mid-and-high end. For enterprises, these mean challenges and opportunities both, which requires the Company to further save energy, reduce emission and make technology innovation in the injection molding business, polystyrene business as well as LCD whose set business, while also provides market opportunities with supporting policies.

### (II) Operation plan for the new year

The major operation plan for 2013 is set out as follows:

Industrial processing and production ——

◆ consolidate the inherent strengths and bases

For the latest two years, on the basis of implementation of internal control, focus on ERP system upgrade in subsidiaries and operation of new sectors, thus to continue to promote superior management oriented for cost control by virtue of the ERP system which is highly integrated with information, logistics and capital flows. Optimizes production management procedure and enhances internal control management; adjusts and improves management structure of subsidiaries, integrates and simplify the comprehensive management functions such as administrative and supporting functions set by each business segments repeatedly and reorganizes the complicated management relations; try to operate under amoeba operation model in certain factories, help employees to form their awareness of realizing targets by highly transparent production operation, accounting calculation and performance examination, so as

to enhance production efficiency.

◆ Technical reform, saving energy and reducing emission

Continued to strengthen technical reform and craft reform. As for injection molding machine, the working focus of 2013 is to change the traditional electricity heating method to nanometer infrared heating mode, eliminate the injection molding machines with small tonnage and old equipments with high energy consumption and low efficiency, replace certain mid-and-large -sized production equipments, so as to maintain the competitiveness in the industry.

◆ expansion for development

As the market competition become more and more furious, profit space of industrial processing matching business gradually narrows. It is important for the Company to develop new products and seek for new profit-making ways while maintaining the existing order quotation. Take the video business as example, display market experiences slowing development in recent years. Impacted by the new generation products such as all-in-one and notebook, market demands for traditional displays decreases. The overall market capacity of 2013 will continue to decline as compared to 2012. In display industry where prices are based, product research innovation and production cost control are the major cores for winning competition advantage. In the coming year, the video business segment will improve product planning and product design and research, trying to develop smart displays and touch tablet PCs satisfying market demands. Besides, it introduces its proprietary brands to E-commerce trading platform, trying to expand into retail channel.

Property leasing——

Focus on attracting tenants for its own property Huafa Building. On the one hand, it manages to maintain the existing tenants; on the other side, analyses the business circle around Huaqiang north road and Huafa building, so as to adjust business attraction strategy scientifically. It manages to introduce such leading merchants adapting to the surrounding electrics business circle and living facilities, so as to form interactive effects with other merchants, thus to make up for the rental losses arising from leasing gap period of level 1 to level 3.

Urbanization project——

1. As the planning for two urbanization projects has been considered and approved in recent years which set clear functions and reform targets in respect of the relevant parcel of land, the Company will continue to perform the following procedures according to relevant provisions, including a series of preparation procedures like demolition compensation and relocation of certain property owners, confirmation of implementation entity, environment appraisal project, payment of land premium, re-signing of land transfer contract, submission of detailed reform scheme for approval;
2. Supplement professional technicians and engineering management staff, strengthen management of design and construction during project development, and strive to reduce risks in project construction with external intelligence;
3. Attract investment in project land in advance;
4. Increase coordination with the units relate to No.6 subway.

**(III)Capital requirements, application plan and capital sources**

Taking into account the progress of its existing businesses and different credit conditions granted by each bank, the Company will adjust such banks with established cooperation as for its industrial production. Through matching account receivables and payables and the forms thereof, the Company manages to enhance capital application efficiency, maintain scale of the existing credit facilities and control increase of finance expenses; in urbanization reform project, the Company will determine new financing scheme and extend financing channels according to project progress, and allocate capitals adequately to minimize capital application costs.

**(IV) Risks faced by the Company in production and operation in 2013 and the potential measures**

1. Risk of decrease of rental income arising from property leasing gap period: the Company replanted its own property (level 1 to 3 of Huafa Building) upon expiration of the relevant leasing contracts in the 3<sup>rd</sup> quarter of 2012, the property was temporarily under decoration and investment introduction since September 2012 till now. The rent from property leasing in gap period expected to decrease 1 million yuan to 1.5 million yuan monthly y-o-y

Measures planned to take: adjust investment attraction strategy.

2. Short-term risk arising from construction and reform of Huaqiangbei business circle: Huaqiangbei business circle where the major property of the Company-Huafa building located will be enclosed for almost 3 years due to that construction for No.7 subway will start in 2013. Though the traffic network here would attract more passenger flow upon completion of the construction where Huaqiangbei business circle would form the commercial integrity featuring with much more commercial services and complete comprehensive functions, business circle and the surrounding enterprises may experience decreasing stream of people, vacant shops and depressed operation during the construction period.

Measures planned to take: maintain the existing tenants and adjust investment attraction strategy.

**VIII. Profit and dividend distribution**

Determination, execution or adjustment of the profit distribution policy especially cash dividend policy in the reporting period

In order to further standardize profit distribution and maintain legal interests of its investors, the Company, according to the Notice on Further Implementation of Cash Dividend of Listed Company (ZJF(2012)No.37) issued by the CSRC, the Notice on Further Implementation of Relevant Requirements for Cash Dividend of Listed Company (SZJGSZ(2012)No.43) issued by the securities regulatory bureau of Shenzhen, Listing Rules of Shenzhen Stock Exchange as well as the Articles of Association, determined the shareholders return plan (2012-2014), amended the clauses concerning profit distribution in the Articles of Association, defined dividend conditions and proportion, improved relevant decision making procedures and established shareholders return mechanism on a scientific, lasting and steady basis, based on the comprehensive analysis in respect of development strategy, profitability, financial condition, shareholder return, external financing environment and financing costs.

During consideration of shareholders' dividend return and submission the same to general meeting for consideration, the Company acquired opinions and requirements of its vast investors by means of telephone, fax, and email as well as network platform. Independent directors issued independent opinions as their obligations. This issue has been considered and approved at the 3<sup>rd</sup> extraordinary board meeting of 2012 and the 2<sup>nd</sup> extraordinary general meeting of 2012. For details, please refer to the announcements dated 8 August 2012 and 25 August 2012.

The profit distribution plan and capital reserve capitalization plan of the Company accorded with the relevant provisions as set out in the Articles of Association during the reporting period.

The profit distribution plan or scheme and capital reserve capitalization plan or scheme of the Company for the last 3 years (reporting period included)

For the last 3 years, the ending undistributed profit after compensation of previous losses with net profit was negative. According to the Articles of Association, the Company was not qualified for implementing cash dividend distribution. Thus, no cash profit distribution plan has been raised in recent years.

Cash dividend in latest three years

Unit: RMB

Year for bonus shares	Amount for cash bonus (tax included)	Net profit attributable to shareholders of listed company in consolidation statement for bonus year	Ratio in net profit attributable to shareholders of listed company contained in consolidation statement (%)
2012	0.00	3,241,897.70	0%
2011	0.00	10,374,521.20	0%
2010	0.00	9,177,262.81	0%

The Company gains profits in reporting period and the retained profit of parent company is positive but no plan of cash dividend proposed

Applicable  Not applicable

### IX. In the report period, reception of research, communication and interview

Time	Place	Way	Type	Reception	Contents discussed and material provided
From Jan. to Dec.. 2012	Headquarter of the Company	Telephone communication	Individual	Individual investor	Communicating operation situation of the Company, assets status and process of city update projects

## Section V. Important Events

### I. Significant related transaction

#### 1. Related transaction related to daily operation

Parties of related trade	Related relationship	Type of related trade	Contents of related trade	Pricing principle of related trade	Price of related trade	Amount of related trade (10 thousand yuan)	Ration in amount of similar related trade (%)	Accounts-settlement of related trade	Market price	Date of disclosure	Index of disclosure
HK Yutian	Sharing the same controlling shareholder	Purchase	Purchasing LCD monitors	Same as the market condition	29,855	29,855	0.78%	Telegraphic transfer	The average market price refers to the price of same	2011-12-31	<a href="http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF">http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF</a>
HK Yutian	Sharing the same controlling shareholder	Purchase	Purchasing LCD overall monitor machine set	Based on price of sales order from the clients, no trade price difference in any form attached	7,721	7,721	100%	Telegraphic transfer	specifications which is searched from through the world famous professional market survey company website <a href="http://www.witsview.com">http://www.witsview.com</a> recognize		<a href="http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF">http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF</a>
HK Yutian	Sharing the same controlling shareholder	Purchase	Sales LCD overall monitor machine set	Based on price of sales order from the clients	39,500	39,500	52.46%	Telegraphic transfer	authority in the industry and LCD professional market survey	2011-12-31	<a href="http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF">http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF</a>
Hengsheng Yutian (or Hengsheng Photoelectricity)	Sharing the same controlling shareholder	Purchase	Purchasing LCD monitors	Based on 1% lower over the average price in current market	548	548	42.39%	Telegraphic transfer		2011-12-31	<a href="http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF">http://www.cninfo.com.cn/finalpage/2011-12-31/60393781.PDF</a>

									company website http://ww w.witsvie w.com.		
Total				--	--	77,624	195.63%	--	--	--	--
Details of returned large sales				N/A							
Essentiality and persistence of related trade, as well as reason for choosing trading with related parties (not other traders in market)				Daily related trade could reduce production cost of overall LCD monitor and improve sustainable development of the Company							
Impact on individuality of listed companies from related trade				The company and related party in business, personnel, assets, institutions and financial aspects separates completely, the independent complete autonomy in operation ability, connected transaction does not affect the independence of the company							
Dependence on related parties from the Company, as well as related measurements (for example)				The Company and related parties were cooperation relationship, existing no dependence							
Predict on total amount of daily related trade on the way in this period according to classification, as well as actual implementation in reporting period				In the reporting, Hengfa Technology purchased LCD from Hengsheng Yutian with RMB 5, 480, 000 approximately, 1.14% of the annual amount predicted at the beginning of the year; purchased LCD from HK Yutian with RMB 298,550, 000, approximately, 35.96% of the annual amount predicted at the beginning of the year; sold LCD whole machine to HK Yutian with RMB 395 million approximately, 23% of the annual amount predicted at the beginning of the year; Huafa Trade purchased LCD whole machine from HK Yutian with RMB 77.21 million approximately, 78.69% of the annual amount predicted at the beginning of the year.							
Reason of the greater difference between trade price and market reference price				N/A							

## II. Significant contracts and its implementation

### 1. Trusteeship, contract and lease

#### (1) Lease

Statement of lease

The Company signed House Leasing Contract and complementary agreement with Shenzhen Wanshang Friendship Department Store Co., Ltd. in 2001, and leasing space was the company's own property HUAFa building from one to four layers, and the contract had been completed in the third quarter of 2012.

The project brought to the company's profit and loss more than 10% of the total profit during the reporting

Applicable  Not applicable

#### 2. Guarantees

In 10 thousand yuan

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)

Name of the Company guaranteed	Related Announcement disclosure date	Guarantee limit	Actual date of happening (Date of signing agreement)	Actual guarantee limit	Guarantee type	Guarantee term	Complete implementation or not	Guarantee for related party (Yes or no)
Guarantee of the Company for the subsidiaries								
Name of the Company guaranteed	Related Announcement disclosure date	Guarantee limit	Actual date of happening (Date of signing agreement)	Actual guarantee limit	Guarantee type	Guarantee term	Complete implementation or not	Guarantee for related party (Yes or no)
Wuhan Hengfa Technology Co., Ltd.	2012-01-17	30,000	2012-04-05	10922.40	Joint liability guarantee	1 year	No	No
Wuhan Hengfa Technology Co., Ltd.	2010-10-15	75,240	2010-11-01	141.95	Joint liability guarantee	2 years	No	No
Total amount of approving guarantee for subsidiaries in report period (B1)		30,000		Total amount of actual occurred guarantee for subsidiaries in report period (B2)		56,924.85		
Total amount of approved guarantee for subsidiaries at the end of reporting period (B3)		105,240		Total balance of actual guarantee for subsidiaries at the end of reporting period (B4)		11,064.35		
Total amount of guarantee of the Company( total of two abovementioned guarantee)								
Total amount of approving guarantee in report period (A1+B1)		30,000		Total amount of actual occurred guarantee in report period (A2+B2)		56,924.85		
Total amount of approved guarantee at the end of report period (A3+B3)		105,240		Total balance of actual guarantee at the end of report period (A4+B4)		11,064.35		
The proportion of the total amount of actually guarantee in the net assets of the Company(that is A4+ B4)				39.49%				
Including:								
Amount of guarantee for shareholders, actual controller and its related parties(C)				0				
The debts guarantee amount provided for the guaranteed parties whose assets-liability ratio exceed 70% directly or indirectly(D)				0				
Proportion of total amount of guarantee in net assets of the				0				

Company exceed 50%(E)	
Total amount of the aforesaid three guarantees(C+D+E)	0
Explanations on possibly bearing joint and several liquidating responsibilities for undue guarantees	N/A
Explanations on external guarantee against regulated procedures	N/A

Explanation on details of guarantee by complex method

①to ensure that the wholly-owned subsidiary Wuhan Hengfa Science & Technology Co., Ltd. would settle the accounts occurred during the transaction period in full with Shanghai Zhonghanguang Electrics Co., Ltd., the Company provided payment guarantee for the liabilities assumed by Wuhan Hengfa Science & Technology Co., Ltd. to Shanghai Zhonghanguang Electrics Co., Ltd. The principal shall be based on the actual transaction amount, while not exceeding USD10 million each month.

In 2012, the Company accumulatively provided guarantees of USD21, 929,000 for Wuhan Hengfa Science & Technology Co., Ltd.for the aforesaid transactions, and guarantee of USD29, 051,000 was released accumulatively. As at 31 December 2012, the guarantee balance was USD226, 400.

②to ensure that the wholly-owned subsidiary Wuhan Hengfa Science & Technology Co., Ltd. has sufficient capital for production and operation, the Company planned to provide joint responsibility guarantee for Wuhan Hengfa Science & Technology Co., Ltd. In respect of the bank borrowings of the company in 2012 according to the actual requirements. The aggregate guarantee shall not exceed RMB300 million.

During the reporting period, as the guarantor of the credit facilities of RMB80 million (or equivalent foreign currency) applied by Wuhan Hengfa Science & Technology Co., Ltd. from Minsheng Bank, the guarantor of the credit facilities of RMB50 million (or equivalent foreign currency) applied by Wuhan Hengfa Science & Technology Co., Ltd. from Bank of Communications and the guarantor of the credit facilities of USD10 million applied by Wuhan Hengfa Science & Technology Co., Ltd. from Hankou Bank, the Company undertook joint guarantee responsibility.

In 2012, the Company accumulatively provided guarantee of RMB43, 798,700 and USD61, 874,800 for the bank borrowings of Wuhan Hengfa Science & Technology Co., Ltd., and accumulatively released guarantee of RMB52, 076,000 and USD59, 165,300. As at 31 December 2012, the guarantee balance were RMB39 million and USD11.2 million.

### III. Implementation of commitments

#### 1. Commitments from the Company or shareholders (with over 5% shares held) in or continued to reporting period

Commitments	Commitment party	Contents	Dated for commitment	Commitment term	Implementation
Share Merger Reform	Wuhan Zhongheng Group	Non-tradable shares of the Company should not be listed for trading within 36	2006-10-20	36 months from May 18,2007 to	The commitment have been implemented on 18 May 2010; considering all 116,489,894 shares of the Company are in the situation of being pledged, till the end of this report period, Wuhan Zhongheng Group

		months since the date of listed tradable right obtained.		May 17,2010	have not applied the released procedure to Shenzhen Stock Exchange for the abovementioned restricted shares.
Commitments in report of acquisition or equity change	Wuhan Zhongheng Group	Within 1 year after transferred of this equity acquisition: 1. Injected relevant capital of plastic injection business into the Company; 2.70% equity of the Hengsheng Photoelectricity will inject into the Company.	2007-03-29	April 12,2007 to April 11,2008	1. On 5 June 2008, approving by the 3 <sup>rd</sup> Extraordinary Meeting of Board of Directors 2008, the Company purchased relevant assets of plastic injection products from Wuhan Zhongheng Group by cash of RMB 27 million, the commitment have been implemented; 2. In the first 10 days of May, 2008, the Company officially started off the significant asset restructures work of purchasing the 70% equities of Hengsheng Photoelectricity.; 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 still remain obstacles in material asset restructure.
Commitments in assets reorganization	No				
Commitments in initial public offering or refinancing	No				
Other commitments to minority shareholders of the Company	No				
Completed on time or not	No				
Detail reasons for un-complement and further plan	Found in “Implementation”				
Whether made a promise to horizontal competition and related transactions that resulted or not	No				
Solution term promised	N/A				

Solution way	N/A
Complementation	N/A

#### IV. Appointment and non-reappointment (dismissal) of CPA

Accounting firm appointed

Name of domestic accounting firm	Shine Wing Certified Public Accountants LLC
Remuneration for domestic accounting firm (10 thousand Yuan)	48
Continuous life of auditing service for domestic accounting firm	7 years
Name of domestic CPA	Zhang Weijian, Zhang Yongde
Name of foreign accounting firm (if applicable)	N/A
Remuneration for foreign accounting firm (10 thousand Yuan) (if applicable)	0
Continuous life of auditing service for foreign accounting firm (if applicable)	N/A
Name of foreign CPA	N/A

Whether re-appointed accounting firms in this period or not

Yes  No

Appointment of internal control auditing accounting firm, financial consultant or sponsor

Applicable  Not applicable

#### V. Other material events

The Company signed Asset Exchange Contract with Wuhan Zhongheng Group on 29 April 2009 (details were referred to in the announcement dated 30 April 2009), and the contract was executed well (details were set out in the 2010 annual report). Pursuant to the contract, since part of the assets of the Company (namely two parcel of industrial lands located at Huafa road, Gongming town, Guangming new district, Shenzhen (the property certificate No. were SFDZ No.7226760 and SFDZ No.7226763, No. of parcels were A627-005 and A627-007, and the aggregate area was 48,200 sq.m)) were the lands listed in the first batch of plan for 2010 Shenzhen urbanization unit planning preparation plan. For promotion of such urbanization project and joint cooperation, the Company has not completed the transfer procedures in respect of the aforesaid land.

## Section VI. Changes in Shares and Particulars about Shareholders

### I. Particulars about shareholder and actual controller of the Company

#### 1. Amount of shareholders of the Company and particulars about shares holding

Unit: share

Total shareholders in reporting period	28,467	Total shareholders ended as the 5 <sup>th</sup> trading day before annual report disclosed	27,29					
Particulars about shares held above 5% by shareholders								
Full name of Shareholders	Nature of shareholder	Proportion of shares held (%)	Total shareholders at the end of report period	Changes in report period	Amount of the restricted shares held	Amount of the restricted shares held	Number of share pledged/frozen	
							State of share	Amount
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Domestic non-state-owned legal person	41.14%	116,489,894	N/A	116,489,894	0	Pledged	116,489,894
							Frozen	0
SEG (HONG KONG) CO., LTD.	Overseas legal person	5.58%	16,569,560	N/A	0	16,569,560	Pledged/frozen	0
GOOD HOPE CORNER INVESTMENTS LTD	Overseas legal person	4.91%	13,900,000	N/A	0	13,900,000	Pledged/frozen	0
Zeng Ying	Domestic nature person	0.53%	1,500,000	N/A	0	1,500,000	Pledged/frozen	0
Jia Wenjun	Domestic nature person	0.45%	1,272,432	N/A	0	1,272,432	Pledged/frozen	0
BINGHUA LIU	Overseas nature person	0.31%	876,213	N/A	0	876,213	Pledged/frozen	0
Li Jianfeng	Domestic nature person	0.28%	799,000	N/A	0	799,000	Pledged/frozen	0
Zhu Ming	Domestic nature person	0.22%	611,348	N/A	0	611,348	Pledged/frozen	0
Zheng Qiaofen	Domestic nature person	0.19%	550,000	N/A	0	550,000	Pledged/frozen	0
Wu Ying	Domestic nature person	0.18%	521,468	N/A	0	521,468	Pledged/frozen	0
Strategy investors or general legal person becomes top 10 shareholders due to rights issued (if applicable)	N/A							
Explanation on associated relationship among the aforesaid shareholders	Among the top ten shareholders, Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. neither bears associated relationship with other shareholders, nor belongs to the consistent actor that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies. The Company neither knew whether there exists associated relationship among the other tradable shareholders, nor they belong to consistent actors that are prescribed in Measures for the Administration of Disclosure of							

Shareholder Equity Changes of Listed Companies.			
Particular about top ten shareholders with un-restrict shares held			
Shareholders' name	Amount of listed shares held at year-end (Note 4)	Type of shares	
		Type	Amount
SEG (HONG KONG) CO., LTD.	16,569,560	Domestically listed foreign shares	16,569,560
GOOD HOPE CORNER INVESTMENTS LTD	13,900,000	Domestically listed foreign shares	13,900,000
Zeng Ying	1,500,000	Domestically listed foreign shares	1,500,000
Jia Wenjun	1,272,432	RMB common share	1,272,432
BINGHUA LIU	876,213	Domestically listed foreign shares	876,213
Li Jianfeng	799,000	Domestically listed foreign shares	799,000
Zhu Ming	611,348	Domestically listed foreign shares	611,348
Zheng Qiaofen	550,000	Domestically listed foreign shares	550,000
Wu Ying	521,468	RMB common share	521,468
Lin Song	503,000	Domestically listed foreign shares	503,000
Expiation on associated relationship or consistent actors within the top 10 un-restrict shareholders and between top 10 un-restrict shareholders and top 10 shareholders	Among the top ten unrestricted shareholders, the Company neither knew whether there exists associated relationship among the other tradable shareholders, nor they belong to consistent actors that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies. Among the top ten shareholders, Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. neither bears associated relationship with other shareholders, nor belongs to the consistent actor that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies.		
Explanation on shareholders	N/A		

involving margin business (if applicable)	
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## 2. Particulars about controlling shareholder of the Company

Legal person

Controlling shareholder	Legal rep./person in charge of unit	Date established	Organization code	Register capital	Main business
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Li Zhongqiu	1996-03-21	71195460-1	138,000,000	Production, sales of computers, TV set, display, other hardware and computer software; development of internal data communication network, building of packing materials and light weight building material for packaging; hardware metal product, plastic product; acoustic product and electronic equipment; fabrics and garments; sales of building materials; management of exports business for the own products and technologies for the Company and member enterprise; management of export business on raw material, apparatus and instrument, machinery equipments, spare parts and technologies (barring those limited on operations or forbidden products or techniques of export and import by nation), development of real-estate and sales of commercial housings.
Operation result, financial status, cash flow and future development strategy ect.	Ended as 31 December 2012, total assets of Wuhan Zhongheng Group amounting as 5600 million yuan approximately; operation income for year of 2012 approximately as 1500 million yuan and net profit of 40.56 million yuan. (The above data is un-audited)				
Equity of other domestic/foreign listed company with share controlling and share participation by controlling shareholder in reporting	N/A				

period	
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Changes of controlling shareholders in reporting period

Applicable  Not applicable

### 3. Particulars about actual controller of the Company

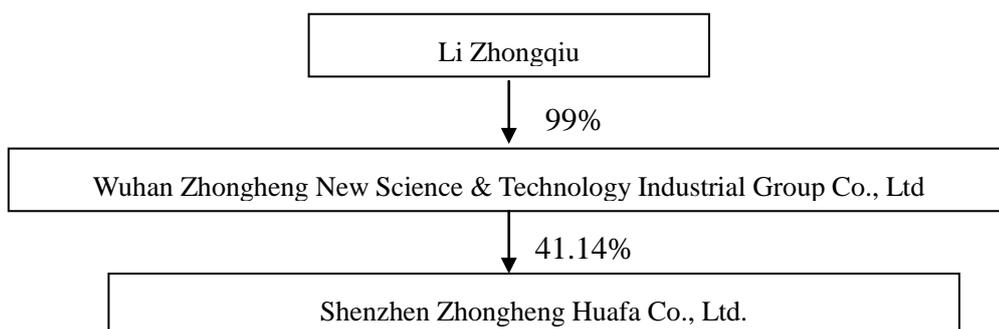
Nature person

Actual controller's name	Nationality	whether enjoy the residence power in the other country or area
Li Zhongqiu	P.R.C	No
Occupation or position in latest five years	He serves as the Chairman for Wuhan Zhongheng Group since 1996 and serves as Chairman and GM of the Company since 2007.	
Listed companies in and out of China that controlled in last 10 years	N/A	

Changes of controlling shareholders in reporting period

Applicable  Not applicable

Property right and controlling relationship between the actual controller and the Company is as follow:



Actual controller controlling the Company by entrust or other assets management

Applicable  Not applicable

## Section VII. Particulars about Directors, Supervisors and Senior Executives and Employees

### I. Changes of shares held by directors, supervisors and senior executives

Name	Title	Working status	Sex	Age	Start dated of office term	End date of office term	Shares held at period-begin (Share)	Increasing shares held in this period (Share)	Decreasing shares held in this period (Share)	Shares held at period-end(Share)
Li Zhongqiu	Chairman& GM	Currently in office	M	50	2010-08-11	2013-08-10	0	0	0	0
Tang Chonyin	Director	Currently in office	M	52	2010-08-11	2013-08-10	0	0	0	0
Chen Zhigang	Director	Currently in office	M	39	2010-08-11	2013-08-10	0	0	0	0
Jiang Yanjun	Director& Deputy GM & CFO	Currently in office	M	43	2010-08-11	2013-08-10	0	0	0	0
	Secretary of the Board	Leave office	M	43	2011-01-14	2012-04-10	0	0	0	0
Li Dingan	Independent director	Currently in office	M	67	2010-08-11	2013-08-10	0	0	0	0
Zhang Yi	Independent director	Currently in office	M	42	2010-08-11	2013-08-10	0	0	0	0
Li Xiaodong	Independent director	Currently in office	M	46	2010-08-11	2013-08-10	0	0	0	0
Cao Li	Supervisor	Currently in office	F	42	2010-08-11	2013-08-10	0	0	0	0
Huang Yanbo	Supervisor	Currently in office	F	50	2012-01-16	2013-08-10	0	0	0	0
Geng Qu	Supervisor	Currently in office	F	43	2012-04-09	2013-08-10	0	0	0	0
Tang Ganyu	supervisor	Leaving office	F	35	2010-08-11	2012-01-15	0	0	0	0
Weng Xiaojue	Supervisor	Leave office	F	32	2010-08-09	2012-04-08	0	0	0	0
	Secretary of the Board	Currently in office	F	32	2012-04-11	2013-08-10	0	0	0	0

Total	--	--	--	--	--	--	0	0	0	0
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## II. Post-holding

Major working experience of directors, supervisors and senior executive at the present in latest five years

Li Zhongqiu: Male, was born in 1962 with Master of Engineering. He is representative to the NPC of Hubei Province, May the first of labor medalist of Wuhan. He serves as Chairman of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. since 1996. And serves as Chairman and the General Manager of the Company since July of 2007

Tang Chongyin: Male, was born in 1960. He is a Doctor of Laws. He worked as Chief of the law office in Shenzhen SEG Group Co., Ltd. from November 1998 to April 2004, and chief of the audit office of Shenzhen SEG Group Co., Ltd. from May 2000 to April 2003. Moreover, he has been chief legal adviser of Shenzhen SEG Group Co., Ltd. from July 2000 to June 2008; Manager of the Assets Department of Shenzhen SEG Group Co., Ltd. from April 2003 to June 2008; Minister of Property Rights Operation and Management Department of Shenzhen SEG Group Co., Ltd. since June 2008; Supervisor of SEG Co., Ltd. since May 2010, and serves as Chairman of Shenzhen Daming Electronics Co., Ltd. since October 2006 and serves as deputy Chairman of the Company since July 2007.

Chen Zhigang: Male, born in 1973, Master of Business Administration. From 2002 to 2005, he was supervisor, investment manager, securities representative of Wuhan Huaxin Hi-Tech Co., Ltd. He is CFO and secretary of the board of directors of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. from June 2005 to Aug. 2008, the Executive Deputy General Manager of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. since Aug. 2008, and he works as Director of the Company since July 2007.

Jiang Yanjun: male, born in 1969, master of economy major in Zhongnan University of Finance and Economy. He worked in Wuhan Kaidi Power Holding Co., Ltd from Sep. of 1997 to May of 2003 successively as manager if investment and finance department, manager of security department, representative of securities affairs and deputy chief economist; from Aug. of 2003 to Jul. of 2004 he worked as secretary of the board of directors and manager of products management department in Shenzhen Langke Technology Co., Ltd; from Dec. of 2004 to Dec. of 2005 he took the post of financial controller in Shenzhen Shangli Technology Co., Ltd; from May of 2005 to Aug. of 2008 he was director of president office in Good One Hundred of Years House Chain Holding Co., Ltd; he works for the Company since March 2010, and serves as deputy GM of the Company since April 2010, as director of the Company since June 2010, as CFO of the Company since August 2010 and secretary of the Board of the Company from January 2011 to April 2012.

Li Ding'an: Male, was born in 1945, Professor, Ph D Graduate Intutor, the first Chinese Certified Accountant. He was the Standing Deputy Dean of South China University of Technology School of International Trade and Economics; member of the 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> Standing Committee of Political Consultative Conference of Guangdong Province and member of The China Democratic National Construction Association. He was the Professor in Accounting Department of School of Management of South China University of Technology since May 2001; and was transferred to School of International Trade and Economics of South China University of Technology as Standing Deputy Dean in July 2005; Now he is the member of China Accounting Society; member of China Society of Accountants; Standing Director of Guangdong International Tax Association; Independent Director of Suntek Technology Co., Ltd.(short code: 600728); Independent Director of Guangdong Kang Mei Pharmaceutical Co., Ltd. (600518) and serves as Independent Director of the Company since June 2008.

Zhang Yi: Male, was born in 1970, Master Degree. He served as Co-partner and Lawyer of Guangdong Junyan Law Firm from 2003 to October 2012; serves as co-partner and lawyer of Beijing Dacheng (Shenzhen) Law Office and was the Column Writer of website of Shenzhen Stock Exchange, and Author of Book—Rights Safeguarding of Investors—one of series of Securities Class of Shenzhen

Stock Exchange. He served as the 2<sup>nd</sup> Session and 3<sup>rd</sup> Session of Independent Director in Shanxi Xishan Coal and Electricity Power Co., Ltd.(short code: 000983). Now, he is the Independent Director of Shanxi Coking Co., Ltd.(short code: 600740) and independent director of Shenzhen Chino-E Co., Ltd.; he serves as independent director of the Company since September 2008.

Li Xiaodong: male, born in 1967, MBA and economist title. He graduated from Beihang University and then worked in China Commercial and Industrial Bank Xi'an North Avenue Branch as deputy director in north branch office of the bank; in Oct. of 1998, he was called in China Commercial Bank Xi'an Branch; in 2003 he joined Shenzhen Walkers Technology Co., Ltd and worked as assistant of general manager, vice general manager in succession. And presently he serves as Director, vice general manager and secretary of the board of Shenzhen Walkers Technology Holding Co., Ltd (stock code: 002351).

Cao Li: Female, was born in 1970, graduated from Junior College, Intermediate Accountant. She was CFO of Wuhan Zhongheng Group from 2000 to May 2005, was a member of transition period workgroup of the Company from June 2005 to June 2006. She worked as Assistant General Manger from July 2006 to October 2007 and Secretary of the Board of Directors from October 2006 to July 2007. She worked as General Manager of Purchasing Center from May to October 2007. Since July 2007, she works as Chairman of the Supervisory Committee of the Company.

Huang Yanbo: female, born in 1962, a university background and a senior accountant. She served as financial director of Wuhan Zhongda Shopping Mall since 1985 to 1998; and worked as financial manager of Wuhan Zhongheng Group from 1998 to 2007 and GM assistant in charge of auditing supervise from 2007 to 2011; she serves as CFO of the Company since 2012

Geng Qu: female, born in 1969, is undergraduate from Beihang University, an economist and engineer. She worked for the Company since 1990 and successively served as director of quality standard, director of comprehensive management department and deputy chief of office of the Company.

Weng Xiaojue: Female, was born in 1980. She graduated from Zhongshan University. She was engaging in securities work in the office of board of directors of Guangzhou Friendship Co., Ltd. from July 2002 to August 2006 and became Representative for Securities Affairs of the Company from January 2007 to 10 April 2012; she served as supervisor of the Company from July 2007 to 9 April 2012; and serves as Vice Chairman of Labor Union of the Company since July 2007; and since Mar. of 2010 she has taken post of office director of the board of directors of the Company; secretary of the board of the Company since April 2012; at the same time serves as director of Wuhan Hengfa Technology Co., Ltd and supervisor of Shenzhen Zhongheng Huafa Property Co., Ltd.

Post-holding in shareholder's unit

Applicable Not applicable

Name	Name of shareholder's unit	Position	Start dated of office term	End date of office term	Weather receiving remuneration from shareholder's unit
Li Zhongqiu	Wuhan Zhongheng New Technology Industrial Group Co., Ltd.	Chairman	1996-03-21		No
Chen Zhigang	Wuhan Zhongheng New Technology Industrial Group Co., Ltd.	Executive Deputy GM	2008-08-18		Yes
Tang Chonyin	Shenzhen SEG Co., Ltd.	Director of property	2008-06-02		Yes

		management and administration department			
Huang Yanbo	Wuhan Zhongheng New Technology Industrial Group Co., Ltd.	Assistant of General Manager	2008-08-18	2012-05-15	Yes
	Wuhan Zhongheng New Technology Industrial Group Co., Ltd.	CFO	2012-05-16		Yes
Statement of post-holding in shareholder's unit	N/A				

Post-holding in other unit

√Applicable □Not applicable

Name	Name of other units	Position	Start dated of office term	End date of office term	Weather receiving remuneration from other units
Tang Chongyin	Shenzhen Daming Electronic Co., Ltd.	Chairman			
Tang Chongyin	Shenzhen SEG Co., Ltd.	Supervisor	2010-05-21		
Li Dingan	South China University of Technology	Professor			
Li Dingan	Chinese Peoples' Political Consultative Conference, the 8 <sup>th</sup> session, the 9 <sup>th</sup> session and the 10 <sup>th</sup> session of Standing Committee of Guangdong	Commissioner			
Li Dingan	Guangzhou Xintai Technology Co., Ltd.	Independent director			
Li Dingan	Guangdong Kang Mei Pharmaceutical Co., Ltd.	Independent director			
Zhang Yi	Beijing Dacheng (Shenzhen) Law Office	Partner and lawyer			
Zhang Yi	Shanxi Jiaohua Co., Ltd.	Independent director			
Zhang Yi	Shenzhen Zhongnuo Telecommunication Co., Ltd.	Independent director			
Li Xiaodong	Shenzhen Walkers Technology Co., Ltd.	Director & Deputy GM & Secretary of the Board			

Statement of post-holding in other unit	N/A
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### III. Remuneration for directors, supervisors and senior executives

Decision-making procedures, recognition basis and payment for directors, supervisors and senior executives

Remuneration of directors and supervisors are determined by general meeting, and the allowance standard for each independent director is RMB60, 000 per year (tax included).

Remuneration of senior management is determined by the board based on the unified remuneration management system and actual completion of operational targets. In order to determine the remuneration level of its senior management on reasonable basis, thus to encourage the management to work for the Company with active attitude and innovations, the Company re-determined the basic remuneration standards for senior management during the reporting period, to advance the constant development and value enhancement. The remuneration standard was considered and approved at the 2<sup>nd</sup> extraordinary board meeting of 2012.

Remuneration for directors, supervisors and senior executives in reporting period

In 10 thousand yuan

Name	Title	Sex	Age	Post-holding status	Total remuneration obtained from the Company	Total remuneration obtained from shareholder's unit	Remuneration actually obtained at period-end
Li Zhongqiu	Chairman& GM	M	50	Currently in office	28	0	28
Tang Chongyin	Deputy GM	M	52	Currently in office	0	42.72	42.72
Chen Zhigang	Director	M	39	Currently in office	0	30	30
Jiang Yanjun	Director& Deputy GM & CFO	M	43	Currently in office	21.41	0	21.41
Li Dingan	Independent director	M	67	Currently in office	6	0	6
Zhang Yi	Independent director	M	42	Currently in office	6	0	6
Li Xiaodong	Independent director	M	46	Currently in office	6	0	6
Cao Li	Supervisor	F	42	Currently in office	21.41	0	21.41
Huang Yanbo	Supervisor	F	50	Currently in office	0	15	15

Geng Qu	Supervisor	F	43	Currently in office	7.09	0	7.09
Weng Xiaoyu	Secretary of the Board	F	32	Currently in office	17.71	0	17.71
Total	--	--	--	--	113.62	87.72	201.34

Delegated equity incentive for directors, supervisors and senior executives in reporting period

Applicable  Not applicable

#### IV. Post-leaving and dismissals for directors, supervisors and senior executives

Name	Title	Type	Date	Reasons
Tang Ganyu	Supervisor	Demission	2012-01-15	Resigned for too busy work
Weng Xiaoyu	Supervisor	Demission	2012-04-08	Resigned for change of work, take post of secretary of the Board at present
Jiang Yanjun	Secretary of the Board	Demission	2012-04-10	Resigned for too busy work, continuously take post of deputy general manager

#### V. Particulars of workforce

The Company has 1060 employees at end of reporting period, and no retired employees should stand the expenses by the Company

Professional composition		
Type	Number	Ratio
Production personnel	694	65.47%
Salesperson	42	3.96%
Technicians	82	7.74%
Financial personnel	14	1.32%
Administrative personnel	228	21.51%

Education background		
Type	Number	Ratio
Master and On-the-job master	2	0.19%
Bachelor degree	49	4.62%
3-years regular college graduate	102	9.62%
Other	907	85.57%

## Section VIII. Corporate Governance

### I. Administration of the Company

Recent years, the Company has been observing the Company Law, Securities Law, as well as the regulatory documents issued by the CSRC and Shenzhen Stock Exchange concerning governance of listed company. With consideration of the actual operation condition, the Company promoted standard governance, established healthy internal control system and improved legal person governance.

During the reporting period, the Company made the shareholders returns plan (2012-2014), amended and improved the Articles of Association and registration management system of insider information, re-prepared finance management system, and completed the internal control manual of the Company recording internal control results such as risk points and major control activities.

Is there any difference between the corporate governance and the relevant requirements as provided by the Company Law and the CSRC

Yes  No

There is no difference between the corporate governance and the relevant requirements as provided by the Company Law and the CSRC.

Implementation of special corporate governance activity and preparation and implementation of insider information registration management system

(I)Implementation of special corporate governance activity: the Company made active response to the special corporate governance activity conducted by the CSRC, as it implemented various works related to the activity: practice the requirements of regulatory authorities on cash dividend issues of listed company, formed the shareholder return plan (2012-2014) after special discussion, amended the clauses of Articles of Association concerning profit distribution; attended various meetings in respect of corporate governance, participated in the insider transaction warning education exhibition held by the securities regulatory bureau of Shenzhen and shared the relevant contents in the Company; from September to November, it carried out propaganda activities to promote investor protection by lots of means, including re-edit the international website of the Company, set special column regarding to investor relation, upgrade, collect, organize and deliver the study information related to investor protection on constant and prompt basis, prepare propaganda information for investor protection, strengthen a series of knowledge regarding to investor education, encourage rational investment, value investment and long-term investment, etc. (II)preparation and implementation of insider information registration management system: in order to improve its insider information management system, thus to protect insider information and maintain the fairness of information disclosure, the Company amended insider information and insider management system according to the provisions on establishment of insider information registration management system of listed company (ZJHGB 2011 No.30) issued by the CSRC in October 2011 and based on its actual conditions, and renamed the same as insider information registration management system. Together with the established external information user management system and information disclosure management system, the Company standardized the internal transition procedure of material information in actual operation. In addition to normal filing registration and obvious reminding in several ways, the Company particularly required all insider information knower to sign insider information confidentiality commitment letter, to file insider information registration table to the regulatory department when disclosing periodic reports, thus to prevent leakage of insider information and occurrence of inside transactions. As reviewed by itself, the Company found no insider traded the stocks of the Company by use of any insider information before disclosure of any material sensitive information which may affect the share price of the Company.

### II. In the report period, the Company held annual shareholders' general meeting and extraordinary shareholders' general meeting

**1. Annual Shareholders' General Meeting in the report period**

Session of meeting	Date	Name of meeting motion	Situation	Date of disclosure	Index of disclosure
Annual shareholders' general meeting 2011	2012-06-28	1. Report from the Board for year of 2011; 2. Report from Supervisory Committee for year of 2011; 3. Financial Result Report for year of 2011; 4. Profit Distribution Plan of 2011; 5. "Annual report of 2011" and 6. "Engagement of Audit Institute for year of 2012"	Deliberated and approved all proposals and resulted the Resolution of Annual shareholders' general meeting 2011	2012-06-29	More details found in Resolution of Annual shareholders' general meeting 2011 (No.: 2012-13) published on China Securities Journal, Securities Times and Juchao Website dated 29 June 2012

**2. Extraordinary shareholders' general meeting in the report period**

Session of meeting	Date	Name of meeting motion	Situation	Date of disclosure	Index of disclosure
The first extraordinary shareholders' general meeting 2012	2012-01-16	1. "Bank Loans Limit for year of 2012", 2. "Guarantee Limit for Bank Loans of Wholly-owned subsidiary for year of 2012", 3. "Prediction of Daily related transaction of Video Business for year of 2012" and 4. "Resignation of Supervisors and Supervisor Supplement "	Deliberated and approved all proposals and resulted the Resolution of 1 <sup>st</sup> extraordinary shareholders' general meeting of 2012	2012-01-17	More details found in Resolution of 1 <sup>st</sup> extraordinary shareholders' general meeting of 2012 (No.: 2012-01) published on China Securities Journal, Securities Times and Juchao Website dated 17 January 2012
The second extraordinary shareholders' general meeting 2012	2012-08-24	1. "Formulation of Shareholders' Bonus Return (2012-2014)" and 2. "Amendment	Deliberated and approved all proposals and resulted the	2012-08-25	More details found in Resolution of 2 <sup>nd</sup> extraordinary shareholders' general

		of ‘Article of Association’”	Resolution of 2 <sup>nd</sup> extraordinary shareholders’ general meeting of 2012		meeting of 2012 (No.: 2012-16) published on China Securities Journal, Securities Times and Juchao Website dated 17 January 2012
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### III. Responsibility performance of independent directors in report period

#### 1. The attending of independent directors to Board meetings and shareholders’ general meeting

The attending of independent directors						
Name of independent director	Times of Board meeting supposed to attend in the report period	Times of Presence	Times of attending by communication	Times of entrusted presence	Times of Absence	Whether absent the Meeting for the second time in a row or not
Li Dingan	6	2	4	0	0	No
Zhang Yi	6	2	4	0	0	No
Li Xiaodong	6	2	4	0	0	No
Times of independent directors attending to shareholders’ general meeting		3				

Explanation of absent the Board Meeting for the second time in a row

There is no situation about independent directors absent the Board Meeting for the second time in a row in the reporting.

#### 2. Objection for relevant events from independent directors

Whether independent directors come up with objection about company’s relevant matters or not

Yes  No

Independent directors has no objections for relevant events in reporting period

#### 3. Other explanation about responsibility performance of independent directors

Whether the opinions from independent directors have been adopted or not

Yes  No

Explanation on advice that accepted/not accepted from independent directors

Independent directors paid attention to the standard development and normal operation of the Company according to the guidance opinions on establishment of independent directors system in listed company, the Articles of Association and working rules of independent directors. They performed their duties independently and earnestly, since they provided many useful professional suggestions in respect of improvement of systems and normal operational decisions, and issued independent and fair opinions on engagement of auditor for annual report, engagement of senior management, current related capitals, related transaction, external guarantee, shareholder dividend return plan occurred by the Company during the reporting period, which played active effects in improving supervision mechanism and maintaining the legal interests of the Company and its entire shareholders. (For details, please

refer to the performance report of independent directors of 2012)

#### IV. Responsibility performance of subordinate special committee of the Board in report period

Committee	Date	Proposals
Audit committee	2012-4-1	’Financial Report of 2011’
		”Conclusion of Audit for year of 2011 from Shine Wing Certified Public Accountants ”
		”Employ of Audit Institute for year of 2011”
Nomination committee	2012-4-1	”Engagement of Secretary of the Board and Representative of Security Affairs”
Remuneration and examination committee	2012-4-5	”Remuneration Plan of Directors, Supervisors and Senior Executives for year of 2011”
	2012-5-8	”Basic Remuneration of Senior Executives”

1. Performance of the audit committee: during the reporting period, the audit committee performed their duties according to the working procedures of the audit committee. The committee heard and reviewed the annual operation, finance and internal audit works of the Company with no objection about the relevant resolutions. The committee continued to pay attention to the annual audit works and supervised the same. Prior to and after the issuance of initial audit opinions by the annual audit accountants, it communicated with the auditor for several times and formed written opinions. It gave objective appraisal on the accounting firm for annual audit, and recommended to reengage Shinewing Certified Public Accountant as the auditor of the Company for 2012.

2. The nomination committee: during the reporting period, the nomination committee performed their duties according to the working procedures of the nomination committee. It supervised and examined the candidates of the secretary to the board and securities affairs representative, and the relevant standards and procedures also. Nomination was submitted to the board for consideration.

3. The remuneration and examination committee: during the reporting period, the remuneration and examination committee performed their duties according to the working procedures of the remuneration and examination committee. It considered the annual remuneration plan for directors, supervisors and senior management for 2011 and the proposal on the basic remuneration of senior management, and believed that the aforesaid proposals were prepared under the standards corresponding to the operational results of the Company, complying with the provisions of the Articles of Association and the remuneration examination system.

#### V. Works from Supervisory Committee

Whether the Company has risks or not in reporting period that found in supervisory activity from supervisory committee

Yes  No

Supervisory committee has no objection about supervision events in reporting period

#### VI. Independency of the Company relative to controlling shareholders’ in aspect of businesses, personnel, assets, organization and finance

The Company is completely separate from its controlling shareholders in terms of business, staff, assets, organs and finance, and owns independent and complete business and ability to operate independently: 1. Staff: the human resources and salary management system is independent, there is no senior management taking positions both in the Company and the controlling shareholders, and there is no finance staff taking positions in related entities. 2 Assets: the Company has clear property from the controlling shareholder, and is able to operate in the market independently, and has sufficient control over the assets like production system, matching

facilities and land use right. There are no substantial shareholder occupying and controlling assets. 3. Finance: the Company is independent in terms of finance department, finance accounting system, finance management system and bank accounts, and pays taxes independently by law. 4. Organ: the Company has complete internal organs including the board of directors, the supervisor committee and others. These organs operate independently. Organization institutions and controlling shareholders are totally divided, without mix operation. Controlling shareholders exercise their rights as contributors by laws and assume relevant obligations. 5. Business: the Company has independent raw materials purchase and supply system, production system, product sales organ and customers. The Company and its controlling shareholder and its underlying subsidiaries constitute upstream and downstream relation in liquid crystal industry chain, without inter-competition.

## **VII. Examination and incentives of senior management**

In order to encourage senior management to better perform their duties and maintain the interests of the Company and shareholders, the Company delivers remunerations on a floating basis according to Staff Level and Basic Remuneration System and performance examination method, based on the actual operation and completion of individual works, aiming to urge the management to carry out works more earnestly and ensure the realization of its development strategy and operation target.

## Section IX. Internal control

### I. Construction of internal control

During the reporting period, according to the Basic Internal Control Standard for Enterprise and its matching guidance jointly issued by the ministry of finance, CSRC and other three authorities, Internal Control Guidance for Listed Company of Shenzhen Stock Exchange and the Notice on Internal Control Standard Trials of Listed Company within Shenzhen (SZJGSZ 2011 No.31) issued by the securities regulatory bureau of Shenzhen, the Company begun to construct internal control system step by step since 2011; regular report at pre-period has been disclosed. Ended as reporting period, main works of the establishment of internal control has complete basically.

In reporting period, the Company organizes relevant personnel exercise totally comprehensive arrangement for internal control system; improve internal control by the follow aspects, further to consolidate the management basis:

1. Adjusted the financial organize structure, financial staff of subsidiaries are unified management by the Company in order to strengthen the financial supervise;
2. Arrange the production, supplying and sales procedures as well as financial management, confirm key links, identified relevant risk points and formulate relevant strengthened measures on risk points;
3. Standardize the financial basis calculation, completed the formulation of accounting treatments;
4. Standardize purchasing procedures of assets for subsidiary; reduce assets purchase and operation risks.
5. Established IT management department of subsidiary and plans to setting up a file center.

### II. Statement from the board on responsibility for internal control

The Board, Supervisor Committee, managers and all staffs jointly implemented and promoted the internal control, it is a process aims at reasonable guarantee controlling target as legal and standard operation, assets security, truth-ness and completion of the financial report and relevant information. The Board should continues to perfected the internal control system according to document requirement of basic rules of internal control for enterprises and supporting guidelines; put the system into force efficiently and responsible for the completion and rationality of the establishment of internal control of the Company; supervisor committee supervise the implementation and establishment of internal control from the Board; and managers in charge of leading the daily operation of internal control.

### III. Bases for establishment of financial report internal control

According to the Basic Internal Control Standard for Enterprise and its matching guidances jointly issued by the ministry of finance, CSRC and other three authorities, Standard Operation Guidance for Company Listed on the Main board of Shenzhen Stock Exchange and the Notice on Internal Control Standard Trials of Listed Company within Shenzhen (SZJGSZ 2011 No.31) issued by the securities regulatory bureau of Shenzhen, the Company established financial report internal control system based on its actual conditions.

### IV. Self-evaluation report of internal control

Details of major defects in self-evaluation report that found in reporting period	
No major defect has been found in the report period.	
Date of self-evaluation report of internal control disclosed	2013-04-24
Index of self-evaluation report of	Full text found Notice published on Juchao Website(www.cninfo.com.cn) dated 24 April 2013

internal control disclosed	
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## **V. Establishment and enforcement of Accountability Mechanism for Major Errors in Annual Report**

In order to further improve the quality and transparency of information disclosure of annual report, thus to increase the truthfulness, accuracy, completeness and promptness of information disclosed in annual report, the Company established Responsibility Accounting System for Material Mistakes in Annual Report Information Disclosure in 2010. During the reporting period, the Company observed the system. There is no correction for material accounting errors, supplement for material omissions and amendment to results prediction.

## Section X. Financial Report

### I. Audit report

Type of audit opinion	Standard unqualified opinion
Signing date of audit report	2013-04-22
Name of audit institute	Shine Wing Certified Public Accountants
Document serial of audit report	XYZH/2012SZA2019-1

Auditor's Report

信永中和  
ShineWing

Auditor's Report

XYZH/2012SZA2019-1

### To all shareholders of Shenzhen Zhongheng Huafa Co., Ltd.:

We have audited the companying consolidated and parent Company's financial statements of Shenzhen Zhongheng Huafa Co., Ltd ("Zhongheng Huafa Company"), including balance sheet of 31 December 2012, and profit statement, and cash flow statement, and statement on changes of shareholders' equity for the year ended, and notes to the financial statements for the year ended.

#### I. Management's responsibility for the financial statements

Management of the Company is responsible for prepare and present financial statement of the Company, which including: (1) Prepare financial statements with fair presentation in line with Accounting Standards for Business Enterprises; (2) Designing, executed and maintaining necessary internal control in order to prevent fundamental miscarrying in financial statement from fraudulent or errors.

#### II. Auditor's responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We performed our audit in accordance with Chinese Certified Public Accountants' Auditing Standards. Those standards require us to comply with professional ethics, and to plan and perform our audit so as to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures of the financial statements. The selective audit procedures depend on auditor's judgment, including the evaluation of the risk of material misstatement of the consolidated financial statements due to frauds or errors. When evaluating risk, we consider internal control related to financial statements, in order to design auditing procedures. An audit also includes assessing the appropriateness of the accounting policies adopted and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### III. Auditing opinion

In our opinion, in all material aspects, Zhongheng Huafa's financial statements have been prepared in accordance with the Enterprises Accounting Standards and Enterprises Accounting System, and they fairly present the

financial status of the consolidated and parent company's as of December 31, 2012, and its operation results and cash flows for the year ended.

Shine Wing Certified Public Accountants(LLP)

Chinese CPA: Zhang Weijian

Chinese CPA: Zhang Yongde

Beijing China

22 April 2013

## II. Financial statement

Currency used in note of financial statement is RMB (Yuan)

### 1. Consolidated Balance Sheet

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Items	Balance at period-end	Balance at period-begin
Current assets:		
Monetary funds	112,834,841.39	141,426,712.65
Settlement provisions		
Capital lent		
Transaction finance asset		
Notes receivable	43,000,217.81	59,258,576.59
Accounts receivable	161,782,907.79	85,553,134.14
Accounts paid in advance	14,168,016.74	9,724,896.44
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Interest receivable		
Dividend receivable		
Other receivables	9,563,505.01	9,970,760.59
Purchase restituted finance asset		
Inventories	42,771,061.45	55,927,484.28
Non-current asset due within one year		
Other current assets		

Total current assets	384,120,550.19	361,861,564.69
Non-current assets:		
Granted loans and advances		
Finance asset available for sales		
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment real estate	33,784,177.90	35,730,725.03
Fixed assets	202,743,248.34	207,570,220.77
Construction in progress	2,043,356.00	2,667,769.50
Engineering material		
Disposal of fixed asset		
Productive biological asset		
Oil and gas asset		
Intangible assets	50,538,067.80	51,963,537.72
Expense on Research and Development		
Goodwill		
Long-term expenses to be apportioned	806,724.98	1,541,966.67
Deferred income tax asset	7,608,968.76	7,049,837.44
Other non-current asset		
Total non-current asset	297,524,543.78	306,524,057.13
Total assets	681,645,093.97	668,385,621.82
Current liabilities:		
Short-term loans	109,694,640.00	104,543,897.22
Loan from central bank		
Absorbing deposit and interbank deposit		
Capital borrowed		
Transaction financial liabilities		
Notes payable	34,511,327.39	33,795,522.26
Accounts payable	48,952,915.87	43,332,376.94
Accounts received in advance	764,493.92	263,497.35
Selling financial asset of repurchase		

Commission charge and commission payable		
Wage payable	4,609,188.91	4,005,890.25
Taxes payable	16,502,523.22	719,584.69
Interest payable		
Dividend payable		
Other accounts payable	21,280,539.65	18,400,291.35
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	236,315,628.96	205,061,060.06
Non-current liabilities:		
Long-term loans	163,718,800.00	186,141,200.00
Bonds payable		
Long-term account payable		
Special accounts payable		
Projected liabilities	1,429,614.10	244,208.55
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	165,148,414.10	186,385,408.55
Total liabilities	401,464,043.06	391,446,468.61
Owner's equity (or shareholders' equity):		
Paid-up capital (or share capital)	283,161,227.00	283,161,227.00
Capital public reserve	109,496,837.33	109,496,837.33
Less: Inventory shares		
Reasonable reserve		
Surplus public reserve	77,391,593.25	77,391,593.25
Provision of general risk		
Retained profit	-189,868,606.67	-193,110,504.37
Balance difference of foreign		

currency translation		
Total owner's equity attributable to parent company	280,181,050.91	276,939,153.21
Minority interests		
Total owner's equity(or shareholders' equity)	280,181,050.91	276,939,153.21
Total liabilities and owner's equity(or shareholders' equity)	681,645,093.97	668,385,621.82

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

## 2. Balance Sheet of parent company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Items	Balance at period-end	Balance at period-begin
Current assets:		
Monetary funds	10,555,114.25	26,428,341.78
Transaction finance asset		
Notes receivable	1,790,000.00	1,905,914.85
Accounts receivable	45,179,657.87	46,527,773.17
Accounts paid in advance	3,576,103.62	
Interest receivable		
Dividend receivable		
Other receivables	64,735,528.50	66,524,564.98
Inventories	14,806.50	14,806.50
Non-current asset due within one year		
Other current assets		
Total current assets	125,851,210.74	141,401,401.28
Non-current assets:		
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 real estate	33,784,177.90	35,730,725.03
Fixed assets	108,512,126.65	111,933,449.28
Construction in progress	2,043,356.00	1,623,356.00

Engineering material		
Disposal of fixed asset		
Productive biological asset		
Oil and gas asset		
Intangible assets	5,568,329.28	5,713,275.00
Expense on Research and Development		
Goodwill		
Long-term expenses to be apportioned	710,933.33	1,541,966.67
Deferred income tax asset	8,137,647.85	7,753,550.21
Other non-current asset		
Total non-current asset	343,465,471.01	349,005,222.19
Total assets	469,316,681.75	490,406,623.47
Current liabilities:		
Short-term loans	250,000.00	
Transaction financial liabilities		
Notes payable		
Accounts payable	11,719,031.31	9,582,988.12
Accounts received in advance	332,823.92	90,347.35
Wage payable	667,119.57	636,334.24
Taxes payable	11,766,728.78	12,605,519.17
Interest payable		
Dividend payable		
Other accounts payable	11,143,036.79	12,930,265.33
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	35,878,740.37	35,845,454.21
Non-current liabilities:		
Long-term loans	163,718,800.00	186,141,200.00
Bonds payable		
Long-term account payable		
Special accounts payable		
Projected liabilities	1,429,614.10	244,208.55

Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	165,148,414.10	186,385,408.55
Total liabilities	201,027,154.47	222,230,862.76
Owner's equity (or shareholders' equity):		
Paid-up capital (or share capital)	283,161,227.00	283,161,227.00
Capital public reserve	109,496,837.33	109,496,837.33
Less: Inventory shares		
Reasonable reserve		
Surplus public reserve	77,391,593.25	77,391,593.25
Provision of general risk		
Retained profit	-201,760,130.30	-201,873,896.87
Balance difference of foreign currency translation		
Total owner's equity(or shareholders' equity)	268,289,527.28	268,175,760.71
Total liabilities and owner's equity(or shareholders' equity)	469,316,681.75	490,406,623.47

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

### 3. Consolidated Profit Statement

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Items	Amount in this period	Amount in last period
I. Total operating income	723,891,496.54	875,778,275.09
Including: Operating income	723,891,496.54	875,778,275.09
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	718,284,986.86	860,595,787.53
Including: Operating cost	637,127,498.77	789,063,149.35
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	3,485,761.22	3,599,651.17
Sales expenses	8,068,151.58	5,407,314.52
Administration expenses	45,568,945.84	37,608,576.76
Financial expenses	21,670,454.84	18,979,860.46
Losses of devaluation of asset	2,364,174.61	5,937,235.27
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 “-”)	5,606,509.68	15,182,487.56
Add: Non-operating income	426,773.51	285,637.27
Less: Non-operating expense	1,401,162.61	931,652.59
Including: Disposal loss of non-current asset		225,303.52
IV. Total Profit (Loss is listed with “-”)	4,632,120.58	14,536,472.24
Less: Income tax expense	1,390,222.88	4,161,951.04
V. Net profit (Net loss is listed with “-”)	3,241,897.70	10,374,521.20
Including: net profit realized before consolidation by merged party		
Net profit attributable to owner’s of parent company	3,241,897.70	10,374,521.20
Minority shareholders’ gains and losses		

VI. Earnings per share	--	--
i. Basic earnings per share	0.0115	0.0366
ii. Diluted earnings per share	0.0115	0.0366
VII. Other consolidated income		
VIII. Total comprehensive income	3,241,897.70	10,374,521.20
Total consolidated income attributable to owners of parent company	3,241,897.70	10,374,521.20
Total consolidated income attributable to minority shareholders		

The merger realized net profit RMB 0.00 before consolidation during enterprises consolidation under a same control.

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

#### 4. Profit Statement of parent company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Items	Amount in this period	Amount in last period
I. Operating income	56,554,919.74	48,302,877.65
Less: operating cost	20,863,195.35	4,049,074.17
Operating tax and extras	2,846,047.70	3,303,604.12
Sales expenses	425,824.11	-902,147.31
Administration expenses	22,444,858.15	17,405,332.55
Financial expenses	8,460,960.95	8,762,904.35
Losses of devaluation of asset	917,318.00	5,341,173.74
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		
II. Operating profit (Loss is listed with "-")	596,715.48	10,342,936.03
Add: Non-operating income	318,379.00	123,165.74
Less: Non-operating expense	1,185,425.55	823,232.89
Including: Disposal loss of non-current asset		223,086.75
III. Total Profit (Loss is listed with	-270,331.07	9,642,868.88

“-”)		
Less: Income tax expense	-384,097.64	2,476,752.81
IV. Net profit (Net loss is listed with “-”)	113,766.57	7,166,116.07
V. Earnings per share	--	--
i. Basic earnings per share	0.0004	0.0253
ii. Diluted earnings per share	0.0004	0.0253
VI. Other consolidated income		
VII. Total comprehensive income	113,766.57	7,166,116.07

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

## 5、合并现金流量表

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Item	Amount in this period	Amount in last period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	683,112,871.33	808,273,159.35
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	16,830,976.54	
Other cash received concerning operating activities	34,570,299.30	55,277,107.86
Subtotal of cash inflow arising from operating activities	734,514,147.17	863,550,267.21
Cash paid for purchasing commodities and receiving labor service	599,924,665.76	678,181,404.96
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	51,968,647.10	37,996,753.77
Taxes paid	24,982,497.90	28,266,271.41
Other cash paid concerning operating activities	39,219,245.43	70,934,899.84
Subtotal of cash outflow arising from operating activities	716,095,056.19	815,379,329.98
Net cash flows arising from operating activities	18,419,090.98	48,170,937.23
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	414,329.90	

Net cash received from disposal of subsidiaries and other units	414,329.90	
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	414,329.90	
Cash paid for purchasing fixed, intangible and other long-term assets	10,335,206.09	17,857,671.45
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	10,335,206.09	17,857,671.45
Net cash flows arising from investing activities	-9,920,876.19	-17,857,671.45
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	480,782,233.88	533,472,156.93
Cash received from issuing bonds		
Other cash received concerning financing activities	21,095,646.31	
Subtotal of cash inflow from financing activities	501,877,880.19	533,472,156.93
Cash paid for settling debts	495,407,096.99	508,907,315.31
Cash paid for dividend and profit distributing or interest paying	20,939,550.29	18,723,196.54
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning		

financing activities		
Subtotal of cash outflow from financing activities	516,346,647.28	527,630,511.85
Net cash flows arising from financing activities	-14,468,767.09	5,841,645.08
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-1,525,672.65	-3,047,225.75
V. Net increase of cash and cash equivalents	-7,496,224.95	33,107,685.11
Add: Balance of cash and cash equivalents at the period -begin	107,744,728.37	74,637,043.26
VI. Balance of cash and cash equivalents at the period -end	100,248,503.42	107,744,728.37

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

## 6. Cash Flow Statement of parent company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Unit: RMB

Item	Amount in this period	Amount in last period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	47,691,944.43	61,021,470.69
Write-back of tax received		
Other cash received concerning operating activities	45,101,131.50	39,957,235.68
Subtotal of cash inflow arising from operating activities	92,793,075.93	100,978,706.37
Cash paid for purchasing commodities and receiving labor service	6,702,283.36	7,204,106.36
Cash paid to/for staff and workers	10,866,240.79	4,379,016.77
Taxes paid	6,655,849.03	6,007,378.56
Other cash paid concerning operating activities	49,020,757.59	54,157,916.09

Subtotal of cash outflow arising from operating activities	73,245,130.77	71,748,417.78
Net cash flows arising from operating activities	19,547,945.16	29,230,288.59
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	414,329.90	
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	414,329.90	
Cash paid for purchasing fixed, intangible and other long-term assets	2,198,502.88	1,428,253.00
Cash paid for investment		
Net cash received from subsidiaries and other units		
Other cash paid concerning investing activities		
Subtotal of cash outflow from investing activities	2,198,502.88	1,428,253.00
Net cash flows arising from investing activities	-1,784,172.98	-1,428,253.00
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	250,000.00	
Cash received from issuing bonds		
Other cash received concerning financing activities		

Subtotal of cash inflow from financing activities	250,000.00	
Cash paid for settling debts	22,422,400.00	18,232,800.00
Cash paid for dividend and profit distributing or interest paying	11,393,838.91	12,761,925.42
Other cash paid concerning financing activities		
Subtotal of cash outflow from financing activities	33,816,238.91	30,994,725.42
Net cash flows arising from financing activities	-33,566,238.91	-30,994,725.42
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-70,760.80	275,337.57
V. Net increase of cash and cash equivalents	-15,873,227.53	-2,917,352.26
Add: Balance of cash and cash equivalents at the period -begin	26,428,341.78	29,345,694.04
VI. Balance of cash and cash equivalents at the period -end	10,555,114.25	26,428,341.78

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

## 7. Consolidated Statement on Changes of Owners' Equity

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Amount in this period

Unit: RMB

Items	Amount in this period									
	Owners' equity attributable to the parent company								Minority's equity	Total owners' equity
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Others		
I. Balance at the end of last year	283,161,227.00	109,496,837.33			77,391,593.25		-193,110,504.37			276,939,153.21
Add: Changes of accounting policy										
Error correction of the last period										
Others										
II. Balance at the beginning of this year	283,161,227.00	109,496,837.33			77,391,593.25		-193,110,504.37			276,939,153.21
III. Increase/ Decrease in this year (Decrease is listed with "-")							3,241,897.70			3,241,897.70
(i) Net profit							3,241,897.70			3,241,897.70

(ii) Other consolidated income										
Subtotal of (i) and (ii)							3,241,897.70			3,241,897.70
(III) Owners' devoted and decreased capital										
1. Owners' devoted capital										
2. Amount calculated into owners' equity paid in shares										
3. Others										
(IV) Profit distribution										
1. Withdrawal of surplus reserves										
2. Withdrawal of general risk provisions										
3. Distribution for owners (shareholders)										
4. Others										
(V) Carrying forward internal owners' equity										
1. Capital reserves converted to capital (share capital)										
2. Surplus reserves converted to capital (share capital)										
3. Remedying loss with surplus reserve										
4. Others										
(VI) Reasonable reserve										
1. Withdrawal in this period										
2. Usage in this period										
(VII) Other										
IV. Balance at the end of the report period	283,161,227.00	109,496,837.33			77,391,593.25		-189,868,606.67			280,181,050.91

Amount in last year

Unit: RMB

Items	Amount in last year										
	Owners' equity attributable to the parent company									Minority's equity	Total owners' equity
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Others			
I. Balance at the end of last year	283,161,227.00	109,496,837.33			77,391,593.25		-203,485,025.57				266,564,632.01
Add: retroactive adjustment arising from enterprise consolidation under the same control											
Add: Changes of accounting policy											
Error correction of the last period											

Others									
II. Balance at the beginning of this year	283,161,227.00	109,496,837.33			77,391,593.25		-203,485,025.57		266,564,632.01
III. Increase/ Decrease in this year (Decrease is listed with "-")							10,374,521.20		10,374,521.20
(i) Net profit							10,374,521.20		10,374,521.20
(ii) Other consolidated income									
Subtotal of (i) and (ii)							10,374,521.20		10,374,521.20
(III) Owners' devoted and decreased capital									
1. Owners' devoted capital									
2. Amount calculated into owners' equity paid in shares									
3. Others									
(IV) Profit distribution									
1. Withdrawal of surplus reserves									
2. Withdrawal of general risk provisions									
3. Distribution for owners (shareholders)									
4. Others									
(V) Carrying forward internal owners' equity									
1. Capital reserves converted to capital (share capital)									
2. Surplus reserves converted to capital (share capital)									
3. Remedying loss with surplus reserve									
4. Others									
(VI) Reasonable reserve									
1. Withdrawal in this period									
2. Usage in this period									
(VII) Other									
IV. Balance at the end of the report period	283,161,227.00	109,496,837.33			77,391,593.25		-193,110,504.37		276,939,153.21

Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

**8. Statement on Changes of Owners' Equity of Parent Company**

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

Amount in this period

Unit: RMB

Item	Amount in this period							
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of last year	283,161,227.00	109,496,837.33			77,391,593.25		-201,873,896.87	268,175,760.71
Add: Changes of accounting policy								
Error correction of the last period								
Others								
II. Balance at the beginning of this year	283,161,227.00	109,496,837.33			77,391,593.25		-201,873,896.87	268,175,760.71
III. Increase/ Decrease in this year (Decrease is listed with "-")							113,766.57	113,766.57
(i) Net profit							113,766.57	113,766.57
(ii) Other consolidated income								
Subtotal of (i) and (ii)							113,766.57	113,766.57
(III) Owners' devoted and decreased capital								
1. Owners' devoted capital								
2. Amount calculated into owners' equity paid in shares								
3. Others								
(IV) Profit distribution								
1. Withdrawal of surplus reserves								
2. Withdrawal of general risk reserve								
3. Distribution for owners (shareholders)								
4. Others								
(V) Carrying forward internal owners' equity								
1. Capital reserves converted to capital (share capital)								
2. Surplus reserves converted to capital (share capital)								
3. Remedying loss with surplus reserves								
4. Others								
(VI) Reasonable reserve								
1. Withdrawal in this period								
2. Usage in this period								
(VII) Other								

IV. Balance at the end of the report period	283,161,227.00	109,496,837.33			77,391,593.25		-201,760,130.30	268,289,527.28
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## Amount in last year

Unit: RMB

Item	Amount in last year							
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of last year	283,161,227.00	109,496,837.33			77,391,593.25		-209,040,012.94	261,009,644.64
Add: Changes of accounting policy								
Error correction of the last period								
Others								
II. Balance at the beginning of this year	283,161,227.00	109,496,837.33			77,391,593.25		-209,040,012.94	261,009,644.64
III. Increase/ Decrease in this year (Decrease is listed with "-")							7,166,116.07	7,166,116.07
(i) Net profit							7,166,116.07	7,166,116.07
(ii) Other consolidated income								
Subtotal of (i) and (ii)							7,166,116.07	7,166,116.07
(III) Owners' devoted and decreased capital								
1. Owners' devoted capital								
2. Amount calculated into owners' equity paid in shares								
3. Others								
(IV) Profit distribution								
1. Withdrawal of surplus reserves								
2. Withdrawal of general risk reserve								
3. Distribution for owners (shareholders)								
4. Others								
(V) Carrying forward internal owners' equity								
1. Capital reserves converted to capital (share capital)								
2. Surplus reserves converted to capital (share capital)								
3. Remedying loss with surplus reserves								
4. Others								
(VI) Reasonable reserve								
1. Withdrawal in this period								
2. Usage in this period								
(VII) Other								

IV. Balance at the end of the report period	283,161,227.00	109,496,837.33			77,391,593.25		-201,873,896.87	268,175,760.71
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Legal representative: Li Zhongqiu

Person in charge of accounting works: Jiang Yanjun

Person in charge of accounting institution: Wu Aijie

## Section XI. Documents available for Reference

- I. Text of annual report carrying signature of the Chairman;
- II. Text of financial report carrying signature and seal of person in charge of the Company, person in charge of accounting works and person in charge of accounting institution;
- III. All files disclosed on *China Securities Journal*, *Securities Times* and *Hong Kong Commercial Daily* appointed by CSRC;
- IV. Article of Association;
- V. Other relevant files

[Note]: This Report is prepared respectively both in Chinese and English. Should be there any difference in interpretation of these two versions, the Chinese version shall prevail.

### III. Basic information of the Company

Shenzhen Zhongheng Hwafa Co, Ltd. (hereinafter referred to as the Company, or, in case any of its subsidiary companies is implied, the Group; its former name was "Shenzhen Huafa Electronics Co., Ltd.") was established on Dec. 8, 1981; it is a Sino-joint venture jointly established by Shenzhen SEG Group Co., Ltd., China Zhenhua Electronics Co., Ltd. and H.K. Luks Industrial Co., Ltd. In 1991, the Company was reorganized into a limited liability company, its corporate business license No. being 440301501120670; in the same year, it issued 53130000 shares of common stock, each share with a face value of 1 Yuan, the shares including 29630000 A Shares and 23500000 B Shares. In 1992, the A shares and B shares got listed on the Shenzhen Securities Exchange; 53130000 shares were tradable shares, and 159203000 shares were non-tradable shares.

In November 1996, H.K. Luks Industrial Co., Ltd. transferred as agreed 12% of the shares in the Company, or 25,500,000 shares, to the SEG (H.K.) Co., Ltd. That transfer was ratified by Shenzhen Securities Administration Office, and, on Mar. 5, 1997, was registered with Shenzhen Securities Clearing Co. Ltd. After the transfer, the H.K. Luks Industrial Co., Ltd.'s shares in the Company was reduced to 25,796,663 shares, accounting for 12.16% of the shares of the Company, and the SEG (H.K.) Co., Ltd. holds 25,500,000 shares, or 12%, of the Company's shares.

In December 1997, the Company conducted shares allotment program, issuing extra 63,699,895 shares to all shareholders by the ratio of 10:3 against the total 212,332,989 shares before the allotment, among which, 30,777,997 shares were allotted to domestic corporate shareholders and 3,600,000 shares were subscribed, with the remaining 27,177,997 shares assigned to public shareholders on paid basis, 15,388,998 shares were allotted to foreign corporate shareholders and 1,800,000 shares were subscribed with 13,588,998 shares abandoned, and also 9,777,900 shares allotted to public shareholders and 7,755,000 shares to domestic-listed foreign shareholders.

In January 1998, the Company carried out the capital reserve-to-capital program for year 1996, i.e. based on the total 212,332,989 shares ended 1996, 2 shares will be increased to per 10 shares for all shareholders, and based on the total 240,701,488 shares ended 1997 after allocation, 1.764 shares will be increased to each 10 shares for all shareholders.

On January 05, 2001, upon ratification, the increased shares of the Company, totaling 6,394,438 shares, went public in Shenzhen Stock Exchange.

On May 29, 2001, upon the approval of CSRC, the non-listed foreign capital totaling 62,462,914 shares of the Company were transferred as listed circulating stock, marking the circulation of entire foreign capital.

On Nov. 30 and Dec. 7 of 2001, H.K. Luks Industrial Co., Ltd. reduced its B Shares in the Company by 14,158,000 shares and 14,159,000 shares respectively. By Dec. 17, 2001, the SEG (H.K.) Co., Ltd. reduced a total of 14,487,400 foreign shares in the Company, or 5.12% of the Company's total shares.

On June 06, 2005, the Company bulletined that original shareholder SEG and China Zhenhua Group assigned the state-owned corporate capital they held in the Company totaling 124,920,000 shares to Wuhan Zhongheng New Tech Industry Group Co., Ltd. (Wuhan Zhongheng for short), which was ratified by the State-owned Assets Committee, the State Ministry of Commerce and CSRC with relevant assignment procedures completed on April 11, 2007.

On November 13, 2006, the Board of Shareholders of the Company passed the Equity Division Reform Program of Shenzhen Huafa Electronics Co., Ltd. In line the program, Zhongheng Group carried out assets reorganization to the Company, including bestowing assets and integrating industries covered by the Company, also paying 1.5 shares as consideration for per 10 shares to all A-share shareholders enrolled as at the equity registration day for the program, totaling 8,435,934 shares which may be tradable since the first business day after the implementation of the program. On May 17, 2007, the Company had completed the equity division reform program, and the consideration shares had been at market to circulate on May 18, 2007. The Company also had completed the equity division reform program with ceding procedures for bestowed assets completed in 2007.

As of December 31, 2011, the aggregate shares of the Company are 28,316,000 shares, among which, restricted shares total to 116,489,894 shares, accounting for 41.14% of total shares, and unrestricted shares total to 166,671,333 shares, accounting for 58.86% of total shares. Among the unrestricted shares, there are 64,675,497 A shares and 101,995,836 B shares, accounting for 22.84% and 36.02% of total shares respectively.

The business scope: manufacturing & operating each kind of color TV, LCD monitor, LCD screen (subject to branch offices), hi-fi equipment, digital watch, TV game player and computer as well as auxiliary circuit boards, precise injection moulding ware, light packing materials (manufacturing & operating in Wuhan), hardware (including molds), electroplate and solder stick, real estate development and operation (ref. S.F.D.C.No. 7226760), property management. Establishing affiliate companies in Wuhan and Jilin, branch offices in each capital city (excluding Lhasa) and cities directly under jurisdiction of the Central Government.

Main business is processing and selling of precision injection parts; processing and selling of liquid crystal display; processing, selling of light packaging materials and property leasing business. The Company is registered at Block 411, Huafabei Road, Futian District, Shenzhen Cty; legal representative is Li Zhongqiu.

Controlling shareholder of the company is Zhongheng Group, and the shareholders meeting is its agency of power, which executes the decision right on material matter such as operation guidelines, funding, investment and profit distribution. Board of directors shall answer for shareholders meeting, which implements operation and decision right of the company according to laws; Managers take charge for organizing and executing the decisions made in shareholders meeting and board of directors meeting, as well as presiding the production and operation management work of the company. The functional management departments include Enterprise Planning Department, Financial Department, Comprehensive Management Department, Business Center, Video Business Department, Circuit Panel Business Department, Plastic Injection Business Department, Auditing Department, Office of Board of

Directors etc., the branches include Wuhan branch etc., and subsidiaries mainly include Shenzhen Huafa Property Lease Management Co., Ltd. (hereinafter referred to as Huafa Lease Company), Shenzhen Zhongheng Huafa Property Management Co., Ltd. (hereinafter referred to as Huafa Property Company), and Wuhan Hengfa Scientific and Technology Co., Ltd. (hereinafter referred to as Hengfa Technology Company), Wuhan Zhongheng Huafa Trade Co.,Ltd.(hereinafter referred to as Huafa Trade Company) etc.

## **IV. Main accounting policies, accounting estimates and previous errors**

### **1. Basis of Preparation of Financial Statements**

The Group's financial statements were prepared on the basis of the actual transactions or businesses occurred in its continuous operation according to *the Enterprise Accounting Principle* promulgated by the Ministry of Finance and according to the "important accounting policies and accounting evaluation and financial statement preparation methods".

### **2. Statement regarding Following Business Accounting Standards**

The Financial Statement prepared by the Group complies with the requirements of Business Accounting Standards, and reflect such information regarding enterprise financial situation, operation result and cash flows, etc. on the factual and complete basis.

### **3. Accounting Period**

The accounting period of the Group is from each 01 January to 31 December in the Gregorian calendar.

### **4. Standard Currency**

RMB is adopted as standard currency by the Group.

### **5. Accounting processes of business mergers under the same control and those not under the same control**

#### **(1) Business mergers under the same control**

In a business combination under the same control, the assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. The additional paid-in capital shall be adjusted according to the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it; if the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

## **(2) Business mergers not under the same control**

In a business combination not under the same control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as good will; if the combination costs are less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current period after reexamination.

## **6. Preparation of Consolidated Financial Statement**

### **(1) Preparation of Consolidated Financial Statement**

The Group has prepared for the Consolidated Financial Statement in line with the Business Accounting Standards No.33-Consolidated Financial Statement and its relevant regulations, with all key internal trades and transactions within the scope of consolidation offset. Among the shareholders equity of subsidiaries, the part that does not belong to the parent company shall be presented under shareholders equity as minority interest in the consolidated financial statement.

Where the accounting policy or accounting period adopted by subsidiaries and the Company is inconsistent, it shall make necessary adjustment on subsidiaries' financial statements according to the accounting policy or accounting period adopted by the Company when prepare consolidated financial statement.

As to the subsidiary acquired through business combination not under the same control, when prepare consolidated financial statement, it shall make adjustment on individual financial statement based on the fair value of the net assets recognized on the purchasing day; As to the subsidiary acquired through business combination under the same control, it will be regarded existing since the begin of the year of the current period of combination, and its assets, liabilities, operating results and cash flows will be included into the consolidated financial statement based on its original carrying value since the begin of the year of the current period of combination.

**(2) Related accounting processes shall be disclosed if the equity of the same subsidiary is bought and resold or sold and repurchased in 2 consecutive fiscal years.**

## **7. Determination criteria of cash and cash equivalents**

The cash referred to in the Cash Flow Statement of the Group means stocked cash and deposit available for payment at any time. The cash equivalents therein refer to investment due within 3 months since purchasing day, strong fluidity, small risk in value variation and easy to converted into cash of predictable sum.

## 8. Conversion in foreign currency transactions and Conversion of foreign currency statements

### (1) Conversion in foreign currency transactions

Foreign currency amount of the group's foreign currency business is converted into Renminbi amount in accordance with market exchange rate published by the People's Bank of China at the beginning of the current month. At the reporting day of Balance Sheet, the monetary assets in foreign currencies are translated at the instant exchange rate of the reporting day of Balance sheet. As to the exchange loss and profit occurred, except for that of special loan for the purchase or production of assets which meet the conditions of capitalization, which shall be treated according to the principles of capitalization, others shall be accrued into loss and profit in current term. Those non-monetary assets measured by fair value are translated into RMB at the instant exchange rate of the recognizing day of fair value, with translation difference occurred accrued into loss and profit in current term as change of fair value. Those non-monetary foreign assets measured by history cost, shall still be translated at the instant exchange rate of the day when business occurred, and shall not change the amount of RMB.

### (2) Conversion of foreign-currency financial statement

Assets and debt items in foreign-currency balance shall be converted with spot rate on the date of balance sheet; ownership items except "undistributed profit" shall be converted according to spot rate; income and fee item in profit statement shall be converted according to market exchange rate issued by People's Bank of China at the beginning of the month when transaction is made. Converted differences incurred in conversion of foreign-currency statement shall be independently listed under owner benefit item. Foreign-currency cash flow adopts in conversion market exchange rate issued by People's Bank of China at the beginning of the month when cash flow is incurred. Change amount due to influence from change of exchange rate to cash shall be listed independently in cash flow sheet.

## 9. Recognition criteria and accrual method of bad debt reserves for account receivables

The Group regards the following circumstances as account-receivable bad debt loss confirmation criteria: dissolution, bankruptcy or insolvency of the debtor; seriously insufficient cash flow; debts that can not be repaid within foreseeable future for national disaster, etc.; debts overdue for more than 5 years; debts that cannot be repaid or are highly unlikely to be repaid as supported by convincing evidences.

For possible bad debt loss, allowance method will be adopted to conduct calculation, and impairment will be conducted separately or in accordance with portfolio at the end of the period to provision bad debt preparation and recorded into profit/loss of the current period. As for payment payable with unambiguous evidence verifying that it can not be taken back indeed, the Group will approve according to ruled procedure and handle as loss on bad debt and bad debt reserve withdrawn due to writeoff.

### (1) Bad debt reserves for account receivables with major individual amount

Judgment criteria or amount standard of material specific amount or amount criteria	Non-connected party amount with specific amount exceeding 500 thousand yuan is viewed as material accounts receivable
Provision method with material specific amount and provision of	Provision bad debt preparation in accordance with the

specific bad debt preparation	difference of present value of future cash flow below the book value
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## (2) Accounts receivable with bad debt preparation provisioned in accordance with portfolio

Combination name	Provision method with provisioning bad debt in accordance with portfolio	The evidence of confirming portfolio
Aging portfolio	Aging analysis method	Classify portfolio with aging of accounts receivable as credit risk character

Bad debt reserve accrued by aging analysis method in the combination

Applicable  Inapplicable

Account ageing	Accrual proportion of account receivables (%)	Accrual proportion of other receivables (%)
≤ 1 year	0%	0%
1-2 year (s)	5%	5%
2-3 year (s)	10%	10%
Over 3 years	30%	30%
3-4 year (s)	30%	30%
4-5 year (s)	30%	30%
Over 5 years	100%	100%

Bad debt reserve accrued by balance percentage method in the combination

Applicable  Inapplicable

Bad debt reserve accrued by other method in the combination

Applicable  Inapplicable

## (3) Accounts receivable that were not significant but have been provisioned bad debt preparation separately

Reason of specific bad debt preparation provision	Accounts receivable with non-material specific amount and being not able to reflect its risk character by provisioning bad debt preparation in accordance with portfolio
Provision method of bad debt preparation	Bad debt preparation will be provisioned in accordance with the difference of present value of its future cash flow below its book value.

## 10. Inventories

### (1) Classification of inventory

Inventories of the Group includes raw materials, product in progress, goods in stock, turnover material, Self-made semi-finished product and consigned processing material, etc..

**(2) Valuation method of delivered inventory**

Valuation method: first-in first-out method

Purchasing is priced at the actual cost; procurement or delivery of inventory shall be made by adopting first-in-first-out method to confirm the actual cost. Low-value consuming goods and packing materials are amortized by one-off write-off method.

**(3) Determination basis of net realizable value of inventory and accrual method of inventory falling price reserve**

The provisions for inventories depreciation shall be drawn against the predicted uncollectible cost caused by inventories damage, part or entire out-of-fashion or selling price lower than cost. The provisions depreciation of finished products and large bulk of raw materials shall be drawn against the excess part between the cost of single inventory item and its net realizable value. The provisions depreciation of the other raw and auxiliary materials with various kinds and low unit price shall be drawn as per category.

For such stocked goods directly for sales as products in stocks, products in progress and materials for sales, their net realizable value shall be recognized after deducting the estimated sales expenses and relevant taxes from estimated sales price of such inventories. For stocked materials for production use, their net realizable value shall be recognized after deducting estimated cost occurring at completion, sales expenses and relevant tax from estimated sales price of products to be manufactured.

**(4) Inventory system**

Inventory system: perpetual inventory system

**(5) Amortization method of low value consumables and packages**

Low-value consuming products

Amortization method: one-off amortization method

Packages

Amortization method: one-off amortization method

**11、 Long-term Equity Investment****(1) Determination of investment cost**

Long-term equity investment mainly includes the equity investment held by the Group that may produce control, joint control or significant influence over invested entity, and the equity investment that does not have control, joint control or significant influence on the invested entry, and has no offer in active market and its fair value cannot be reliably measured. If the long-term equity investment is acquired via business merger under the same control, it shall, on the day of merger, regard the share of the carrying amount of the owner's equity of the merged enterprise as the cost of the long-term equity investment. As for the long-term equity investment acquired via business merger under different control, the merger cost shall be, shall be the fair values, on the merger

(acquiring) date, of the assets given, the liabilities incurred or assumed, and the equity securities issued by the acquirer, in exchange for the control of the merged (acquired) enterprise, which will be, on the merger (acquiring) date, further regarded as the initial investment cost of long-term equity investment. Apart from the aforesaid long-term equity investment acquired through business merger, those long-term equity investment, if acquiring through paying cash, shall consider its purchasing price actually paid as the investment cost, if acquired by issuing equity securities, shall consider the fair value of issuing equity securities as the investment cost; if invested by investors, shall consider the value agreed in the investment contract or agreement as the investment cost; if acquiring from debt reorganization or non-monetary assets exchange, shall confirm the investment cost according to the regulation of relevant accounting rule.

## **(2) Subsequent measurement and profit and loss recognition**

The investment of the Group to its subsidiaries shall be calculated through cost method and shall be adjusted through equity method in the Financial Statement; the investment to its associated companies shall be calculated through equity method; For the long-term equity investment without any control, joint control or serious influence for which there is no offer in the active market and of which the fair value cannot be reliably measured, the Group adopts cost method to calculate it; For the long-term equity investment without any control, joint control or serious influence for which there is offer in the active market and of which the fair value can be reliably measured, the Group shall calculate it under the entry of “Financial Assets for Sales” When adopting a cost method to calculate, long-term shareholding investment will be calculated cost in accordance with its initial investment cost, and the cost of long-term shareholding investment will be adjusted at the time of adding or recovering investment. When adopting an equity method, current period investment profit/loss shall be the share of net profit/loss realized in the current year of the invested organization that shall be enjoyed or burdened. When confirming the share of net profit/loss of the invested organization that shall be enjoyed, based on a foundation of the fair value of various identifiable assets of the invested organization at the time of obtaining investment, according to accounting policies and accounting period of the group, the portion belonging to the investing company shall be calculated in accordance with the company’s accounting policies after offsetting internal transaction profit/loss incurred with collective-owned enterprises and joint-owned enterprises, and the invested organization’s net profit will be confirmed after adjustment. For shareholding investment in collective-owned enterprises and joint-owned enterprises already held before the first execution date, if there is shareholding investment debit difference in relation to this investment, the shareholding investment debit difference shall be deducted in accordance with straight-line amortization of the remaining period to confirm investment profit/loss. The group no longer possesses joint control or significant influence over the invested organization due to reasons such as reducing investment, and for which there is no price quotation in the active market and the fair value can not be reliably measured, the group will change to a cost method to calculate; for long-term shareholding investment that the group can implement control over the invested organization due to reasons such as increasing investment, the group will also change to a cost method to calculate; for long-term investment that the group can implement joint control or significant influence over the invested organization but can not implement control due to reasons such as increasing investment, or the group no longer possesses control over the invested organization but can implement joint control or significant influence over the invested organization due to reasons such as disposing investment, the group will change to an equity method to calculate. For long-term shareholding investment disposal, the difference between its book value and the actual obtained amount value shall be recorded into current period investment profit. For long-term shareholding investment calculated with an equity method, if it is recorded into owners’ equity due to other changes of owners equity

except for the net profit/loss of the invested organization, the group will transfer the original portion which has been recorded into owners' equity into current period investment profit at the time of disposing this investment.

### **(3) Determination basis of common control and significant influence on the invested unit**

Common control means the shared control on certain economic activity according to contract provisions. Determination basis of common control mainly includes any partner can't separately control the production operations of a joint enterprise, decision making involving basic business operations of joint enterprise is subject to the consensus of all partners, etc. Significant influence means a partner has the right to participate in the decision making on the financial and business policies of the invested unit, but is unentitled to control or control the formulation of such policies together with other parties. Determination basis of significant influence mainly includes the group directly or via a subsidiary indirectly owns the invested unit's voting power share of not less than 20% but below 50%, nevertheless, if any clear evidence shows the disqualification for participating in the decision making on the production operations of the invested unit, such share can't form significant influence.

### **(4) Impairment test method and impairment reserve accrual method**

The Group has, on each reporting day of Balance Sheet, checked the long-term equity investment, fixed assets, project in progress and intangible assets, etc.. In case of any of the following circumstances, possible impairment has occurred to assets. We will conduct impairment test at each year end over good will and those intangible assets without fixed beneficiary term. If difficult to test the recoverable amount of a single asset item, the test may be applied to the asset group or combined asset group containing such asset.

After an impairment test to an asset, if the book value of such asset exceeds its recoverable amount, the positive difference shall be recognized as impairment loss. The impairment loss of above said assets shall not be reversed in later accounting period after being recognized. The recoverable amount shall be determined according to the net amount of the fair value of an asset minus the disposal expenses, and the current value of the expected future cash flow of the asset, whichever is higher.

The following circumstances may constitute a sign of possible asset impairment:

- a. The current market price of an asset declines drastically, and the price drop is obviously higher than the expected drop over time or due to the normal use;
- b. The economic, technological or legal environment in which the enterprise conducts its business operations, or the market where an asset is situated has or will have any significant change in the current period or in the near future, and thus has or will have an adverse impact on the enterprise;
- c. The market interest rate or any other market investment return rate has risen in the current period, and the enterprise' calculation of capitalization rate of the current value of the expected future cash flow of the asset is affected and thus leads to a big fall in the recoverable amount of asset;
- d. Any evidence shows that an asset has become obsolete or it has been damaged substantially;

e. An asset has been or will be left unused, or the use of an asset has been or will be terminated, or an asset has been or will be disposed of ahead of schedule;

f. Any evidence in the internal report of the enterprise shows that the economic performances of an asset has been or will be lower than the expected performances, for example, the net cash flow created by an asset or business profit (or loss) realized (incurred) an asset is lower (higher) than the expected amount, etc.;

g. Other evidence that indicates that an asset impairment has probably occurred.

## 12. Property of Investment

Property of investment of the Group includes the right to use any land which has already been rented; the right to use any land which is held and prepared for transfer after appreciation; the right to use any houses & building which has already been rented.

Property of investment is priced as per its cost. The cost of purchased property of investment includes purchasing payment, relevant taxes and other expenditures which may be directly ascribed to such assets. The cost of building such property of investment is composed of all necessary expenditures occurred prior to that such property has reached the projected service status.

The Company adopts cost mode to follow measurement of property of investment, for which, depreciation or amortization composite life method applied will be drawn aiming to the building and land-use right against the predictable service life and net salvage value. The following shows the net salvage value and annual depreciation (amortization) rate:

Type	Depreciation Term (Year)	Expected Salvage Rate (%)	Annual Depreciation Rate (%)
Land-use Right	50	10.00%	1.80%
Houses & Buildings	5—50	10.00%	1.80%—18.00%

In case the property of investment is taken for self-use, such property shall be recorded as fixed assets or intangible assets since the date of taking. If the self-use property is taken for rent or capital appreciating, such fixed assets or intangible assets shall be recorded as property of investment since the date of taking. For such recording, the book value before it shall be taken as the recording value after that.

If the property of investment is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the recognition of it as property of investment shall be terminated. Such revenues of disposal of the property of investment as sales, transfer, discard, or being damaged or destroyed, after deducting the book value of such property as well as the relevant taxes, shall be accrued into the current profits and losses.

## 13. Fixed Assets

### (1) Recognition conditions of fixed assets

Fixed assets of the Group refer to the tangible assets that simultaneously possess the following features. They are held for the sake of producing commodities, rendering labor service, renting or business management; their useful life is in excess of one fiscal year; and unit value has exceeded 2,000 Yuan.

## (2) Recognition basis and valuation method of financial lease fixed assets

Fixed Assets include houses & buildings, machinery equipment, mould equipment, transport equipment, apparatus equipment, tooling equipment and office equipment. Fixed assets shall be measured at their cost, among which, the cost of a purchased fixed asset includes the purchase price, import duties and relevant taxes as well as other disbursements that bring the fixed asset to the expected conditions for use and that may be attributed to the fixed asset; the cost of self-constructed fixed assets shall be formed by the necessary disbursements incurred for bringing the asset to the expected conditions for use. The cost put into fixed assets by the investor shall be determined according to the value as stipulated in the investment contract or agreement, with the exception of those of unfair value as is stipulated in the contract or agreement. The costs of fixed assets acquired through financial leasing shall be determined at an amount equal to the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. The subsequent disbursement relevant to fixed assets mainly composes of repair expense, renovation expense etc., where the expenses meet the condition to be recognized as fixed assets, it shall be accrued into cost of fixed assets; for the substituted part, its book value shall be terminating from recognition; where it does not meet the condition to be recognized as fixed assets, it shall be accrued into current loss and profit at occurring.

## (3) Depreciation methods of various fixed assets

The Group shall draw provisions for all fixed assets except for those having fully drawn provisions and under normal service as well as the land recorded separately. It adopts computing life method to draw depreciation and is included in the cost of the relevant assets or in the expenses in current term in accordance with the purposes of the fixed assets.

Type	Depreciation Term (Year)	Rate of salvage value (%)	Annual Depreciation Rate (%)
Houses & buildings	20-50 Years	10%	
Machinery equipment	10 Years	10%	9%
Transport equipment	5 Years	10%	18%
Apparatus equipment	5 Years	10%	18%
Tooling equipment	5 Years	10%	18%
Office equipment	5 Years	10%	18%
Mould equipment	3 Years	10%	30%

## (4) Impairment test method and impairment reserve accrual method of fixed assets

The Group has, on each reporting day of Balance Sheet, checked the long-term equity investment, fixed assets, project in progress and intangible assets, etc... In case of any of the following circumstances, possible impairment has occurred to assets. We will conduct impairment test at each year end over good will and those intangible assets without fixed beneficiary term. If difficult to test the recoverable amount of a single asset item, the test may be applied to the asset group or combined asset group containing such asset.

After an impairment test to an asset, if the book value of such asset exceeds its recoverable amount, the positive difference shall be recognized as impairment loss. The impairment loss of above said assets shall not be reversed in later accounting period after being recognized. The recoverable amount shall be determined according to the net amount of the fair value of an asset minus the disposal expenses, and the current value of the expected future cash flow of the asset, whichever is higher.

The following circumstances may constitute a sign of possible asset impairment:

(1) The current market price of an asset declines drastically, and the price drop is obviously higher than the expected drop over time or due to the normal use;

(2) The economic, technological or legal environment in which the enterprise conducts its business operations, or the market where an asset is situated has or will have any significant change in the current period or in the near future, and thus has or will have an adverse impact on the enterprise;

(3) The market interest rate or any other market investment return rate has risen in the current period, and the enterprise' calculation of capitalization rate of the current value of the expected future cash flow of the asset is affected and thus leads to a big fall in the recoverable amount of asset;

(4) Any evidence shows that an asset has become obsolete or it has been damaged substantially;

(5) An asset has been or will be left unused, or the use of an asset has been or will be terminated, or an asset has been or will be disposed of ahead of schedule;

(6) Any evidence in the internal report of the enterprise shows that the economic performances of an asset has been or will be lower than the expected performances, for example, the net cash flow created by an asset or business profit (or loss) realized (incurred) an asset is lower (higher) than the expected amount, etc.;

(7) Other evidence that indicates that an asset impairment has probably occurred.

## **(5) Other explanations**

The Group will, at the end of each year, have a check on the useful life, estimated net residue value, and the depreciation method of the fixed assets, and if there is any change, it will be treated as the change of accounting estimation.

Where the fixed asset is in a state of disposal or unable to generate any economic benefits through use or disposal as expected, the recognition of it as a fixed asset shall be terminated. When an enterprise sells, transfers or discards any fixed asset, or when any fixed asset of an enterprise is damaged or destroyed, the Company shall deduct the book value and relevant taxes from the disposal income through disposal, transfer, discard or being damaged or destroyed, and then include the remaining in the current profits and losses.

## **14. Project in Process**

### **(1) Type of construction in progress**

Project in process shall be measured at the actual cost. The self-operating project shall be measured in line with direct materials, direct salary and direct construction expenses, etc.; The out-contracted project shall be measured in line with project price payable,

etc.; Equipment installation project shall determine its cost as per the occurring disbursements as equipment value, installation charge and project trial running, etc. The cost of project in progress also includes borrowing costs to be capitalized and exchange loss and profit.

## **(2) Criteria and time point for transfer of construction in progress into fixed asset**

Since the day when project in process reaching the expected service status, carry over the estimated value of the project to fixed assets in line with project budget, construction cost or actual cost, etc. with depreciation drawn since the preceding month. After the completion procedures have been completed, an adjustment shall be made to the difference of original fixed assets value.

## **(3) Impairment test method and impairment reserve accrual method of construction in progress**

The Group has, on each reporting day of Balance Sheet, checked the long-term equity investment, fixed assets, project in progress and intangible assets, etc.. In case of any of the following circumstances, possible impairment has occurred to assets. We will conduct impairment test at each year end over good will and those intangible assets without fixed beneficiary term. If difficult to test the recoverable amount of a single asset item, the test may be applied to the asset group or combined asset group containing such asset.

After an impairment test to an asset, if the book value of such asset exceeds its recoverable amount, the positive difference shall be recognized as impairment loss. The impairment loss of above said assets shall not be reversed in later accounting period after being recognized. The recoverable amount shall be determined according to the net amount of the fair value of an asset minus the disposal expenses, and the current value of the expected future cash flow of the asset, whichever is higher.

The following circumstances may constitute a sign of possible asset impairment:

- a. The current market price of an asset declines drastically, and the price drop is obviously higher than the expected drop over time or due to the normal use;
- b. The economic, technological or legal environment in which the enterprise conducts its business operations, or the market where an asset is situated has or will have any significant change in the current period or in the near future, and thus has or will have an adverse impact on the enterprise;
- c. The market interest rate or any other market investment return rate has risen in the current period, and the enterprise' calculation of capitalization rate of the current value of the expected future cash flow of the asset is affected and thus leads to a big fall in the recoverable amount of asset;
- d. Any evidence shows that an asset has become obsolete or it has been damaged substantially;
- e. An asset has been or will be left unused, or the use of an asset has been or will be terminated, or an asset has been or will be disposed of ahead of schedule;

f. Any evidence in the internal report of the enterprise shows that the economic performances of an asset has been or will be lower than the expected performances, for example, the net cash flow created by an asset or business profit (or loss) realized (incurred) an asset is lower (higher) than the expected amount, etc.;

g. Other evidence that indicates that an asset impairment has probably occurred.

## 15. Borrowing Costs

### (1) Recognition principle of capitalization of borrowing cost

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. The borrowing costs incurred to an enterprise that can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, shall be capitalized after the asset disbursements have already incurred, the borrowing costs have already incurred, and the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started; When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. The remaining borrowing costs shall be recognized as expenses.

### (2) Capitalization period of borrowing cost

Asset qualified for the capitalization conditions refers to the fixed assets, property of investment and inventory which must spend long term (usually above 1 year) to purchase, build or produce before reaching expected service or sales status.

### (3) Capitalization suspension period

Where the acquisition or construction of assets that meet the capitalization conditions is interrupted abnormally for more than 3 consecutive months, such borrowing costs shall be suspended capitalizing till the acquisition or construction of the asset restarts.

### (4) Calculation method of capitalized amount of borrowing cost

As for specifically borrowed loans, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment. As for the general borrowing; for ordinary borrowings, the capitalized amount is determined by multiplying the capitalization rate of ordinary borrowings by the weighted average of the accumulative asset expenditure in excess of the special borrowings.

## 16. Intangible Assets

### (1) Valuation method of intangible assets

The major intangible assets of the Group include land-use right, patented technologies and non-patented technologies, etc., and

shall be measured according to the actual cost when acquired. The acquired intangible assets shall be recorded as per actual price and relevant other disbursements. The intangible assets invested by investors shall be priced as per the value agreed in investment contract or agreement, with the exception of those of unfair value as is stipulated in such contract or agreement.

## **(2) Estimate of service life of intangible assets with a limited service life**

The land-use right shall be averagely amortized based on its useful years since the beginning date of use; the patented technologies, non-patented technologies and other intangible assets will be averagely amortized by installments depending the shortest one among predicted service years, benefiting years set out in the contract and legal effective years. The amortized amount shall be accrued into relevant assets cost and current loss and profit as per their beneficiary objects.

## **(3) Judgment basis of intangible assets with an uncertain service life**

The estimated life of and amortization method for the intangible assets with limited life is to be reviewed at the end of every financial year. In case of any change, it will be handled as accounting estimate change. It shall also check the service life of intangible assets with uncertain service life during each accounting period, where there are evidences to prove the intangible assets have limited service life, it shall be estimated of its service life, and be amortized within such estimated life.

## **(4) Accrual of impairment reserve for intangible assets**

The Group has, on each reporting day of Balance Sheet, checked the long-term equity investment, fixed assets, project in progress and intangible assets, etc.. In case of any of the following circumstances, possible impairment has occurred to assets. We will conduct impairment test at each year end over good will and those intangible assets without fixed beneficiary term. If difficult to test the recoverable amount of a single asset item, the test may be applied to the asset group or combined asset group containing such asset.

After an impairment test to an asset, if the book value of such asset exceeds its recoverable amount, the positive difference shall be recognized as impairment loss. The impairment loss of above said assets shall not be reversed in later accounting period after being recognized. The recoverable amount shall be determined according to the net amount of the fair value of an asset minus the disposal expenses, and the current value of the expected future cash flow of the asset, whichever is higher.

The following circumstances may constitute a sign of possible asset impairment:

- a. The current market price of an asset declines drastically, and the price drop is obviously higher than the expected drop over time or due to the normal use;
- b. The economic, technological or legal environment in which the enterprise conducts its business operations, or the market where an asset is situated has or will have any significant change in the current period or in the near future, and thus has or will have an adverse impact on the enterprise;

c. The market interest rate or any other market investment return rate has risen in the current period, and the enterprise' calculation of capitalization rate of the current value of the expected future cash flow of the asset is affected and thus leads to a big fall in the recoverable amount of asset;

d. Any evidence shows that an asset has become obsolete or it has been damaged substantially;

e. An asset has been or will be left unused, or the use of an asset has been or will be terminated, or an asset has been or will be disposed of ahead of schedule;

f. Any evidence in the internal report of the enterprise shows that the economic performances of an asset has been or will be lower than the expected performances, for example, the net cash flow created by an asset or business profit (or loss) realized (incurred) an asset is lower (higher) than the expected amount, etc.;

g. Other evidence that indicates that an asset impairment has probably occurred.

#### **(5) Criteria for division of R&D stages of internal R&D projects**

The expenses occurred in the development process and meet the following conditions are determined as intangible assets:

a. In respect of the technology, it is feasible to finish the intangible asset for use or sale;

b. It is intended to finish and use or sell the intangible asset;

c. There is a potential market for the products manufactured by applying this intangible asset or that there is a potential market for the intangible asset itself;

d. With the support of sufficient technologies, financial resources and other resources, it is able to finish the development of the intangible asset, and it is able to use or sell the intangible asset;

e. The disbursements attributable to the development of the intangible asset can be reliably measured.

#### **(6) Accounting of expenditures for internal R&D projects**

The expenditures for its internal research and development projects of the Company shall be classified into research expenditures and development expenditures depending on the project property and the degree of uncertainty of the intangible assets finally brought out. The expenses occurred in research process is determined as profit or loss of the period;

The development disbursement not meeting the above conditions will be accrued into current loss and profit at occurring. The development disbursement accrued into loss and profit in previous term will not be recognized as assets as term thereafter. The development disbursement capitalized will be presented as "Development Disbursement" in the Balance Sheet and then be brought forward to intangible assets since such project has reached the expected service status.

## 17. Long-term Deferred Expenses

The group's long term deferred expense refers to expenses such as decoration expense of houses and constructions and decoration expense of rented office sites with amortization period of above one year(excluding one year) that should be undertaken in the current period and various periods later, such expenses shall be amortized averagely during the beneficial period. Where the long-term deferred expenses will not benefit the later accounting period, the remaining amount to-be-amortized shall be recorded into the loss or profits of current period.

## 18. Predictable Liabilities

### (1) Recognition criteria of estimated liabilities

In case all the obligations in relation to such contingent items as external guaranty, suspensive lawsuit or arbitration, product quality guarantee, staff cutback plan, loss contract, restructuring obligation and fixed assets discarding obligation, etc. comply with the following conditions simultaneously, the Group will recognize them as liabilities. Such obligations are constant burdened by the Group; the execution of such obligations will possibly result in the outflowing of economic benefit from the Group; the amount of such obligations can be reliably measured.

### (2) Measuring method of estimated liabilities

The predictable liabilities shall be initially measured as per the best estimated amount to be paid for executing relevant instant obligations in combination with such factors as risk, uncertainty and time value of money regarding contingent issues. If the time value of money exerts serious effect, the best estimated amount shall be determined through discounting relevant cash outflows in the future. On the date of Balance Sheet, the Company shall double check the book value of predictable liabilities and make adjustment to it so as to reflect the best estimated amount at present.

## 19. Share-based payment and equity instrument

### (1) Type of share-based payment

The share-based payments shall consist of equity-settled share-based payments and cash-settled share-based payments.

### (2) Determination method of fair value of equity instrument

Equity Instruments refer to the contract which may proves holding all remain equity of the Company after deducting all liabilities. During business combination, the transactional expenses for issuing the equity instrument by combining party offset the premium revenue of equity instruments, if it is not enough to offset, reduce the reserve profits. Other equity instruments, the consideration received at issuing will increase shareholder's equity after deducting transactional expenses. The consideration and transactional expenses paid for purchasing back the equity instruments will decrease shareholder's equity. It will not recognize profits and losses when issuing, purchasing back, selling or writing off the equity instruments.

The distribution (excluding dividend) to the party who owns the equity instrument by the Company shall decrease shareholder's

equity. The Company does not recognize the change of fair value of equity instruments.

### **(3) Recognition basis of optimal estimate of vested equity instrument**

On every balance sheet date in the waiting period, optimal estimate is made according to the latest acquired change of number of vested employees and other subsequent information, and then number of estimated vested equity instruments is corrected accordingly.

### **(4) Accounting processes related to implementation, modification and termination of share-based payment plan**

#### **a. Implementation of share-based payment**

Where share-based payment adopting equity settlement changes for employee's service, its measurement accords with the fair value of equity instrument granted to the employee. Where share-based payment adopting equity settlement is immediately vested after granting to change for employee's service, it is recorded in related cost or expense according to the fair value of equity instrument on the grant date, and capital surplus is increased accordingly. Where share-based payment adopting equity settlement can't be vested to change for employee's service until service in waiting period is finished or specified performance condition is met, on every balance sheet date in the waiting period, on the basis of the optimal estimate of number of vested equity instruments, the service acquired in current period is recorded in related cost or expense and capital surplus according to the fair value on the grant date of equity instrument. On a balance sheet date, where subsequent information shows the number of vested equity instruments is different from previous estimate, adjustment is made, and such number is adjusted to the number of actually vested equity instruments on the vesting date. For share-based payment taking specified service period as vesting condition, its waiting period is from grant date to vesting date; for share-based payment taking specified performance as vesting condition, the length of waiting period is estimated according to the most possible performance result on the grant date. After the vesting date, the enterprise doesn't adjust recognized total amount of related cost or expense or owner's equity any more.

Where share-based payment adopting equity settlement changes for the service of other parties, the accounting process shall be pertinent to the circumstances as follows:

Where the fair value of other party's service can be reliably measured, such service is recorded in related cost or expense according to its fair value on the acquisition date of service, and owner's equity is increased accordingly. Where the fair value of other party's service can't be reliably measured, but that of equity instrument can be reliably measured, such service is recorded in related cost or expense according to the fair value of equity instrument on the acquisition date of service, and owner's equity is increased accordingly. On the exercise date, the enterprise calculates and determines the amount that shall be transferred to paid-in capital or capital stock according to the number of actually exercised equity instruments, and transfers it to paid-in capital or capital stock.

#### **Share-based payment adopting cash settlement**

The measurement accords with the fair value of liabilities borne by the enterprise and determined through the calculation based on share or other equity instruments. Where share-based payment adopting cash settlement is immediately vested after granting, it's recorded in related cost or expense as per the fair value of liabilities borne by the enterprise on the grant date, and liabilities are increased accordingly. Where share-based payment adopting cash settlement can't be vested until service in waiting period is finished or specified performance condition is met, on every balance sheet date in the waiting period, the service acquired in current period is recorded in cost or expense and relevant liability according to the amount of fair value of liabilities borne by the enterprise and based on the optimal estimate of vesting condition. On a balance sheet date, where subsequent information shows the fair value

of liabilities borne by the enterprise is different from previous estimate, adjustment is made, and such adjustment is to the actually vested level on the vesting date. The enterprise remeasures the fair value of liabilities and record its change in current profit and loss on every balance sheet date before related liability settlement and the settlement date.

#### b. Modification of share-based payment

Where modification increases the fair value of granted equity instrument, acquired service is increased accordingly. Where modification occurs in the waiting period, the recognition of fair value of service acquired from modification date to the vesting date after modification includes both the service amount determined on the basis of fair value of original equity instrument on its grant date in the remaining of original waiting period and the increment of fair value of equity instrument. Where modification occurs after the vesting date, the increase of fair value of equity instrument is recognized immediately. If share-based payment agreement requires that an employee can acquire modified equity instrument only if longer time service is finished, increase of fair value of equity instrument is recognized in the whole waiting period. Where modification increases the number of granted equity instruments, the fair value of increased equity instrument is recognized as increment of acquired service accordingly. If modification occurs in the waiting period, the recognition of fair value of service acquired from modification date to the vesting date of increased equity instrument includes both the service amount determined on the basis of fair value of original equity instrument on its grant date in the remaining of original waiting period and the increment of fair value of equity instrument. If vesting condition is modified in a way favorable for employees, e.g. shortening of waiting period, modification or cancellation of performance condition (rather than market condition), when vesting condition is processed, post-modification vesting condition is considered. Where modification decreases the fair value of granted equity instrument, the amount of acquired service is recognized still on the basis of the fair value of equity instrument on its grant date, regardless of decrement of fair value of equity instrument. Where modification decreases the number of granted equity instruments, the decrement is viewed as cancellation of relevant granted equity instruments. Where vesting condition is modified in a way unfavorable for employees, e.g. extension of waiting period, increase or modification of performance condition (rather than market condition), post-modification vesting condition isn't taken into account when processing vesting condition.

#### c. Termination of share-based payment

Cancellation or settlement is viewed as accelerated vesting, and the amount that should be recognized in the remaining of original waiting period is immediately recognized. All payments to an employee at the time of cancellation or settlement shall be viewed as equity repurchase, the excess of repurchase cost above the equity instrument's fair value on the repurchase date is recorded in current expenses. Where new equity instrument is granted to an employee, and it's recognized that the new equity instrument replaces for the cancelled one on the grant date of the new one, the enterprise processes the granted substitute equity instrument in a way the same as that for processing the modification of original equity instrument provision and condition. Where the enterprise purchases an employee's vested equity instrument, owner's equity is debited, and the excess of repurchase cost above the equity instrument's fair value on the repurchase date is recorded in current expenses.

## 20. Income

### (1) Judgment criteria for recognition time of sales income

When the Group has transferred the significant risks and rewards of ownership of the goods to the buyer; the Group retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; The relevant amount of revenue can be measured in a reliable way; The relevant economic benefits may flow into the enterprise; The relevant costs incurred or to be incurred can be measured in a reliable way, it may recognize the realization of revenue.

### (2) Recognition basis of income from transfer of right to use asset

The revenue from abalienating of right to use assets may be recognized on the condition that the relevant economic benefits are

likely to flow into the Company and the amount of revenues can be measured in a reliable way.

### **(3) Recognition basis of service income**

When total revenue and total cost from labor service can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the schedule of completion under the transaction can be confirmed in a reliable way; it may recognize the realization of revenue from labor service.

### **(4) Determination basis and method of degree of completion of contract for the recognition of service income and construction contract income by completion percentage method**

On the date of Balance Sheet, where the result of a transaction concerning the providing of labor service can be measured in a reliably way, it shall recognize relevant revenue according to the schedule of completion; Percentage of completion is the percentage of incurred costs in the total costs; where the result of a transaction concerning the providing of labor service cannot be measured in a reliably way and the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; where the result of a transaction concerning the providing of labor service cannot be measured in a reliably way and the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

## **21. Government Grants**

### **(1) Type**

The government grant may be recognized on the condition that the Group complies with the conditions for the government grant and that the Group can receive the government grant. If a government grant is a monetary asset, it shall be measured on the basis of the amount received, or that receivable if such grant is appropriated as fixed quota standard. If a government grant is a non-monetary asset, it shall be measured at its fair value, or at its nominal amount (1 Yuan) if its fair value cannot be obtained reliably.

### **(2) Accounting process**

A government grant pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. The government grant pertinent to incomes, if used for compensating the related future expenses or losses of the Company, shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized; or if used for compensating the related expenses or losses incurred to the Company, shall be directly included in the current profits and losses.

## **22. Deferred Income Tax Assets & Deferred Income Tax Liabilities**

### **(1) Recognition basis of deferred income tax assets**

The group's deferred income tax assets are recognized through the calculation of the balance between the tax base of assets and liabilities and their book value (deductible temporary difference) Deductible loss and tax deduction that can write off taxable income

in future fiscal year according to provisions of tax law are viewed as temporary difference and recognized as relevant deferred income tax assets. On a balance sheet date, deferred income tax assets are measured according to the tax rate applicable to the expected recovery of the assets. The Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. For the determined deferred income tax assets, if it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the carrying amount of the deferred income tax assets shall be written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

## **(2) Recognition basis of deferred income tax liabilities**

The group's deferred income tax liabilities are recognized through the calculation of the balance between the tax base of assets and liabilities and their book value (taxable temporary difference). Deferred income tax liabilities are measured according to applicable tax rate of the expected payoff period of such liability on the balance sheet date.

## **23. Operating lease and financial lease**

### **(1) Accounting process of operating lease**

Operating lease refers to a lease other than a financing lease. Where the Group is lessee, the rents shall be recorded in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. Where the Group is lessor, the rents shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the lease term.

### **(2) Accounting process of financial lease**

Financing lease refers to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. On the lease beginning date, the Group as lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

### **(3) Accounting process of lease back after sales**

## **24. Held assets on sale**

### **(1) Recognition criteria of held assets on sale**

Noncurrent assets meeting the following conditions synchronously are recognized as held assets on sale: I. A resolution has been made on the proposal of the noncurrent asset; II. An irrevocable transfer agreement has been signed with the transferee; III. The transfer will be finished within 1 year.

Intangible assets and other noncurrent assets meeting the conditions of held assets on sale are processed on the principle above.

But such assets exclude deferred income tax assets, financial assets specified in *Accounting Standards for Enterprises No.22—Recognition and Measurement of Financial Instruments*, investment real estates and biological assets measured by fair value and contractual rights arising from insurance contract.

## (2) Accounting process of held assets on sale

Such assets are transferred out of noncurrent assets and viewed as current assets, their accrual of depreciation or amortization are stopped, and they are measured according to the lower one between book value and fair value minus selling expense. The excess of book value than fair value minus selling expense is recorded in current profit and loss.

## V. Taxes

### 1、Main tax types and rates

Tax type	Tax basis	Tax rate
VAT	Sales amount of commodities for the home market	17%
Business Tax	Turnover of taxable service	5%
Urban Maintenance & Construction Tax	Circulating tax payable	7%
Enterprise Income Tax	Corporate taxable income	25%

Income tax rate executed by every branch company or factory

#### a. Enterprise Income Tax

For the Company and its subsidiary Huafa Lease Company, former applicable enterprise income tax rate was 15%. According to the regulation of Enterprise Income Tax Law of the People's Republic of China put in force from January 1, 2008, the enterprise income tax rate will gradually transit to 25% from 2008 to 2012, and that in this year is 25%

For the Company's Wuhan Branch, subsidiary Huafa Property Company and Hengfa Technology Company, Huafa Trade Company the enterprise income tax rate is 25%.

#### b. VAT

VAT is applied to the sales of goods of the Group, among which, the input VAT rate of domestically-sold goods is 17%.

The input VAT paid for purchasing raw materials, etc. may offset against output VAT at the rate of 17%, among which, the input VAT paid for import may be refunded upon application.

VAT payable refers to the balance after deduction between the output VAT and input VAT at current term.

#### c. Business Tax

The applicable tax rate of business tax of the Company is 5%.

#### d. Urban Construction Tax & Educational Surcharge

Tax calculation basis of the company's urban construction tax and surtax for education expense shall be based on payable turnover tax, applicable tax rate is 7% and 3% respectively.

e. Property Tax

The Company applies 70% of original value of properties as tax basis with the rate of 1.2%.

## **VI. Business Merger and Consolidated Financial Statement**

### **1. Conditions of subsidiary**

Subsidiaries mainly include Shenzhen Huafa Property Lease Management Co., Ltd. (hereinafter referred to as "Huafa Lease Company"), Shenzhen Zhongheng Huafa Property Management Co., Ltd. (hereinafter referred to as "Huafa Property Company"), and Wuhan Hengfa Scientific and Technology Co., Ltd. (hereinafter referred to as "Hengfa Technology Company"), Wuhan Zhongheng Huafa Trade Co.,Ltd.(hereinafter referred to as "Huafa Trade Company") etc.

#### **(1) Subsidiaries acquired by means of foundation, investment, etc.**

Unit: RMB

Full name of subsidiary	Type of subsidiary	Registered Address	Business Nature	Registered Capital	Business Scope	Actual investment amount at the end of period	Materially constitutes the balance of other items of the net investment in subsidiary	Share proportion (%)	Proportion of voting rights (%)	Statements are consolidated or not	Minority Interests	Amount of minority interests for setting off minority shareholders profits or losses	The balance produced by subtracting the parent company's equities from the loss of the period shared by the minority shareholders of the company in excess of the theirs in equities of the subsidiary at the beginning of the subsidiary
Huafa Lease Company	Company of limited liabilities	Shenzhen	Property Management	1000000.00	Lease and management of self-owned property	600,000.00		60%	60%	Yes			
Huafa Property Company	Company of limited liabilities	Shenzhen	Property Management	1000000.00	Lease and management of self-owned property	1,000,000.00		100%	100%	Yes			
Hengfa Technology Company	Company of limited liabilities	Wuhan	Production and Sale	18,164,310.00	R&D, production and selling and import and export business of product	181,643,100.00		100%	100%	Yes			
Huafa Trade Company	Company of limited liabilities	Wuhan	Sale	100,000.00	Selling, goods import and export business of optoelectronic products	100,000.00		100%	100%	Yes			

Other explanations to subsidiaries acquired by means of foundation, investment, etc.

Operating period of Huafa Leasing Co., Ltd. expired on August 20, 2008, and the company did not apply for processing procedures of extension of operating period to local industrial and commercial administrative authorities. It did not process annual inspection procedures of *Corporate Legal Person Business License* with local industrial and commercial administrative authorities in 2008, in 2009, 2010 and 2011, as of the approved issuing date of this financial report, it has not processed annual inspection procedures of *Corporate Legal Person Business License* of 2012.

## VII、 Note to Major Items in the Consolidated Financial Statement

### 1. Monetary Fund

Unit: RMB

Items	Amount at the end of period			Amount at the beginning of period		
	In foreign currency	Exchange Rate	In RMB	In foreign currency	Exchange Rate	In RMB
Cash	--	--	272,718.79	--	--	228,112.79
RMB	263,662.92	1%	263,662.92	176,052.82	1%	176,052.82
HKD	134.43	0.81%	109.08	53,134.43	0.81%	43,098.39
USD	1,422.45	6.29%	8,946.79	1,422.45	6.3%	8,961.58
Bank Deposit	--	--	99,975,784.63	--	--	107,516,615.58
RMB	93,759,499.42	1%	93,759,499.42	45,362,799.71	1%	45,362,799.71
HKD	114,406.00	0.81%	92,834.71	114,393.52	0.81%	92,786.86
USD	974,110.57	6.29%	6,123,450.50	9,849,552.68	6.3%	62,061,029.01
Other Monetary Fund	--	--	12,586,337.97	--	--	33,681,984.28
RMB	12,586,337.97	1%	12,586,337.97	13,519,104.28	1%	13,519,104.28
USD				3,200,000.00	6.3%	20,162,880.00
Total	--	--	112,834,841.39	--	--	141,426,712.65

Funds under use restriction for mortgage, pledge, freeze and others, deposited abroad or in potential risk on recovery, if any, shall be separately explained.

### 2. Notes Receivable

#### (1) Classification of bills receivable

Unit: RMB

Type	Amount at the end of period	Amount at the beginning of period
Bank acceptance bill	40,215,239.33	56,540,214.07
Commercial Acceptance Bill	2,784,978.48	2,718,362.52
Total	43,000,217.81	59,258,576.59

**(2) Bills receivable already pledged at the end of period**

Unit: RMB

Issuer	Issuing Date	Due Date	Amount	Note
Haier Finance Co., Ltd.	Jul. 16, 2012	Jan. 16, 2013	5,866,685.93	
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Nov. 15, 2012	May 15, 2013	3,752,000.00	
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Oct. 17, 2012	Apr. 17, 2013	3,666,402.04	
Haier Finance Co., Ltd.	Dec. 14, 2012	Jun. 14, 2013	3,650,000.00	
Hefei Haier Logistics Co.,Ltd.	Aug. 20, 2012	Feb. 20, 2013	1,647,366.13	
Total	--	--	18,582,454.10	--

**(3) Conditions of bills converted into account receivables upon the insolvency of their issuers and bills already endorsed to other party but not due yet at the end of period**

Bills converted into account receivables upon the insolvency of their issuers

Unit: RMB

Issuer	Issuing Date	Due Date	Amount	Note
Total	--	--	2,668,368.27	--

Description

None

Bills already endorsed to other party but not due yet

Unit: RMB

Issuer	Issuing Date	Due Date	Amount	Note
TCL Group Co., Ltd.	Jul. 27, 2012	Jul. 27, 2013	1,000,000.00	
TCL Group Co., Ltd.	Jul. 27, 2012	Jul. 27, 2013	1,000,000.00	
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Aug. 15, 2012	Feb. 8, 2013	232,759.38	
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Aug. 15, 2012	Feb. 8, 2013	219,196.75	
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Jul. 16, 2012	Jul. 16, 2012	216,412.14	
Total	--	--	2,668,368.27	--

Instruction

None

Description of discounted or pledged commercial acceptance bills

None

### 3. Notes Receivable

#### (1) Disclosure of accounts receivable according to type

Unit: RMB

Type	Amount at the end of period				Amount at the beginning of period			
	Book balance		Provision for Bad Debts		Book balance		Provision for Bad Debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant specific amount that were provisioned bad debt preparation separately	7,630,192.43	4.41%	6,208,097.79	81.36%	6,404,866.28	6.72%	4,533,611.78	70.78%
Other receivables with accrual of bad debt reserve according to combination								
Within 1 year	160,021,795.01				83,429,310.49			
1-2 year (s)	94,252.98	5%	4,712.65		1,792.00	5%	89.60	
2-3 year (s)					5,021.50	10%	502.15	
Over 3years	356,396.87	30%	106,919.06		351,796.86	30%	105,449.46	
Subtotal of combination	160,472,444.86	92.64%	111,631.71	0.07%	83,787,920.85	87.91%	106,041.21	0.13%
Accounts receivable that were not significant but have been provisioned bad debt preparation separately	5,116,838.00	2.95%	5,116,838.00	100%	5,116,838.00	5.37%	5,116,838.00	100%
Total	173,219,475.29	--	11,436,567.50	--	95,309,625.13	--	9,756,490.99	--

Description of types of other receivables

Other receivables with major individual amount and separate accrual of bad debt reserve at the end of period

√ Applicable □ Inapplicable

Unit: RMB

Content of accounts receivable	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
Shenzhen Boteman Bowling Club Co., Ltd.	2,555,374.75	2,555,374.75	100%	Can not be taken back
H. K. Haowei Industry Co., Ltd.	1,870,887.18	448,792.54	24%	Failure to recover on time because of customer's fund shortage
TCL Wangpai Electric Appliance (Huizhou) Co., Ltd.	1,325,431.75	1,325,431.75	100%	Can not be taken back
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	1,225,326.15	1,225,326.15	100%	Can not be taken back

Skyworth Multimedia(Shenzhen) Co.,Ltd.	653,172.60	653,172.60	100%	Can not be taken back
Total	7,630,192.43	6,208,097.79	--	--

Accounts receivable with accrual of bad debt reserve by aging analysis method in the combination

Applicable  Inapplicable

Unit: RMB

Account ageing	Amount at the end of period			Amount at the beginning of period		
	Book balance		Provision for Bad Debts	Book balance		Provision for Bad Debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year						
Among it:	--	--	--	--	--	--
Subtotal within 1 year	160,021,795.01			83,429,310.49		
1-2 year (s)	94,252.98	5%	4,712.65	1,792.00	5%	89.60
2-3 year (s)				5,021.50	10%	502.15
Over 3years	356,396.87	30%	106,919.06	351,796.86	30%	105,449.46
Total	160,472,444.86	--	111,631.71	83,787,920.85	--	106,041.21

Accounts receivable with accrual of bad debt reserve by balance percentage method in the combination

Applicable  Inapplicable

Accounts receivable with accrual of bad debt reserve by other method in the combination

Applicable  Inapplicable

Accounts receivable without major individual amount but with separate accrual of bad debt reserve at the end of period

Applicable  Inapplicable

Unit: RMB

Content of accounts receivable	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
Shenzhen Huixin Video Science and Technology Co.,Ltd.	381,168.96	381,168.96	100%	Account age over 5 years
Shenzhen Wandial Number Science and Technology Co.,Ltd.	351,813.70	351,813.70	100%	Account age over 5 years
Shenzhen Dalong Electric Co.,Ltd.	344,700.00	344,700.00	100%	Account age over 5 years
Shenzhen Qunpin Electric Co.,Ltd.	304,542.95	304,542.95	100%	Account age over 5 years
China Galaxy Electric(Hong Kong) Co.,Ltd.	288,261.17	288,261.17	100%	Account age over 5 years

Dongguan Weite Electric Co.,Ltd.	274,399.80	274,399.80	100%	Account age over 5 years
Hong Kong New Century Electric Co.,Ltd.	207,409.40	207,409.40	100%	Account age over 5 years
Shenyang Beitai Electric Co.,Ltd.	203,304.02	203,304.02	100%	Account age over 5 years
Beijing Xinfanweiye Science and Technology Co.,Ltd.	193,000.00	193,000.00	100%	Account age over 5 years
TCL Electric(Hong kong) Co.,Ltd.	145,087.14	145,087.14	100%	Account age over 5 years
Huizhou TCL New and Special Electronics Co., Ltd.	142,707.14	142,707.14	100%	Account age over 5 years
Shenzhen Skyworth-RGB Electric Co.,Ltd.	125,215.13	125,215.13	100%	Account age over 5 years
Shenzhen Xinfu Electronics Co., Ltd.	119,094.78	119,094.78	100%	Account age over 5 years
Other	2,036,133.81	2,036,133.81	100%	Account age over 5 years
Total	5,116,838.00	5,116,838.00	--	--

## (2) Conditions of top 5 units among the amounts of accounts receivable

Unit: RMB

Unit name	Relation with this company	Amount	Years	As a percentage in accounts receivable (%)
Hong Kong Tianyu International Investment Co.,Ltd.(herein after referred to Yutian International for short)	The same controlling shareholder	84,085,697.15	Within 1 year	48.54%
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Nonaffiliated parties	46,860,287.00	Within 1 year	27.05%
Gree Electric Appliance (Wuhan) Co., Ltd	Nonaffiliated parties	17,555,012.26	Within 1 year	10.13%
TCL Air-conditioner (Wuhan) Co., Ltd.	Nonaffiliated parties	5,377,746.83	Within 1 year	3.1%
Shenzhen Boteman Bowling Club Co., Ltd.	Nonaffiliated parties	2,555,374.75	Over 3years	1.48%
Total	--	156,434,117.99	--	

**(3) About the accounts receivable from the related parties**

Unit: RMB

Unit name	Relation with this company	Amount	As a percentage in accounts receivable (%)
Yutian International	The same controlling shareholder	84,085,697.15	48.54%
Total	--	84,085,697.15	

**4. Other Receivables****(1) Disclosure of other receivables according to type**

Unit: RMB

Type	Amount at the end of period				Amount at the beginning of period			
	Book balance		Provision for Bad Debts		Book balance		Provision for Bad Debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant specific amount that were provisioned bad debt preparation separately	7,404,690.78	37.39%	6,219,285.23	83.99%	11,931,305.53	56.89%	6,928,109.97	58.07%
Other receivables with accrual of bad debt reserve according to combination								
Within 1 year	6,515,934.15				3,399,177.38			
1-2 year (s)	628,495.27	5%	31,424.76		304,892.00	5%	15,244.60	
2-3 year (s)	245,400.32	10%	24,540.03		188,786.00	10%	18,878.60	
Over 3years	1,491,763.59	30%	447,529.08		1,310,977.59	30%	393,293.44	
Subtotal of combination	8,881,593.33	44.84%	503,493.87	5.67%	5,203,832.97	24.81%	427,416.64	8.21%
Accounts receivable that were not significant but have been provisioned bad debt preparation separately	3,520,048.00	17.77%	3,520,048.00	100%	3,835,986.21	18.3%	3,644,837.51	95.02%
Total	19,806,332.11	--	10,242,827.10	--	20,971,124.71	--	11,000,364.12	--

Description of types of other receivables

Other receivables with major individual amount and separate accrual of bad debt reserve at the end of period

√ Applicable □ Inapplicable

Unit: RMB

Content of other receivables	Book balance	Bad debts	Percent Drawn (%)	Cause
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Shenzhen Boteman Bowling Club Co., Ltd.	4,021,734.22	4,021,734.22	100%	Account age over 5 years
Shenzhen Wanshang Youyi Department Store Co., Ltd. (hereinafter referred to as the Wanshang Department Store)	1,367,795.75	182,390.20	13.33%	Less probable recovery
Zhao Baomin	939,354.00	939,354.00	100%	Can not be taken back
Traffic incident indemnity	555,785.81	555,785.81	100%	Account age over 5 years
Hebei Botou Court	520,021.00	520,021.00	100%	Account age over 5 years
Total	7,404,690.78	6,219,285.23	--	--

Other receivables with accrual of bad debt reserve by aging analysis method in the combination

Applicable  Inapplicable

Unit: RMB

Account ageing	Amount at the end of period			Amount at the beginning of period		
	Book balance		Provision for Bad Debts	Book balance		Provision for Bad Debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year						
Among it:						
Subtotal within 1 year	6,515,934.15			3,399,177.38		
1-2 year (s)	628,495.27	5%	31,424.76	304,892.00	5%	15,244.60
2-3 year (s)	245,400.32	10%	24,540.03	188,786.00	10%	18,878.60
Over 3years	1,491,763.59	30%	447,529.08	1,310,977.59	30%	393,293.44
Total	8,881,593.33	--	503,493.87	5,203,832.97	--	427,416.64

Other receivables with accrual of bad debt reserve by balance percentage method in the combination

Applicable  Inapplicable

Other receivables with accrual of bad debt reserve by other method in the combination

Applicable  Inapplicable

Other receivables without major individual amount but with separate accrual of bad debt reserve at the end of period

Applicable  Inapplicable

Unit: RMB

Content of other receivables	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
Employee canteen ect.	796,041.46	796,041.46	100%	Can not be taken back
Total of individual debt and withdrawal	519,745.74	519,745.74	100%	Can not be taken back

Trade Union	253,315.05	253,315.05	100%	Can not be taken back
Chuangjing workshop	192,794.00	192,794.00	100%	Can not be taken back
Weili Electric Corporation Co.,Ltd, Zhangzhou City, Fujian Province	112,335.62	112,335.62	100%	Can not be taken back
Shenzhen Lotus Island Restaurant Co.,Ltd	85,253.80	85,253.80	100%	Can not be taken back
Others	1,560,562.33	1,560,562.33	100%	Can not be taken back
Total	3,520,048.00	3,520,048.00	--	--

## (2) Conditions of top 5 units in the amount of other receivables

Unit: RMB

Unit name	Relation with this company	Amount	Years	Proportion in other receivables (%)
Shenzhen Boteman Bowling Club Co., Ltd.	Nonaffiliated parties	4,021,734.22	Over 3years	20.31%
Wanshang Company	Nonaffiliated parties	1,367,795.75	Within 1 year	6.91%
Zhao Baomin	Nonaffiliated parties	939,354.00	Over 3years	4.74%
Traffic incident indemnity	Nonaffiliated parties	555,785.81	Over 3years	2.81%
Hebei Botou Court	Nonaffiliated parties	520,021.00	Over 3years	2.63%
Total	--	7,404,690.78	--	

## 5. Advance payment

### (1) List of advance payments according to aging

Unit: RMB

Account ageing	Amount at the end of period		Amount at the beginning of period	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	14,168,016.74	100%	9,724,896.44	100%
Total	14,168,016.74	--	9,724,896.44	--

Explanation on main units of account paid in advance: Nil

**(2) Conditions of top 5 units in the amount of advance payments**

Unit: RMB

Unit name	Relation with this company	Amount	Account ageing	Reason of non-settlement
Wuhan Hengsheng Yutian Industry Co., Ltd. (hereinafter referred to as "Hengsheng Yutian")	The same controlling shareholder	9,344,987.88	Within 1 year	Not to settlement period
Shenzhen Terart Decoration Design Engineering Co., Ltd.	Nonaffiliated parties	2,375,000.00	Within 1 year	Not to settlement period
Shenzhen Isolution Technologies Ltd.	Nonaffiliated parties	309,048.00	Within 1 year	Not to settlement period
Huipu Electronic (Shenzhen) Co., Ltd.	Nonaffiliated parties	279,485.13	Within 1 year	Not to settlement period
Kingdee Software	Nonaffiliated parties	206,905.98	Within 1 year	Not to settlement period
Total	--	12,515,426.99	--	--

Explanation on long-term expenses to be amortized: Nil

**6、Inventories****(1) Type of Inventories**

Unit: RMB

Items	Amount at the end of period			Amount at the beginning of period		
	Book balance	Depreciation Provisions	Book Value	Book balance	Depreciation Provisions	Book Value
Raw Materials	27,067,307.45	4,386,909.15	22,680,398.30	37,020,848.22	4,278,405.85	32,742,442.37
Finishing Product	117,486.79		117,486.79			
Stocked Goods	16,686,427.68	2,737,764.97	13,948,662.71	21,146,510.85	3,115,158.80	18,031,352.05
Turnover materials	1,402,567.61	363,236.79	1,039,330.82	1,601,371.53	363,236.79	1,238,134.74
Self-made semi-finished product	4,666,920.93	250,244.88	4,416,676.05	3,209,301.17	250,244.88	2,959,056.29
Processed Materials upon entrustment	568,506.78		568,506.78	956,498.83		956,498.83
Total	50,509,217.24	7,738,155.79	42,771,061.45	63,934,530.60	8,007,046.32	55,927,484.28

**(2) Provision for Depreciation of Inventories**

Unit: RMB

Inventory type	Book balance at the beginning of period	Current accrual amount	Current decrement		Book balance at the end of period
			Carryover	Resale	
Raw Materials	4,278,405.85	1,252,695.93		1,144,192.63	4,386,909.15
Stocked Goods	3,115,158.80	188,939.19		566,333.02	2,737,764.97
Turnover materials	363,236.79				363,236.79
Self-made semi-finished product					
Processed Materials upon entrustment					
<b>Total</b>	<b>8,007,046.32</b>	<b>1,441,635.12</b>		<b>1,710,525.65</b>	<b>7,738,155.79</b>

**(3) Conditions of inventory falling price reserve**

Items	Accrual basis of inventory falling price reserve	Cause for transfer back of inventory falling price reserve in current period	Proportion of current transfer back amount in the ending balance of this inventory (%)
Raw Materials	Which is lower, book value or realizable net value		
Stocked Goods	Which is lower, book value or realizable net value		
Finishing Product	Which is lower, book value or realizable net value		
Turnover materials	Which is lower, book value or realizable net value		
Self-made semi-finished product	Which is lower, book value or realizable net value		
Processed Materials upon entrustment	Which is lower, book value or realizable net value		

Inventory description

Other transfer out of inventory falling price reserve in this year mainly arose from requisition or external sales of materials with impairment reserve already accrued in previous year. Inventory balance in the year end excludes the capitalized amount of borrowing cost. Inventory balance in the end of year is free of mortgaged or frozen amounts.

## 7. Property of Investment

### (1) Real property as an investment measured by cost

Unit: RMB

Items	Book balance at the beginning of period	Increment This Year	Decrement This Year	Book balance at the end of period
I. Total original book value	107,661,686.94			107,661,686.94
1. Houses & Buildings	107,661,686.94			107,661,686.94
II. Sum of accumulated depreciation and accumulated amortization	71,930,961.91	1,946,547.13		73,877,509.04
1.Houses & Buildings	71,930,961.91	1,946,547.13		73,877,509.04
III. Total net book value of investment real estate	35,730,725.03	-1,946,547.13		33,784,177.90
1.Houses & Buildings	35,730,725.03			33,784,177.90
V. Total book value of investment real estate	35,730,725.03	-1,946,547.13		33,784,177.90
1.Houses & Buildings	35,730,725.03			35,730,725.03

Unit: RMB

	Current period
Current depreciation and amortization amount	1,946,547.13

## 8. Fixed Assets

### (1) Condition of Fixed Assets

Unit: RMB

Items	Book balance at the beginning of period	Current increment	Current decrement	Book balance at the end of period
I. Total original book value:	333,627,416.76	10,959,619.59	1,979,334.63	342,607,701.72
Among it: Houses & Buildings	215,248,162.38	1,897,603.46		217,145,765.84
Machinery Equipment	76,548,465.79	5,277,377.21	309,946.05	81,515,896.95
Means of conveyance	4,668,556.59	899,928.00	1,493,299.00	4,075,185.59

Office Equipment	6,181,874.97		104,266.31	6,285,341.28	6,285,341.28
Apparatus Equipment	13,490,480.33		344,020.39	13,807,388.74	13,807,388.74
Tooling Equipment	7,323,352.65		1,587,586.56	8,813,884.61	8,813,884.61
Mould Equipment	10,166,524.05		848,837.66	10,964,238.71	10,964,238.71
--	Book balance at the beginning of period	Current increment	Current accrual	Current decrement	Current ending balance
II. Total accumulated depreciation	123,171,661.77		15,296,519.16	1,489,261.77	136,978,919.16
Among it: Houses & Buildings	51,695,618.46		5,757,040.81		57,452,659.27
Machinery Equipment	40,101,806.90		6,325,766.66	203,701.79	46,223,871.77
Means of conveyance	2,992,917.96		705,975.54	1,216,469.10	2,482,424.40
Office Equipment	5,249,108.72		197,158.73	720.00	5,445,547.45
Apparatus Equipment	11,443,693.28		296,531.20	9,528.10	11,730,696.38
Tooling Equipment	2,960,233.41		1,696,737.77	56,554.21	4,600,416.97
Mould Equipment	8,728,283.04		317,308.45	2,288.57	9,043,302.92
--	Book balance at the beginning of period		--		Current ending balance
III. Total net book value of fixed assets	210,455,754.99		--		205,628,782.56
Among it: Houses & Buildings	163,552,543.92		--		159,693,106.57
Machinery Equipment	36,446,658.89		--		35,292,025.18
Means of conveyance	1,675,638.63		--		1,592,761.19
Office Equipment	932,766.25		--		839,793.83
Apparatus Equipment	2,046,787.05		--		2,076,692.36
Tooling Equipment	4,363,119.24		--		4,213,467.64
Mould Equipment	1,438,241.01		--		1,920,935.79
IV. Total provisions for impairment	2,885,534.22		--		2,885,534.22
Machinery Equipment	1,499,613.30		--		1,499,613.30
Means of conveyance	104,388.91		--		104,388.91
Office Equipment	72,480.11		--		72,480.11
Apparatus Equipment	1,088,204.88		--		1,088,204.88

Tooling Equipment	120,847.02	--	120,847.02
Mould Equipment		--	
V. Total book value of fixed assets	207,570,220.77	--	202,743,248.34
Among it: Houses & Buildings	163,552,543.92	--	159,693,106.57
Machinery Equipment	34,947,045.59	--	33,792,411.88
Means of conveyance	1,571,249.72	--	1,488,372.28
Office Equipment	860,286.14	--	767,313.72
Apparatus Equipment	958,582.17	--	988,487.48
Tooling Equipment	4,242,272.22	--	4,092,620.62
Mould Equipment	1,438,241.01	--	1,920,935.79

The depreciation allowance of the current period is RMB 15,296,519.16; the original price of fixed assets transferred from construction in process in the current period is RMB 1,418,775.81.

## (2) Condition of temporarily idle fixed asset

Unit: RMB

Items	Original value of book value	Accumulated Depreciation	Impairment Provision	Net book value	Note
Machinery Equipment	10,536,246.84	8,855,113.13	1,233,761.45	447,372.26	
Means of conveyance	974,141.00	876,124.50	77,380.58	20,635.92	
Office Equipment	607,530.00	539,672.74	46,730.39	21,126.87	
Apparatus Equipment	9,889,839.43	8,859,031.97	741,885.93	288,921.53	
Tooling Equipment	906,097.99	806,627.01	64,619.55	34,851.43	
Mould Equipment	8,190,427.36	7,377,235.81		813,191.55	

## (3) Fixed assets leased by operating lease

Unit: RMB

Type	End-of-period book value
Houses & buildings	29,327,853.82
Machinery Equipment	825,765.51

**(4) Condition of fixed assets without certificate of title**

Items	Reasons for non-issuance of certificate of title	Expected time for issuance of certificate of title
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## Description of fixed assets

Procedures for transfer of property rights have not been handled for the transport equipment (license plate number: EANA626) purchased from Zhongheng Group by Hengfa Wuhan Science and Technology Co., Ltd., subsidiary of the Company in 2008. The original value of such property was RMB 32,298.00 and the net book value on December 31, 2012 was RMB 3,229.80.

The subsidiary Hengfa Science and Technology Company of the company has not completed building property ownership certificate for transferring construction in process into fixed assets. The recorded original value of dormitory building is RMB4,440,775.14 and the ending net value is RMB4,073,162.12. The recorded original value of plastic-injection warehouse in process is RMB2,228,363.21 and the ending net value is RMB2,184,920.21. The recorded original value of foam newly-constructed workshop is RMB839,478.65 and the ending net value is RMB779,665.89.

**9. Project in Progress****(1) Condition of construction in process**

Unit: RMB

Items	Amount at the end of period			Amount at the beginning of period		
	Book balance	Impairment Provision	Book Value	Book balance	Impairment Provision	Book Value
Huafa building renovation project	654,356.00		654,356.00	654,356.00		654,356.00
Gongming Electronics Town renovation project	1,389,000.00		1,389,000.00	969,000.00		969,000.00
Workshop fire-fighting renovation project				1,044,413.50		1,044,413.50
Total	2,043,356.00		2,043,356.00	2,667,769.50		2,667,769.50

**(2) Changes in important projects in process**

Unit: RMB

Project name	Budget amounts	Beginning-of-period amounts	Current increment	Transfer to fixed assets	Other reduction	Proportion of project investment in the budget (%)	Job schedule	Accumulated capitalization of interest	Including: accumulated capitalization of interest in the current period	Proportion of capitalization of interest in the current period (%)	Source of capital	End-of-period amounts

Huafa building renovation project		654,356.00									654,356.00	
Gongming Electronics Town renovation project		969,000.00	420,000.00								1,389,000.00	
Workshop fire-fighting renovation project		1,044,413.50	374,362.31	1,418,775.81								
Total		2,667,769.50	794,362.31	1,418,775.81		--	--			--	--	2,043,356.00

Description of change in the project under construction

### (3) Description of construction in process

The fund used for project in process is from self-financing fund, and there is no capitalized interest occurred therein.

## 10. Intangible Assets

### (1) Condition of intangible assets

Unit: RMB

Items	Book balance at the beginning of period	Current increment	Current decrement	Book balance at the end of period
I. Total original book value:	55,540,235.25			55,540,235.25
Land-use Right	55,187,826.36			55,187,826.36
Software cost	352,408.89			352,408.89
II. Total accumulated amortization	3,576,697.53	1,425,469.92		5,002,167.45
Land-use Right	3,347,391.45	1,411,447.85		4,758,839.30
Software cost	229,306.08	14,022.07		243,328.15
III. Total net book value of intangible assets	51,963,537.72	-1,425,469.92		50,538,067.80
Land-use Right	51,840,434.91			50,428,987.06
Software cost	123,102.81			109,080.74
Land-use Right				
Software cost				
Total book value of intangible assets	51,963,537.72	-1,425,469.92		50,538,067.80
Land-use Right	51,840,434.91			50,428,987.06
Software cost	123,102.81			109,080.74

The amortization amount of the current period is RMB 1,425,469.92.

## 11、 Long-term deferred charges

Unit: RMB

Items	Amount at the beginning of period	Current increment 额	The amortization amount of the current period	Other reduction amounts	Amount at the end of period	Cause for other decrease
Financial consulting fees for the Construction Bank	875,000.00		750,000.00		125,000.00	
Golf membership fee	666,966.67		81,033.34		585,933.33	
Renovation expenditures		104,500.00	8,708.35		95,791.65	
Total	1,541,966.67	104,500.00	839,741.69		806,724.98	--

Description of long-term deferred expenses: nil

## 12、 Deferred Income Tax Assets & Deferred Income Tax Liabilities

### (1) Deferred income tax assets and deferred income tax liabilities not to be presented with the net amount after offsetting

Recognized deferred income tax assets and deferred income tax liabilities

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Deferred income tax assets:		
Deferred income tax assets formed by bad debts allowance	4,631,630.52	4,400,995.64
Deferred income tax assets formed by inventory depreciation allowance	1,898,551.15	1,866,406.10
Deferred income tax assets formed by fixed-asset depreciation allowance	721,383.56	721,383.56
Deferred tax assets produced by estimated liabilities	357,403.53	61,052.14
Subtotal	7,608,968.76	7,049,837.44
Deferred income tax liabilities:		

Deferred tax assets that have not been confirmed

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
-------	-----------------------------	-----------------------------------

Deductible loss	34,412,217.28	1,061,584.26
Provision for bad debt impairment	3,153,172.51	3,153,172.51
Provision for Fixed Assets Impairment	143,951.20	541,421.94
Total	37,709,340.99	4,756,178.71

The deductible loss of the unrecognized deferred income tax assets will become due in the following years.

Unit: RMB

Year	Amount at the end of period	Amount at the beginning of period	Note
2013	3,458.00	3,458.00	
2014	210,527.72	210,527.72	
2015	290,960.95	290,960.95	
2016	556,637.59	556,637.59	
2017	33,350,633.02		
Total	34,412,217.28	1,061,584.26	--

Schedule of taxable differences and deductible differences

Unit: RMB

Items	Amount of temporary difference	
	Amount at the end of period	Amount at the beginning of period
Difference project that tax shall be paid.		
Deductible difference project		
Provision for bad debt impairment	18,526,222.09	17,603,682.60
Provision for Fixed Assets Impairment	7,594,204.59	7,465,624.38
Provision for Fixed Assets Impairment	2,885,534.22	2,885,534.22
Estimated liabilities	1,429,614.10	244,208.54
Subtotal	30,435,575.00	28,199,049.74

## (2) Deferred income tax assets and deferred income tax liabilities to be presented with the net amount after offsetting

Items making up the offset deferred income tax assets and deferred income tax liabilities

Unit: RMB

Items	Deferred income tax assets and liabilities after offset at the end of the reporting period	Deductible or taxable temporary differences after offset at the end of the reporting period	Deferred income tax assets and liabilities after offset at the beginning of the reporting period	Deductible or taxable temporary differences after offset at the beginning of the reporting period
Deferred income tax assets	7,608,968.76		7,049,837.44	

Schedule of offset between deferred income tax assets and deferred income tax liabilities

**13. Schedule of provisions for impairment of assets**

Unit: RMB

Items	Book balance at the beginning of period	Current increment	Current decrement		Book balance at the end of period
			Carryover	Resale	
I. Provision for Bad Debts	20,756,855.11	922,539.49			21,679,394.60
II. Provision for Depreciation of Inventories	8,007,046.32	1,441,635.12		1,710,525.65	7,738,155.79
VII. Provision for Fixed Assets Impairment	2,885,534.22				2,885,534.22
Total	31,649,435.65	2,364,174.61		1,710,525.65	32,303,084.61

Description of details of impairment of assets

**14. Short-term Borrowings****(1) Classification of Short-term Borrowings**

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Pledged loan	33,649,895.00	24,045,915.48
Mortgage Loan	75,794,745.00	69,345,388.74
Guaranteed loan		11,152,593.00
Credit loan	250,000.00	
Total	109,694,640.00	104,543,897.22

Description of classification of short-term loan

**15. Notes Payable**

Unit: RMB

Type	Amount at the end of period	Amount at the beginning of period
Bank acceptance bill	34,511,327.39	33,795,522.26
Total	34,511,327.39	33,795,522.26

Amounts to be matured at the next accounting period will be RMB 34,511,327.39.

Description of notes payable

## 16. Accounts Payable

### (1) Condition of accounts payable

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Within 1 year	38,677,487.67	30,642,895.84
Over 1 year	10,275,428.20	12,689,481.10
Total	48,952,915.87	43,332,376.94

### (2) Description of significant accounts payable with account age exceeding one year

The significant accounts payable with account age exceeding one year are mainly those supplier amounts unpaid in the pervious years which has not been settled by the suppliers and the Group in time.

## 17. Advance receipts

### (1) Conditions of advance receipts

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Total	764,493.92	263,497.35
Among it: Over 1 year		
Total	764,493.92	263,497.35

## 18. Salary Payable to Employees

Unit: RMB

Items	Book balance at the beginning of period	Current increment	Current decrement	Book balance at the end of period
I. Salary, bonus, allowance & subsidies	3,352,323.90	42,362,964.44	41,958,382.80	3,756,905.54
II. Staff Welfare Treatment Fund	-0.40	4,292,194.51	4,179,194.11	113,000.00
III. Social Insurance Premium	24,648.18	5,228,913.09	5,210,617.62	42,943.65
Among it: Medical insurance premium		1,254,771.88	1,233,790.26	20,981.62

Basic retirement insurance premium	-5,093.82	3,600,175.03	3,602,861.18	-7,779.97
Unemployment Insurance Premium	23,896.00	241,977.15	241,977.15	23,896.00
Industrial Injury Insurance Premium	5,846.00	63,387.49	63,387.49	5,846.00
Birth Insurance Premium		68,601.54	68,601.54	
III. Public Housing Fund		538,343.72	514,033.72	24,310.00
VI. Others	628,918.57	149,530.00	106,418.85	672,029.72
Total	4,005,890.25	52,571,945.76	51,968,647.10	4,609,188.91

Those amounts in arrears among the payrolls payable is RMB 0.00.

Labor union expenditure and staff education expenditure was 672,029.72 yuan; non-monetary welfare was 0 yuan and compensation 194388.6 yuan due to labor relation terminated..

Arrangements such as expected payment time and amounts of the payrolls payable

## 19. Taxes Payable

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
VAT	4,339,120.74	-11,149,770.47
Business Tax	1,090,583.21	1,252,058.11
Enterprise Income Tax	10,271,431.90	9,276,957.98
Personal Income Tax	65,991.03	48,424.56
Urban Maintenance & Construction Tax	17,085.57	26,474.78
Property Tax	535,244.94	910,557.90
Land use tax	155,516.59	306,074.38
Educational Surcharge	6,986.60	11,777.10
Price adjustment funds	8,479.42	13,938.62
Education costs (local) attached	4,303.72	17,287.85
Others	7,779.50	5,803.88
Total	16,502,523.22	719,584.69

Description of taxes payable; and description of tax computation process if the tax authority at the location allows the mutual adjustment of taxable incomes between various subsidiaries and branch factories

## 20. Other accounts Payables

### (1) Conditions of other accounts payable

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Within 1 year	11,066,321.01	6,790,411.59
Over 1 year	10,214,218.64	11,609,879.76
Total	21,280,539.65	18,400,291.35

### (2) Amounts to be paid to those shareholding units holding more than 5% (including 5%) of the voting shares among the other accounts payable during the reporting period

Unit: RMB

Unit name	Amount at the end of period	Amount at the beginning of period
Zhongheng Group	340,610.71	8,410.51

## 21. Estimated liabilities

Unit: RMB

Items	Amount at the beginning of period	Current increment	Current decrement	Amount at the end of period
Pending legal action	244,208.55	1,185,405.55		1,429,614.10
Total	244,208.55	1,185,405.55		1,429,614.10

Description of estimated liabilities

The provisions of the estimated liabilities for pending legal action of the Group in this year is RMB 1,185,405.55, which is the estimated expenditures for contentious matters launched by Wanshan Company.

## 22. Long-term borrowings

### (1) Classification of long-term borrowings

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
Mortgage Loan	163,718,800.00	186,141,200.00
Total	163,718,800.00	186,141,200.00

Description of classification of long-term borrowings

On Mar. 12, 2009, the Company borrowed 230,000,000 Yuan from China Construction Bank Shangbu branch (contract referenced JIE 2009 SHANG 0181008R) with a term of 7 years from Mar. 12, 2009 to Mar. 11, 2016, and with a floating interest rate. According to the contract, the 20th of every month is interest

payment date. The contract stipulates that, with the second, third and fourth floors (property ownership No.: SHEN FANG DI ZI NOS. 3000522977, 3000522975 and 3000522976) of the Huafa Mansion mortgaged, 140,000,000 Yuan borrowing is made on Mar. 12, 2009, with the 1st, 5th and 6th floors (property ownership certificate No: SHEN FANG DI CHAN NO. 3000503696, 3000503720, 3000511945) of the Mansion mortgaged, 90,000,000 borrowings is made on Apr. 3, 2009, where 140,000,000 Yuan is to be repaid by constant-principal method, 90,000,000 Yuan is to be repaid by monthly-interest method, wherein full payment is to be made when due.

## (2) Top five long-term borrowings

Unit: RMB

Borrower	Starting date	Ending date	Currency	Interest rate (%)	Amount at the end of period		Amount at the beginning of period	
					In foreign currency	Amount of foreign currency	In foreign currency	Amount of foreign currency
China Construction Bank Shangbu branch	Mar.12, 2009	Mar. 11, 2016	RMB	5.94%		73,718,800.00		96,141,200.00
China Construction Bank Shangbu branch	Mar.12, 2009	Mar. 11, 2016	RMB	5.94%		90,000,000.00		90,000,000.00

Description of long-term borrowings; for long-term borrowings formed by extension of overdue loans, the condition of extension, principal, interest, expected repayment schedule, etc. shall also be stated;

## 23. Capital Stock

Unit: RMB

	Amount at the beginning of period	Increase and decrease of change in the current period (+, -)					Amount at the end of period
		Issuing new shares	Donate share	Share transfer of public accumulation fund	Others	Total	
Total shares	283,161,227.00						283,161,227.00

Description of change in share capital; where there is capital increase or decrease during the reporting period, the name of certified accountants office implementing capital verification and capital verification report number shall be disclosed; limited liability company operating not more than 3 years, only the net capital conditions shall be described for the years before establishment; for limited liability company overall changed into stock company, the capital verification condition at the

establishment of the Company shall be described.

## 24. Capital Reserves

Unit: RMB

Items	Amount at the beginning of period	Current increment	Current decrement	Amount at the end of period
Capital premium (Shares Premium)	96,501,903.02			96,501,903.02
Other Capital Reserves	12,994,934.31			12,994,934.31
Total	109,496,837.33			109,496,837.33

Description of capital reserve

## 25. Surplus Reserves

Unit: RMB

Items	Amount at the beginning of period	Current increment	Current decrement	Amount at the end of period
Statutory Surplus Reserves	21,322,617.25			21,322,617.25
Any Surplus Reserves	56,068,976.00			56,068,976.00
Total	77,391,593.25			77,391,593.25

Description of surplus reserves; for surplus reserves for transferring to share capital, coming to deficit and distributing the dividend, relevant resolution shall be described;

According to *the Company Law of P.R. China* and the Articles of Association and the resolutions by the Board, after making up the losses in the previous year, 10% of the net profit of the year can be retained as surplus reserve; the surplus reserve can not be more than 50% of the capital stock. If approved, the statutory surplus reserve can be used for making up losses, or for increasing the stock capital. Apart from the compensation for losses, the balance of the statutory surplus reserve, after a portion of which has been deducted as additional stock capital, shall not be less than 25% of the surplus reserve before the portion for stock capital is deducted. In 2010, the Company didn't retain any statutory surplus reserve.

## 26. Undistributed profits

Unit: RMB

Items	Amount	Proportion retained or distributed
Beginning-of-year undistributed profits after adjustment	-193,110,504.37	--
Add: net profit belonging to the owner of the parent company of the current period	3,241,897.70	--

End-of-period undistributed profits	-189,868,606.67	--
-------------------------------------	-----------------	----

Schedule of beginning-of-year undistributed profits:

- 1) Influence over the beginning-of-year undistributed profits (RMB) due to retroactive adjustment of *Accounting Standards for Business Enterprises* and relevant new provisions;
- 2) Influence over the beginning-of-year undistributed profits (RMB) due to change in the accounting policy;
- 3) Influence over the beginning-of-year undistributed profits (RMB) due to change in significant accounting errors;
- 4) Influence over the beginning-of-year undistributed profits (RMB) due to change of consolidated range caused by business merger of the same control;
- 5) Influence over the beginning-of-year undistributed profits (RMB) due to other adjustments.

## 27. Business Revenues & Business Cost

### (1) Business Revenues & Business Cost

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Revenues from Major Business	674,803,907.76	827,626,351.26
Revenues from Other Business	49,087,588.78	48,151,923.83
Business revenues	637,127,498.77	789,063,149.35

### (2) Main Businesses (By industries)

Unit: RMB

Products	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Display	418,081,081.14	402,355,565.95	610,045,636.23	600,066,374.35
Injection moulded pieces	193,512,708.20	169,843,686.67	162,216,367.89	136,949,615.98
Foamed pieces	63,210,118.42	53,964,618.56	55,364,347.14	47,544,966.49
Total	674,803,907.76	626,163,871.18	827,626,351.26	784,560,956.82

### (3) Main Businesses (By products)

Unit: RMB

Product name	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Display	418,081,081.14	402,355,565.95	610,045,636.23	600,066,374.35

Injection moulded pieces	193,512,708.20	169,843,686.67	162,216,367.89	136,949,615.98
Foamed pieces	63,210,118.42	53,964,618.56	55,364,347.14	47,544,966.49
Total	674,803,907.76	626,163,871.18	827,626,351.26	784,560,956.82

**(4) Main Businesses(By regions)**

Unit: RMB

Region name	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Hong Kong	418,081,081.14	402,355,565.95	610,045,636.23	600,066,374.35
Central China	256,722,826.62	223,808,305.23	217,580,715.03	184,494,582.47
Total	674,803,907.76	626,163,871.18	827,626,351.26	784,560,956.82

**(5) Business revenues of the top five clients of the Company**

Unit: RMB

Name of customer	Revenues from Major Business	Proportion among the total Business revenues of the company (%)
Yutian International	395,003,155.00	54.57%
Qingdao Haier Spare Parts Procurement Co., Ltd.	172,518,259.39	23.83%
Gree Electric Appliance (Wuhan) Co., Ltd	21,469,475.19	2.97%
TCL Air-conditioner (Wuhan) Co., Ltd.	18,683,394.05	2.58%
Hefei Haier Logistics Co.,Ltd.	11,663,943.21	1.61%

Description of Business revenues

**28. Business Tax & Surcharges**

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period	Calculation and payment criteria
Business Tax	2,010,970.79	2,420,387.54	5%
Urban Maintenance & Construction Tax	319,632.90	169,817.11	7%
Educational Surcharge	173,724.73	72,611.68	3%
Property Tax	479,361.99	442,258.56	1.2%

Land use tax	239,994.10	239,994.10	
Local education development fees	48,938.43	48,409.81	0.1%
Price adjustment funds		200,911.36	0.1%
Others	213,138.28	5,261.01	
Total	3,485,761.22	3,599,651.17	--

Description of business tax and surcharges

## 29. Sales costs

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Transportation expenses	2,312,363.85	2,329,038.66
Payroll	2,517,609.58	1,286,359.68
Commodity inspection expenses	324,623.35	399,832.60
Customs affairs fee	212,179.19	337,678.00
Commodity wastage	95,679.09	306,762.62
Others	2,605,696.52	747,642.96
Total	8,068,151.58	5,407,314.52

## 30. Management costs

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Payroll	10,140,884.96	7,860,752.24
Depreciation costs	6,930,213.93	6,777,628.52
Social Insurance Premium	6,450,067.89	4,614,983.09
Social contact fees	2,426,753.71	2,717,832.56
Tax and surcharges	3,100,620.61	2,670,411.38
Staff Welfare Treatment Fund	3,167,320.84	2,592,379.94
Business trip costs	1,543,764.54	2,431,210.44
Amortization of intangible assets	1,569,003.26	1,464,797.19
Transportation fees	1,307,355.67	1,034,602.81
Consulting fees	1,370,839.24	891,844.30
Safety protection fee	920,917.42	844,334.07
Repair costs	1,266,444.51	612,811.68
Auditing costs	675,210.40	540,943.60

Office costs	850,590.45	532,490.92
Communication fees	321,210.66	419,138.63
Amortization of low-value, perishable goods	346,997.65	163,237.07
Securities information disclosure fees	258,708.18	150,000.00
Legal action costs	507,488.46	169,267.04
Others	2,414,553.46	1,119,911.28
<b>Total</b>	<b>45,568,945.84</b>	<b>37,608,576.76</b>

### 31. Financial Expenses

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Interest Expenditures	20,939,550.29	19,837,864.92
Less: interest return	-1,131,945.89	-1,689,227.69
Add: exchange loss	1,525,672.65	342,836.71
Add: other expenditures	337,177.79	488,386.52
<b>Total</b>	<b>21,670,454.84</b>	<b>18,979,860.46</b>

### 32. Assets Impairment Loss

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
I. Provision for Bad Debts	922,539.49	1,242,016.67
II. Provision for Depreciation of Inventories	1,441,635.12	2,619,942.42
VII. Provision for Fixed Assets Impairment		2,075,276.18
<b>Total</b>	<b>2,364,174.61</b>	<b>5,937,235.27</b>

### 33. Non-business Revenues

#### (1) Condition of non-Business revenues

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period	Amount recorded in current nonrecurring profit and loss
Gains of Disposal of non-current assets	137,500.00	192.52	137,500.00
Among it: income from fixed assets	137,500.00	192.52	137,500.00

disposition			
Payment that can not be paid		190,934.65	
Governmental award		60,000.00	
Penalty fine income	178,846.00	8,106.00	178,846.00
Penalty income	1,080.00	2,020.00	1,080.00
Others	109,347.51	24,384.10	109,347.51
Total	426,773.51	285,637.27	

### 34. Non-business Expenditures

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period	Amount recorded in current nonrecurring profit and loss
Loss of Disposal of Non-current Assets		225,303.52	
Among it: Loss from fixed-assets disposition	133,656.77	225,303.52	133,656.77
Litigation indemnity	1,185,405.55	539,385.74	1,185,405.55
Others	82,100.29	166,963.33	82,100.29
Total	1,401,162.61	931,652.59	

Description of non-operating expenses

### 35. Expenses of Income Tax

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Current income taxes computed in accordance with the tax law and related regulations.	1,949,354.20	4,336,509.59
Adjustment of deferred income taxes	-559,131.32	-174,558.55
Total	1,390,222.88	4,161,951.04

### 36. Calculation Process of Basic Earning per Share and Diluted Earning per Share

Items	No.	Amount of current year	Amount of last year
Net profit ascribed to mother company	1	3,241,897.70	10,374,521.20
Incidental loss & profit ascribed to mother company	2	-921,634.99	-517,849.46
Net profit ascribed to shareholder of mother company	3=1-2	4,163,532.69	10,892,370.66

after deducting incidental loss & profit			
Total shares at term beginning	4	283,161,227.00	283,161,227.00
Shares increased through capital reserve-to-shares or dividends distribution (I)	5		
Shares increased through issuing new shares or debt-to-stock (II)	6		
Number of months since next month after shares increasing (II) till term end of reporting period	7		
Shares decreased due to counter purchased or share shrinking	8		
Number of months since next month after shares Decreasing till term end of reporting period	9		
Share number decrease for shares deduction	10		
Number of months during reporting period	11	12	12
Averagely weighted common shares issued	$12=4+5+6\times7\div11-8\times9\div11-10$	283,161,227.00	283,161,227.00
<b>Basic earning per share (I)</b>	$13=1\div12$	0.0114	0.0366
<b>Basic earning per share (II)</b>	$14=3\div12$	0.0147	0.0385
Diluted potential common stock interest switch expenses which are recognized as expenses	15		
Replacement expenses	16		
Income tax rate	17		
Subscription warrant, option Weighted average of the common stocks produced by exercise and convertible debenture	18		
<b>Diluted earning per share (I)</b>	$19=[1+(15-16)\times(1-17)]\div(12+18)$	0.0114	0.0366
<b>Diluted earning per share (II)</b>	$19=[3+(15-16)\times(1-17)]\div(12+18)$	0.0147	0.0385

### 37. Annotations to cash flow statement

#### (1) Other Cash Received Related to Operation Activities

Unit: RMB



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Items	Amount
Business Transaction Payment	10,368,198.73
Administration fee and water and electricity charges collection	12,433,743.52
Personal borrowings	6,617,804.67
Lease Deposit	3,965,081.73
Interest income	1,131,945.89
Others	53,524.76
<b>Total</b>	<b>34,570,299.30</b>

Description of other cash related to business operations

## (2) Other Paid Related to Operation Activities

Unit: RMB

Items	Amount
The unit's current money	5,254,871.97
Employees' repayment for their borrowings	6,598,482.70
Legal action costs	507,488.46
Deposit, security	2,899,751.23
Social contact fees	2,426,753.71
water & electricity fees	9,830,512.11
Business trip costs	1,543,764.54
Transportation expenses	2,312,363.85
Transportation fees	1,307,355.67
Repair costs	1,266,444.51
Auditing and consulting fee	2,046,049.64
Security fee	920,917.42
Procedure fee of financial organization	337,177.79
Office costs	850,590.45
Communication fees	321,210.66
Others	795,510.72
<b>Total</b>	<b>39,219,245.43</b>

Description of other paid cashes related to operating activities

## (3) Other received cashes related to financing activities

Unit: RMB

Items	Amount
Regained note margin	21,095,646.31
Total	21,095,646.31

Description of other received cashes related to financing activities

### 38、Supplementary information of cash flow statement

#### (1) Supplementary information of cash flow statement

Unit: RMB

Supplementary information	Current amount	Previous amount
1. Convert net profit to cash flow from operating activities:	--	--
Net Profit	3,241,897.70	10,374,521.20
Add: provision drawn for assets impairment	2,364,174.61	5,937,235.27
Depreciation of fixed assets, depletion of oil and gas, depreciation of production materials or equipment	17,243,066.29	16,612,863.85
Amortization of Intangible Assets	1,425,469.92	1,463,347.63
Amortization of Long-term Expenses to be Apportioned	839,741.69	826,258.33
Loss from Disposal of Fixed Assets, Intangible Assets & Other Long-term Assets (Proceeds indicated by "-")	-3,843.23	285,821.40
Financial Expenses (Proceeds indicated by "-")	20,939,550.29	21,770,422.29
Decrement of Deferred Income Tax Assets (Addition indicated by "-")	-559,131.32	-174,558.55
Decrement of Inventories (Addition indicated by "-")	13,425,313.36	17,522,340.03
Decrement of Operative Receivables (Addition indicated by "-")	-66,979,657.84	64,596,513.16
Increment of Operative Payables (Decrease indicated by "-")	26,482,509.51	-91,043,827.38
Net Cash Flow Provided by Operating Activities	18,419,090.98	48,170,937.23
2. Important investment and fund raising activities involving no cash:	--	--
3. Net Variation of Cash and Cash Equivalent:	--	--
Year-end balance of cash	100,248,503.42	107,744,728.37
Less: year-beginning balance of cash	107,744,728.37	74,637,043.26
Net increase of cash and cash equivalent	-7,496,224.95	33,107,685.11

**(2) Relative information of the acquired or disposed subsidiaries and other operating units during the reporting period**

Unit: RMB

Supplementary information	Accruals of the current period	Accruals of the previous period
I. Relative information of the acquired subsidiaries and other operating units:	--	--
II. Relative information of the disposed subsidiaries and other operating units:	--	--
3. Net cash amount received from disposal of subsidiaries and other operating units	414,329.90	

**(3) Composition of cash and cash equivalents**

Unit: RMB

Items	Amount at the end of period	Amount at the beginning of period
I. Cash	100,248,503.42	107,744,728.37
Among it: Ready money	272,718.79	228,112.79
Bank deposit available for payment anytime	99,975,784.63	107,516,615.58
III. Balance of Cash & Cash Equivalents at Term End	100,248,503.42	107,744,728.37

Description of supplementary information to the cash flow statement

**VIII. Connected parties and connected transactions****1、Condition of parent company of the Enterprise**

Unit: RMB

Name of parent company	Affiliation	Company type	Registered place	Legal representative	Business scope	Registered capital	Shareholding proportion of the parent company over the Enterprise (%)	Percentage of voting rights held by the parent company over the Enterprise (%)	Ultimate controlling party of the Enterprise	Code of Organization
Zhongheng Group	Controlling shareholder	Company of limited liabilities	Wuhan	Li Zhongqiu	Production and sale	138,000,000.00	41.14%	41.14%	Li Zhongqiu	711954601

Description of condition of parent company of the Enterprise

## 2、Condition of subsidiaries of the Enterprise

Unit: RMB

Names of Subsidiary	Type of subsidiaries	Company type	Registered place	Legal representative	Business scope	Registered capital	Share proportion (%)	Vote as a percentage (%)	Code of Organization
Huafa Lease Company	Holding subsidiary	Company of limited	Shenzhen	Liu Zuodong	Property management	1,000,000.00	60%	60%	70843859-3
Huafa Property Company	Holding subsidiary	Company of limited	Shenzhen	Li Zhongqiu	Property management	1,000,000.00	100%	100%	68378841-4
Hengfa Technology Company	Holding subsidiary	Company of limited	Wuhan	Li Zhongqiu	Production and sale	181,643,111.00	100%	100%	67911516-1
Huafa Trade Company	Holding subsidiary	Company of limited	Wuhan	Liu Huixiong	Sale	100,000.00	100%	100%	56233214-6

## 3、Condition of the other affiliates of the Enterprise

Name of other affiliates	Relationship	Code of Organization
Wuhan Hengsheng Opto-Electronics Industry Co., Ltd. (changed to Wuhan Hengsheng Famous Sky Industrial Co., Ltd. in January 2012)	Same controlling shareholder or actual controller	73108664-5
Wuhan Hengshen Opto-Electronics Industry Co., Ltd.	Same controlling shareholder or actual controller	59454567-2
Shenzhen Zhongheng Huafa Technology Co., Ltd.	Same controlling shareholder or actual controller	59454567-2
Wuhan Xindongfang Real Estate Development Co., Ltd.	Same controlling shareholder or actual controller	68536237-X
Wuhan Zhongheng Property Management Co., Ltd.	Same controlling shareholder or actual controller	74476047-5
Wuhan Guanggu Display System Co., Ltd.	Same controlling shareholder or actual controller	75180426-1
Famous Sky Property (Wuhan) Co., Ltd.	Same controlling shareholder or actual controller	75510305-9
Wuhan Famous Sky Xingye Property Co., Ltd.	Same controlling shareholder or actual controller	66348637-1
Wuhan Famous Sky Dongfang Property Co., Ltd.	Same controlling shareholder or actual controller	05571411-5
Wuhan Xiahua Zhongheng Electric Co., Ltd.	Same controlling shareholder or	05571415-8

	actual controller	
Wuhan Zhongheng Famous Sky Trade Co., Ltd.	Same controlling shareholder or actual controller	27186154-X
Wuhan Famous Sky Hongguan Property Co., Ltd.	Same controlling shareholder or actual controller	56559237-3
Shenzhen Zhongheng Huayu Investment Holding Co., Ltd.	Same controlling shareholder or actual controller	56234774-3
Hong Kong Famous Sky International Capital Limited	Same controlling shareholder or actual controller	73108664-5
Famous Sky Capital Limited	Same controlling shareholder or actual controller	
Famous Sky International Limited	Same controlling shareholder or actual controller	
Hong Kong Zhongheng Famous Sky Limited	Same controlling shareholder or actual controller	
Wuhan Hengsheng Opto-Electronics Industry Co., Ltd. (changed to Wuhan Hengsheng Famous Sky Industrial Co., Ltd. in January 2012)		

Description of condition of the other affiliates of the Enterprise

#### 4. Associated Transactions

##### (1) Fact statement of procurement of goods and acceptance of labor

Unit: RMB

Affiliated party	Affiliated transaction	Pricing method and decision-making process of affiliated transaction	Accruals of the current period		Accruals of the previous period	
			Amount	Ratio of the amount of the same transactions (%)	Amount	Ratio of the amount of the same transactions (%)
Other enterprises under the control of the same parent company and the final controlling party	Procurement of LCD screen	The daily related transaction has been deliberated and approved in first extraordinary shareholders' general meeting of 2012	304,031,834.17	43.17%	457,804,871.47	63.04%
Among it:		Based on 1% lower	5,479,256.45	0.78%	103,191,903.25	14.21%

Hengsheng Yutian		over the average price in current market				
Yutian International		Same as the market condition	298,552,577.72	42.39%	354,560,806.65	48.82%
Huafa Technology			0	0	52,161.57	0.01%

Fact statement of sales of goods and provisions of labor

Unit: RMB

Affiliated party	Affiliated transaction	Pricing method and decision-making process of affiliated transaction	Accruals of the current period		Accruals of the previous period	
			Amount	Ratio of the amount of the same transactions (%)	Amount	Ratio of the amount of the same transactions (%)
Controlling shareholder and the final controller	Sales of liquid crystal display	The price for selling liquid crystal display to Yitian International shall be determined based on the sales order price of the client.	1,300,974.00	0.17%	1,390,551.29	0.17%
Among it: Zhongheng Group		Based on price of sales order from the clients	1,300,974.00	0.17%	1,390,551.29	0.17%
Other enterprises under the control of the same parent company and the final controlling party		The daily related transaction has been deliberated and approved in first extraordinary shareholders' general meeting of 2012	395,003,155.00	54.57%	568,147,529.80	68.65%
Among it: Yutian International		Based on price of sales order from the clients	395,003,155.00	54.57%	568,147,529.80	68.65%

**(2) Associated lease situation**

Lease situation table of the Company

Unit: RMB

Name of the lessor	Name of the lessee	Type of leased asset	Beginning date of lease	Expiration date of lease	Pricing basis for lease	Rental income recognized in the report period
The Company	Huafa Technology	Buildings	Jan. 1, 2012	Mar. 31, 2012	Market price	420,963.07

### (3) Associated guarantee situation

Unit: RMB

Guarantor	Guaranteed person	Amount of guarantee	Starting date of guarantee	Expiry date of guarantee	Whether guarantee has been fully performed or not
Li Zhongqiu	Hengfa Technology Company	80,000,000.00	Apr 17,2012	Apr 17,2013	None

Description of associated guarantee situation

## 5. Receivables and payable of related party

Receivables of listed company from related party

Unit: RMB

Project name	Associated party	Period-end		Period-begin	
		Book balance	Book balance	Book balance	Provision for Bad Debts
Account receivable	Controlling shareholder and ultimate controller		1,620,000.00	1,620,000.00	
	Including: Zhongheng Group		1,620,000.00	1,620,000.00	
	Other enterprise controlled under same controlling shareholder and ultimate controller	84,085,697.15	24,364,131.78	24,364,131.78	
	Including: Famous Sky International	84,085,697.15	24,364,131.78	24,364,131.78	
Account paid in advance	Other enterprise controlled under same controlling shareholder and ultimate controller	9,344,987.88	7,897,193.61	7,897,193.61	

	Including: Hengseng Famous Sky	9,344,987.88	7,874,769.12	7,874,769.12	
	Huafa Technology		22,424.49	22,424.49	

#### IV. Contingent Affairs

##### 1、 Pending action or contingent liabilities formed by arbitration and its financial impact

(1) Contract disputes between the Company and Shaanxi Linghua Electronic Co., Ltd.

The contract dispute case filed by Shaanxi Linghua Electronic Co., Ltd. (hereinafter “Shaanxi Linghua”) (2007SDDMC 2441): Shaanxi Linghua made a claim for damages to the printed circuit board with potential quality problems that were sold to it during the period May 30, 2006 to May 9, 2007. The amount at issue is RMB 3,100,773.20. The company received summons from Futian District People’s Court on Jan. 14, 2008. The first hearing was opened for cross examination of evidence on March 6, 2008. The case was not completed by the balance sheet date.

The company lodged a counter claim for the overdue freight fee and the interest accrued to Shaanxi Linghua on November 12, 2007. The amount at issue is RMB 1,054,290.19. The first court session is on March 6, 2008 and the cross examination of evidence was completed.

On Jul. 25, 2009, Shenzhen Futian People's Law Court settled the above cases (No. 2007 SHEN FU FA MIN ER CHU ZI NO. 2441), ruling that, the Company pay 1,797,975.48 Yuan of compensation to Shaanxi Linghua within 10 days of the settlement, and that Shaanxi Linghua pay to the Company the balance of payment for goods (1,797,975.48 Yuan) within 10 days of the settlement as well as interests associated thereto.

For that legal settlement, the Company brought an appeal to the Shenzhen intermediate People's Court on Aug. 31, 2009. The Shenzhen Intermediate People's Court settlement appeal on Mar. 22, 2010 (rule No. (2009) SHEN ZHONG FA MIN ER ZHONG ZI NO. 2227), ruling that the original settlement has no convincing evidences and that case shall be re-settled by the Shenzhen Futian People's Law Court. Canceling the civil judgment No. Shen Fu Zi Min Er Chu 2441 (2007) made by the People's Court of Futian District Shenzhen City, and remand to the People's Court of Futian District Shenzhen City for retrial.

As of the issue date of the financial report, there is no settlement of the case. According to *the Introduction to the Case Settlement of the Work Contract Dispute between the Shenzhen Zhongheng Huafa Co., Ltd. and Shaanxi Linghua Electronics Co., Ltd.* released by the Licensed Lawyer Zhang Guozhi’s Branch in Shenzhen of the Guangdong Jiangshanhong Lawyers’ Firm on April 22, 2010 and relevant evidence, the Company has the higher chance to win the case where the case may be reheard by the Futian District People’s Court of Shenzhen Municipality. The Company has prepared 179,797.55 Yuan as the litigation fee and confirmed the fee as the estimated liability in the case.

February 15, 2012, the first instance of Futian District People's Court of Shenzhen was carried out, while no decision was made.

As of the approval and submission date of this financial report, this case has not been completed legal proceedings.

(2) Contract dispute in which Wanshan Company files a lawsuit against the Company as to decoration

Contract dispute in which Wanshan Company files a lawsuit against the Company as to decoration [case No.: (2012)SFFMSCZD No. 2469]: Wanshan Company and Hwafa Leasing Company (subsidiary of the Company) signed the Agreement as to external wall decoration of Huafa Building on December 20, 2004 and both parties agreed that Hwafa Leasing Company shall bear 49% of renovation costs. Afterwards, both parties had disputes over the settlement of total construction costs and agreed to employ a Shenzhen audit institution with authoritative qualification for evaluation and assessment. However, both parties failed to reach an agreement on engineering assessment. On November 14, 2011, Wanshan Company filed a lawsuit with people's court of Futian District, Shenzhen, claiming that the Company shall bear 49% of total construction costs, totaling RMB 2,026,014.62.

As the Company believed that total construction costs involved were too high, both plaintiff and defendant proposed that the people's court select an authoritative audit institution to assess the project involved and such audit institution had conducted field measurement towards the companies involved and drawn a conclusion on assessment. The construction costs without disputes were RMB 2,085,192.24 and the construction costs over which both parties had disputes were RMB 334,002.76. Total construction costs were RMB 2,419,195.00.

On March 19, 2013, people's court of Futian District, Shenzhen opened a court session, but didn't give judgment.

According to the *Case Description about Contract Dispute in which Shenzhen Wanshan Youyi Stores Co., Ltd. Filed a Lawsuit against Shenzhen Zhongheng Hwafa Co., Ltd. as to Decoration* issued by Wangping, practicing lawyer of Guangdong Jinzhen Law Firm on April 2, 2013: based on the existing evidence, possible final verdict made by the people's court may be that amount in the assessment report shall be borne according to the percentage agreed in the agreement, namely  $RMB\ 2,419,195.00 * 0.49 = RMB\ 1,185,405.55$ ; the Company accrued the non-business expenditure of RMB 1,185,405.55 for this case and recognized such expenditure as estimated liabilities.

As of the approval and submission date of this financial report, this case has not been completed legal proceedings.

(3) Labor disputes that have been confirmed estimated liability in previous years but have not been executed till now.

According to the Notice on Judgment Enforcement (2008 SFFZZ NO. 522-529) issued by the Shenzhen People's Court of Guangdong Province concerning the 14 persons' (including Cai Yaoqiang and others) labor dispute case, the SLZC [2007] NO. 1069-1077, 1079, 1081, 1085-1087 arbitration awards have started to

take legal effect. And according to the Corporate Basic Information and Credit Report, the Company has the unperformed labor dispute object of 38,386.00 Yuan in total, which has been confirmed as the estimated liability by the Company.

The former employees Yang Guangze of the Company filed a claim for their unpaid salary, allowance, overtime, public reserve fund, festival allowance, etc. by the Company, totaling 107,339.01 Yuan. And according to the judgment of People's Court, the Company has confirmed the claimed damages of 23,851.00 Yuan as its estimated liability.

2. Except abovementioned contingent events and the endorsed consignments or bills discounted but not due at the year end in the "Bills Receivable" in the item 2 of the Annex VIII, as of December 31, 2011, the Group doesn't have any other major contingent events.

## X. Notes of main items of parent company's financial statements

### 1、Notes Receivable

#### (1) Notes Receivable

Unit: RMB

Type	Amount at the end of period				Amount at the beginning of period			
	Book balance		Provision for Bad Debts		Book balance		Provision for Bad Debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant specific amount that were provisioned bad debt preparation separately	5,074,817.68	9.44%	3,652,723.03	71.98%	3,849,491.53	7.2%	1,978,237.03	51.39%
Other receivables with accrual of bad debt reserve according to combination								
Within 1 year	326,792.20							
1-2 year (s) *1	455,510.84				7,560,400.23			
2-3 years *1	6,334,652.51				36,849,860.71			
Over 3years *1	36,746,146.74	0.29%	105,539.07		351,796.79	30%	105,539.06	
Subtotal of combination	43,863,102.29		105,539.07		44,762,057.73		105,539.06	
Accounts receivable that were not significant but have been provisioned bad debt preparation	4,832,295.13	8.98%	4,832,295.13	100%	4,832,295.13	9.04%	4,832,295.13	100%

separately							
Total	53,770,215.10	--	8,590,557.23	--	53,443,844.39	--	6,916,071.22

Description of type of accounts receivable

Other receivables with major individual amount and separate accrual of bad debt reserve at the end of period

Applicable  Inapplicable

Unit: RMB

Content of accounts receivable	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
H. K. Haowei Industry Co., Ltd.	1,870,887.18	561,266.15	30%	坏账政策
TCL Wangpai Electric Appliance (Huizhou)Co., Ltd.	1,325,431.75	1,325,431.75	100%	Can not be taken back
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	1,225,326.15	1,225,326.15	100%	Can not be taken back
Skyworth Multimedia(Shenzhen) Co.,Ltd.	653,172.60	540,698.98	82.78%	Can not be taken back
Total	5,074,817.68	3,652,723.03	--	--

In the combination, aging analysis method is used to accrue the receivables of bad debt reserves

Applicable  Inapplicable

Unit: RMB

Account ageing	Amount at the end of period			Amount at the beginning of period		
	Book balance		Provision for Bad Debts	Book balance		Provision for Bad Debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year						
Among it:	--	--	--	--	--	--
Subtotal within 1 year	326,792.20					
1-2 year (s)	455,510.84			7,560,400.23		
2-3 year (s)	6,334,652.51			36,849,860.71		
Over 3years	36,746,146.74	0.29%	105,539.07	351,796.79	30%	105,539.06
Total	43,863,102.29	--	105,539.07	44,762,057.73	--	105,539.06

Accounts receivable with accrual of bad debt reserve by balance percentage method in the combination

Applicable  Inapplicable

Accounts receivable with accrual of bad debt reserve by other method in the combination

Applicable  Inapplicable

Accounts receivable without major individual amount but with separate accrual of bad debt reserve at the end of period

√ Applicable □ Inapplicable

Unit: RMB

Content of accounts receivable	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
Shenzhen Huixin Video Science and Technology Co.,Ltd.	381,168.96	381,168.96	100%	Account age over 5 years
Shenzhen Wandial Number Science and Technology Co.,Ltd.	351,813.70	351,813.70	100%	Account age over 5 years
Shenzhen Dalong Electric Co.,Ltd.	344,700.00	344,700.00	100%	Account age over 5 years
Shenzhen Qunpin Electric Co.,Ltd.	304,542.95	304,542.95	100%	Account age over 5 years
China Galaxy Electric(Hong Kong) Co.,Ltd.	288,261.17	288,261.17	100%	Account age over 5 years
Dongguan Weite Electric Co.,Ltd.	274,399.80	274,399.80	100%	Account age over 5 years
Hong Kong New Century Electric Co.,Ltd.	207,409.40	207,409.40	100%	Account age over 5 years
Shenyang Beitai Electric Co.,Ltd.	203,304.02	203,304.02	100%	Account age over 5 years
Beijing Xinfanweiyee Science and Technology Co.,Ltd.	193,000.00	193,000.00	100%	Account age over 5 years
TCL Electric(Hong kong) Co.,Ltd.	145,087.14	145,087.14	100%	Account age over 5 years
Huizhou TCL New and Special Electronics Co., Ltd.	142,707.14	142,707.14	100%	Account age over 5 years
Shenzhen Skyworth-RGB Electric Co.,Ltd.	125,215.13	125,215.13	100%	Account age over 5 years
Shenzhen Xinfu Electronics Co., Ltd.	119,094.78	119,094.78	100%	Account age over 5 years
Others	1,751,590.94	1,751,590.94	100%	Account age over 5 years
Total	4,832,295.13	4,832,295.13	--	--

**(2) Conditions of top 5 units among the amounts of accounts receivable**

Unit: RMB

Unit name	Relation with this company	Amount	Years	As a percentage in accounts receivable (%)
Hengfa Technology Company	Subsidiary	43,184,934.79	1-4year (s)	80.31%
H. K. Haowei Industry Co., Ltd.	Nonaffiliated parties	1,870,887.18	Over 3years	3.48%
TCL Wangpai Electric Appliance (Huizhou) Co., Ltd.	Nonaffiliated parties	1,325,431.75	Over 3years	2.46%
Qingdao Hai'er Spare Parts Procurement Co., Ltd.	Nonaffiliated parties	1,225,326.15	1-2 year (s)	2.28%

Skyworth Multimedia(Shenzhen) Co.,Ltd.	Nonaffiliated parties	653,172.60	Over 3years	1.21%
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**(3) Receivables from related party**

Unit: RMB

Unit name	Relation with this company	Amount	As a percentage in accounts receivable (%)
Hengfa Technology Company	Subsidiary	43,184,934.79	80.31%

**2. Other Receivables****(1) Other Receivables**

Unit: RMB

Type	Amount at the end of period				Amount at the beginning of period			
	Book balance		Provision for Bad Debts		Book balance		Provision for Bad Debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant specific amount that were provisioned bad debt preparation separately	11,963,549.93	15.1%	10,778,144.38	90.09%	16,490,164.68	20.17%	11,486,969.12	69.66%
Other receivables with accrual of bad debt reserve according to combination								
Within 1 year	3,939,877.14				680,273.50			
1-2 year(s)	225,172.18	5%	11,258.61		19,999,011.06	0.07%	14,875.60	
2-3 year(s) *1	19,889,835.01	0.05%	8,969.19		39,762,282.99	0.05%	18,878.60	
Over 3years *1	40,619,375.33	2.72%	1,103,908.91		1,310,978.07	30%	393,293.42	
Subtotal of combination	64,674,259.66	81.63%	1,124,136.71	1.74%	61,752,545.62	75.52%	427,047.62	0.69%
Accounts receivable that were not significant but have been provisioned bad debt preparation separately	2,586,150.27	3.26%	2,586,150.27	100%	3,527,454.04	4.31%	3,331,582.62	94.45%
Total	79,223,959.86	--	14,488,431.36	--	81,770,164.34	--	15,245,599.36	--

Description of types of other receivables

Other receivables with major individual amount and separate accrual of bad debt reserve at the end of period

√ Applicable □ Inapplicable

Unit: RMB

Content of other	Book balance	Bad debts	Percent Drawn (%)	Cause
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receivables				
Huafa Lease Company	4,558,859.15	4,558,859.15	100%	Account age over 5 years
Shenzhen Boteman Bowling Club Co., Ltd.	4,021,734.22	4,021,734.22	100%	Account age over 5 years
Wanshang Department Store	1,367,795.75	182,390.20	13.33%	Check difference between both parties
Zhao Baomin	939,354.00	939,354.00	100%	Can not be taken back
Traffic incident indemnity	555,785.81	555,785.81	100%	Account age over 5 years
Hebei Botou Court	520,021.00	520,021.00	100%	Account age over 5 years
Total	11,963,549.93	10,778,144.38	--	--

Other receivables with accrual of bad debt reserve by aging analysis method in the combination

Applicable  Inapplicable

Unit: RMB

Account ageing	Amount at the end of period			Amount at the beginning of period		
	Book balance		Provision for Bad Debts	Book balance		Provision for Bad Debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year						
Among it:	--	--	--	--	--	--
Subtotal within 1 year	3,939,877.14			680,273.50		
1-2 year (s)	225,172.18	5%	11,258.61	19,999,011.06	0.07%	14,875.60
2-3 year (s)	19,889,835.01	0.05%	8,969.19	39,762,282.99	0.05%	18,878.60
Over 3years	40,619,375.33	2.72%	1,103,908.92	1,310,978.07	30%	393,293.42
Total	64,674,259.66	--	1,124,136.71	61,752,545.62	--	427,047.62

Other receivables with accrual of bad debt reserve by balance percentage method in the combination

Applicable  Inapplicable

Other receivables with accrual of bad debt reserve by other method in the combination

Applicable  Inapplicable

Other receivables without major individual amount but with separate accrual of bad debt reserve at the end of period

Applicable  Inapplicable

Unit: RMB

Content of other receivables	Book balance	Provision for Bad Debts	Percent Drawn (%)	Reason of provision
Employee canteen ect.	796,041.46	796,041.46	100%	Can not be taken back
Total of individual debt	519,745.74	519,745.74	100%	Can not be taken back

and withdrawal				
Trade Union	253,315.05	253,315.05	100%	Can not be taken back
Chuangjing workshop	192,794.00	192,794.00	100%	Can not be taken back
Weili Electric Corporation Co.,Ltd, Zhangzhou City, Fujian Province	112,335.62	112,335.62	100%	Can not be taken back
Shenzhen Lotus Island Restaurant Co.,Ltd	85,253.80	85,253.80	100%	Can not be taken back
Others	626,664.60	626,664.60	100%	Can not be taken back
<b>Total</b>	<b>2,586,150.27</b>	<b>2,586,150.27</b>	<b>--</b>	<b>--</b>

**(2) Conditions of top 5 units in the amount of other receivables**

Unit: RMB

Unit name	Relation with this company	Amount	Years	Proportion in other receivables (%)
Hengfa Technology Company	Subsidiary	57,502,372.16	2-3 years and Over 3years	72.58%
Huafa Lease Company	Subsidiary	4,558,859.15	Over 3years	5.75%
Shenzhen Boteman Bowling Club Co., Ltd.	Nonaffiliated parties	4,021,734.22	Over 3years	5.08%
Wanshang Department Store	Nonaffiliated parties	1,367,795.75	Within 1 year	1.73%
Zhao Baomin	Nonaffiliated parties	939,354.00	Over 3years	1.19%

**3. Long-term Equity Investment**

Unit: RMB

Invested unit	Accounting method	Investment costs	Beginning balance	Change-increase or decrease	Ending balance	Proportion of shareholding in the invested unit (%)	Proportion of voting right in the invested unit (%)	Description about inconsistency between proportion of shareholding in the invested unit and proportion of voting right in the invested unit	Depreciation reserves	Provision for impairment loss in the current period	Cash bonus of the current period
Huafa Lease Company	Cost method	600,000.00	600,000.00		600,000.00	60%	60%		600,000.00		
Huafa Property Company	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	100%	100%				
Hengfa Technology	Cost method	183,608,900.00	183,608,900.00		183,608,900.00	100%	100%				

Company											
Huafa Trade Company	Cost method	100,000.00	100,000.00		100,000.00	100%	100%				
Total	--	185,308,900.00	185,308,900.00		185,308,900.00	--	--	--	600,000.00		

Description of long-term equity investment

#### 4. Business Revenues & Business Cost

##### (1) Business Revenues

Unit: RMB

Items	Accruals of the current period	Accruals of the previous period
Revenues from Major Business	10,130,816.72	
Revenues from Other Business	46,424,103.02	48,302,877.65
Total	56,554,919.74	48,302,877.65
Business cost	20,863,195.35	4,049,074.17

##### (2) Main business(By industries)

Unit: RMB

Industry names	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Display	10,130,816.72	11,239,206.47		
Total	10,130,816.72	11,239,206.47		

##### (3) Main business(By products)

Unit: RMB

Product name	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Display	10,130,816.72	11,239,206.47		
Total	10,130,816.72	11,239,206.47		

##### (4) Main business(By regions)

Unit: RMB

Region name	Accruals of the current period		Accruals of the previous period	
	Business revenues	Business cost	Business revenues	Business cost
Display	10,130,816.72	11,239,206.47		

Total	10,130,816.72	11,239,206.47	
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**(5) Operating income of the top five clients of the Company**

Unit: RMB

Name of customer	Total business income	Proportion among the total Business revenues of the company (%)
China Great Wall Computer Shenzhen Co., Ltd.	4,321,525.13	42.66%
JINGYUXING(HK)CO.,LIM Jing Yuxing	3,451,505.88	34.07%
Beijing Tianfuweiqi Science and Technology Development Co., Ltd.	1,070,769.23	10.57%
Shoukong Optoelectronics Tianjin Co., Ltd.	740,726.50	7.31%
Hongkong Ruifeng International Industrial Co., Ltd.	233,741.23	2.31%
Total	9,818,267.97	

Description of Business revenues

**5、Supplementary information of cash flow statement**

Unit: RMB

Supplementary Materials	Current amount	Previous amount
1. Convert net profit to cash flow from operating activities:	--	--
Net Profit	113,766.57	7,166,116.07
Plus: provision drawn for assets impairment		5,341,173.74
Depreciation of fixed assets, depletion of oil and gas, depreciation of production materials or equipment	835,137.30	7,325,473.90
Amortization of Intangible Assets	5,319,923.88	144,945.67
Amortization of Long-term Expenses to be Apportioned	260,637.48	826,258.33
Loss from Disposal of Fixed Assets, Intangible Assets & Other Long-term Assets (Proceeds indicated by "--")	716,405.57	283,797.15
Financial Expenses (Proceeds indicated by "--")	11,323,078.11	12,486,587.85
Decrement of Deferred Income Tax Assets (Addition indicated by "--")		-321,797.55
Decrement of Inventories (Addition indicated by "--")	566,333.02	760,465.97
Decrement of Operative Receivables (Addition indicated by "--")	2,093,633.44	11,356,612.39
Increment of Operative Payables (Decrease indicated by "--")	-1,680,970.21	-16,139,344.93
Net Cash Flow Provided by Operating Activities	19,547,945.16	29,230,288.59

2. Important investment and fund raising activities involving no cash	--	--
3. Net Variation of Cash and Cash Equivalent	--	--
Year-end balance of cash	10,555,114.25	26,428,341.78
Less: year-beginning balance of cash	26,428,341.78	29,345,694.04
Net increase of cash and cash equivalent	-15,873,227.53	-2,917,352.26

## XI. Supplementary Materials

### 1. Return on Net Assets and Earnings Per Share

Unit: RMB

Profit during Reporting Period	Averagely-weighted return on net asset (%)	Earning per Share	
		Earning per Share	Earning per Share
Net profit ascribed to shareholder of mother company	1.16%	0.0114	0.0114
Net profit belonging to parent company shareholders after excluding non-recurring items	1.49%	0.0147	0.0147

## Section XI Directory of Document Available for Inspection

I. Annual report text bearing the signature of President;

II. Financial report text bearing the signature and seal of head of unit, people in charge of accountancy and leading member of accounting body;

III. Text of all the documents revealed publicly in the *China Securities Journal*, *Securities Times* and *Hongkong Commercial Daily* specified by China Securities Regulatory Commission within the reporting period;

IV. Articles of Association of the Company;

V. Other relevant materials.

[Note] This report is prepared in Chinese and English. In case of understanding ambiguity between the two versions, the Chinese version shall prevail.

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

April 24, 2013