

SHENZHEN ZHONGHENG HUAFA CO., LTD.
SEMI-ANNUAL REPORT 2014

August 2014

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.

All directors are attended the Board Meeting for report deliberation.

The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either.

Li Zhongqiu, principal of the Company, Cao Li, person in charger of accounting works and Wu Aijie, person in charge of accounting organ (accounting principal) hereby confirm that the Financial Report of Semi-Annual Report 2014 is authentic, accurate and complete.

Concerning the forward-looking statements with future planning involved in the semi-annual 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 | Definition |
|------------------------------------|-----------|---|
| Company, Shen Huafa | Refers to | SHENZHEN ZHONGHENG HUAFA 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. |
| Wuhan Zhongheng Group | Refers to | Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. |
| HK Yutian Company | Refers to | Hong Kong Yutian International Investment Co., Ltd. |
| Hengsheng Photoelectricity Company | Refers to | Wuhan Hengsheng Photoelectricity Industry Co., Ltd. |
| Hengsheng Yutian Company | Refers to | Wuhan Hengsheng Yutian Industrial Co., Ltd. |
| Yutian Henghua Company | Refers to | Shenzhen Yutian Henghua Co., Ltd. |
| Huafa Hengtian Company | Refers to | Shenzhen Huafa Hengtian Co., Ltd. |
| Huafa Hengtai Company | Refers to | Shenzhen Huafa Hengtai Co., Ltd. |

Section II Company profile

I. Company Profile

| | | | |
|---|------------------------------------|----------------|----------------|
| Short form for share | SHEN HUAFA-A, SHEN HUAFA- B | Code for share | 000020, 200020 |
| Listing stock exchange | Shenzhen Stock Exchange | | |
| Chinese name of the Company | 深圳中恒华发股份有限公司 | | |
| Abbr. of Chinese name of the Company(if applicable) | 深华发 | | |
| English name of the Company(if applicable) | SHENZHEN ZHONGHENG HUAFA CO., LTD. | | |
| Legal Representative | Li Zhongqiu | | |

II. Contact person and ways

| | Secretary of the Board | Rep. of securities affairs |
|---------------|---|---|
| Name | Weng Xiaojue | Niu Yuxiang |
| Contact adds. | 6/F, East Tower, Huaafa (N) Road, Futian District, Shenzhen | 6/F, East Tower, Huaafa (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. Others

1. Way of contact

Whether registrations address, offices address and codes as well as website and email of the Company changed in reporting period or not

Applicable Not applicable

Registrations address, offices address and codes as well as website and email of the Company has no change in reporting period, found more details in Annual Report 2013.

2. Information disclosure and preparation place

Whether information disclosure and preparation place changed in reporting period or not

Applicable Not applicable

The newspaper appointed for information disclosure, website for semi-annual report publish appointed by CSRC and preparation place for semi-annual report have no change in reporting period, found more details in Annual Report 2013.

3. Registration changes of the Company

Whether registration has changed in reporting period or not

Applicable Not applicable

Date/place for registration of the Company, registration number for enterprise legal license, number of taxation registration and organization code have no change in reporting period, found more details in Annual Report 2013.

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

| | Current period | Same period of last year | Increase/decrease in this report y-o-y |
|---|-----------------------|--------------------------|---|
| Operating revenue (RMB) | 366,621,826.36 | 302,732,823.42 | 21.10% |
| Net profit attributable to shareholders of the listed company(RMB) | 1,455,936.93 | 1,967,980.43 | -26.02% |
| Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses(RMB) | 1,039,567.88 | 2,817,846.22 | -63.11% |
| Net cash flow arising from operating activities(RMB) | -188,587,686.53 | -28,557,957.20 | -560.37% |
| Basic earnings per share (RMB/Share) | 0.0051 | 0.0070 | -27.14% |
| Diluted earnings per share (RMB/Share) | 0.0051 | 0.0070 | -27.14% |
| Weighted average ROE (%) | 0.53% | 0.7% | 0.17 percentage points down |
| | End of current period | End of last period | Increase/decrease in this report-end over that of last period-end |
| Total assets (RMB) | 1,187,640,332.71 | 731,348,499.86 | 62.39% |
| Net assets attributable to shareholder of listed company(RMB) | 275,119,586.40 | 273,663,649.47 | 0.53% |

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

Applicable Not applicable

In RMB

| Item | Amount | Note |
|---|------------|------|
| Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets) | 64,047.39 | |
| Other non-operating income and expenditure except for the aforementioned items | 491,111.34 | |
| Less: Impact on income tax | 138,789.68 | |

| | | |
|-------|------------|----|
| Total | 416,369.05 | -- |
|-------|------------|----|

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

In reporting period, the Company has no particular about 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*

Section IV. Report of the Board of Directors

I. Introduction

For the 1st half year of 2014, the global economy recovered in growth. Chinese economy stepped to the period of platform transition and area of deep reformation. The downward pressure on economy intensified. Though faced with macro policies of deadline-holding and stability-maintaining, it is still expectable to keep a reasonable growth for the economy. Traditional home-appliance industry is tending to shift to new business model and stepping marketing to intelligent home-appliance. Hence, consumption is upgrading and demand is stable. Correspondingly, our business of processing to affiliated products of home-appliances, obtained slight improvement in stability. Due to reducing price to enhance sales volume as well as cost increment, gross margin of 3 business sections declined at different levels. The overall performance kept a basic level compared with the same period of last year. Leasing own properties maintained a stale operation. For the 1st half year of 2014, the Company realized operating income of RMB 366.62 million, up by 21.1% against last year; net profit of RMB 1.46 million, down by 26.02% against last year.

Industry production: molding section obtained operating income of RMB 145.51 million in reporting period, up by 28.32% against last year. Based on important/crucial clients relationship management, they adjusted orders strategy at an appropriate level. Hence they minimized quantity of orders with narrow gross margin and added business with higher gross margin. Also they strengthened fine and detailed management, strictly control site production. They endured challenge of particularness and repeated check from well-known clients, with quality products, retained the good reputation. Styrofoam section realized operating income of RMB 41.55 million in reporting period, up 12.07% against last year. Faced with going-up prices of material and fuels, more cost to human resource, going-down sales price and intensified market competition, the section made use of unique technology and differential competitiveness to resolve problem raised by client. Hence they won a good reputation and the initiative among market competition. The video section realized operating income of RMB 140.67 million in reporting period, up by 5.34% against last year. Taking priority of fundamental production, the section put more energy to design and development of new products. They took trial on optimizing cost of monitors, sets types adjustment and upgrading structure.

Property Lease: the leasing contract for 1st floor to 3rd floor of Huafa Building, which is own property of the Company, had been terminated in the 3rd season of 2012. It needs redecoration and merchant. While the railway station of the line 7 nearby “Huaqiang North” shopping mall is being constructed, the unfavorable environment caused slow tender progress. In reporting period, the Company continued positive negotiation with appropriate merchants. Hence we speeded up the progress and obtained improvement. Now most areas have been leased out. Shops are running business one by one. Though most idle areas have been settled with merchants in, not all the problems have been solved. For 1st half year of 2014, the property leasing section realized operating income of RMB 18.39 million, up by 12.30% against last year.

II. Main business analysis

Y-o-y changes of main financial data

In RMB

| | Current period | Same period of last year | Y-o-y increase/decrease | Reasons for changes |
|--|-----------------|--------------------------|-------------------------|--|
| Operation revenue | 366,621,826.36 | 302,732,823.42 | 21.10% | |
| Operation cost | 326,921,602.88 | 263,513,507.38 | 24.06% | |
| Sales expenses | 5,564,699.14 | 4,557,574.73 | 22.10% | |
| Administrative expenses | 19,519,931.83 | 21,074,358.43 | -7.38% | |
| Financial cost | 10,209,515.26 | 9,523,053.98 | 7.21% | |
| Income tax expense | 640,767.95 | 369,738.80 | 73.30% | Reversed previous deferred income tax expenses |
| Net cash flow arising from operation activities | -188,587,686.53 | -28,557,957.20 | -560.37% | Sales return decreased in the Period and money paid in advance for goods increased |
| Net cash flow arising from investment activities | -2,820,541.76 | -1,476,896.06 | -90.98% | Boiler expenses newly included in the period |
| Net cash flow arising from financing activities | 424,887,205.90 | 40,161,342.42 | 957.95% | New bank loans increased due to the operation development needs |
| Net increase of cash and cash equivalent | 233,520,462.11 | 7,635,602.30 | 2,958.31% | New bank loans increased in the period |

Major changes on profit composition or profit resources in reporting period

Applicable Not applicable

No major changes on profit composition or profit resources occurred in reporting period

The future development and planning extended to reporting period that published in disclosure documents as prospectus, private placing memorandum and recapitalize statement

Applicable Not applicable

No future development and planning extended to reporting period that published in disclosure documents as prospectus, private placing memorandum and recapitalize statement

Review on the previous business plan and its progress during reporting period

Null

III. Constitution of main business

In RMB

| | Operating revenue | Operating cost | Gross profit ratio | Increase or decrease of operating revenue over same period of last year | Increase or decrease of operating cost over same period of last year | Increase or decrease of gross profit ratio over same period of last year |
|----------------------------|-------------------|----------------|--------------------|---|--|--|
| According to industries | | | | | | |
| Monitors | 140,670,450.02 | 138,062,144.77 | 1.85% | 5.34% | 7.45% | 1.92 percentage points up |
| Plastic injection hardware | 145,506,562.10 | 131,348,336.50 | 9.73% | 28.32% | 30.37% | 1.42 percentage points up |
| Foam pieces | 41,549,843.23 | 36,581,795.46 | 11.96% | 12.07% | 16.08% | 3.04 percentage points up |
| Steel | 16,714,846.30 | 16,664,364.08 | 0.30% | | | |
| According to products | | | | | | |
| Monitors | 140,670,450.02 | 138,062,144.77 | 1.85% | 5.34% | 7.45% | 1.92 percentage points up |
| Plastic injection hardware | 145,506,562.10 | 131,348,336.50 | 9.73% | 28.32% | 30.37% | 1.42 percentage points up |
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| Steel | 16,714,846.30 | 16,664,364.08 | 0.30% | | | |
| According to region | | | | | | |
| Hong Kong | 121,292,733.85 | 120,304,763.74 | 0.81% | -9.17% | -6.37% | 2.96 percentage points up |
| Central China | 223,148,967.80 | 202,351,877.07 | 9.32% | 48.30% | 52.99% | 2.78 percentage points up |

IV. Core competitive-ness 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 and new profit growth point.

2. The Company has three plants in Wuhan economic technology park with an area of nearly 80,000 square meters 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 and has formed a good long-term cooperative relationship; in particular, its injection molding business and polystyrene businesses have been operated for many years with steady management group and abundant production experiences, which makes the Company enjoying high recognition and annual production capacity and scale in the forefront of Central China.

V. Investment analysis

1. Main subsidiaries and joint-stock companies analysis

√ Applicable □ Not applicable

Main subsidiaries and joint-stock companies

In RMB

| Name | Type | Industry involved | Main products or service | Registered capital | Total assets | Net assets | Operation revenue | Operation profit | Net profit |
|---------------------------|------------|---------------------|--|--------------------|----------------|----------------|-------------------|------------------|--------------|
| Hengfa Technology company | Subsidiary | Production sales | R&D, production, sales of products and import and export business etc. | 181,643,111.00 | 711,709,129.26 | 203,319,130.06 | 329,391,930.56 | 2,564,815.99 | 2,348,844.65 |
| Huafa Trade Co., Ltd. | Subsidiary | Sales | Sales of Photoelectricity products, Imp&Exp business of goods | 100,000.00 | 100,324,687.15 | -883,689.72 | 16,714,846.30 | 34,325.25 | 34,324.09 |
| Huafa Property Company | Subsidiary | Property management | Property leasing and management of self-owned property | 1,000,000.00 | 480,927.13 | -834,913.66 | 824,513.80 | 11,728.10 | 11,578.10 |
| 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 | 0.00 | 0.00 |
| Yutian Henghua Company | Subsidiary | Property management | Property leasing and management of self-owned property | 1,000,000.00 | 999,940.00 | 999,940.00 | 0.00 | -60.00 | -60.00 |
| Huafa Hengtian Company | Subsidiary | Property management | Property leasing and management of self-owned property | 1,000,000.00 | 999,940.00 | 999,940.00 | 0.00 | -60.00 | -60.00 |
| Huafa Hengtai Company | Subsidiary | Property management | Property leasing and management of self-owned property | 1,000,000.00 | 999,940.00 | 999,940.00 | 0.00 | -60.00 | -60.00 |

VI. Prediction of business performance from January – September 2014

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

Applicable Not applicable

VII. Explanation from the Board and Supervisory Committee for “Qualified Opinion” from the CPA of this year’s

Applicable Not applicable

VIII. Explanation on “Qualified Opinion” of previous year from the Board

Applicable Not applicable

IX. Implementation of profit distribution in reporting period

Implementation or adjustment of profit distribution plan in reporting period, cash dividend plan and shares converted from capital reserve in particular

Applicable Not applicable

Previous year’s profit distribution plan was no profit distribution and shares converted from capital reserve either

X. Profit distribution and capitalization of capital reserves in the Period

Applicable Not applicable

The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either for the semi-annual year

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

Applicable Not applicable

| Time | Place | Way | Type | Reception | Contents discussed and material provided |
|--------------------|----------------------------|--|-------------|---------------------|---|
| 2014.1.1~2014.6.30 | Headquarter of the Company | Telephone communication / inquiry in writing | Individuals | Individual investor | Communicating operation situation of the Company, assets status and process of city update projects |

Section V. Important Events

I. Corporate governance

The actual condition of the corporate governance shows no difference with the Company Law and relevant requirement from CSRC.

II. Significant related transaction

1. Related transaction related to daily operation

√ Applicable □ Not applicable

| 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 | Available market prices of similar transactions | Date of disclosure | Index of disclosure |
|------------------------------------|---|-----------------------|--|--|------------------------|--|---|--------------------------------------|--|--------------------|---|
| Hengsheng Photoelectricity Company | Under the control of the same final controlling party | Purchase | Purchasing LCD monitors | Confirmed with 1% of current market average price in principle, and refer to both their bargaining power | | 2,272 | 6.96% | Telegraphic transfer | The average market price refers to the price of same specifications which is searched from through the world famous professional market survey company website http://www.witsview.com recognized authority in the industry and LCD professional market survey company website http://www.witsview.com . | 2014-04-22 | http://www.cninfo.com.cn/finance/2014-04-22/63888750.PDF |
| HK Yutian Company | Under the control of the same final controlling party | Purchase | Purchasing LCD overall monitor machine set | Synchronized with the market | | 8,419 | 25.81% | Telegraphic transfer | | 2014-04-22 | Same as above |
| HK Yutian Company | Under the control of the same final controlling party | Sales | Sales LCD overall monitor machine set | According to the customer sales order price sure | | 12,129 | 33.08% | Telegraphic transfer | | 2014-04-22 | Same as above |
| Hengsheng Photoelectricity Company | Under the control of the same final | Sales | Sales of LCD TVs and | Reference to the market price | | 12.38 | 0.03% | Telegraphic transfer | | - | - |

| | | | | | | | | | | |
|--|-------------------|--|--|----|----|-----------|----|----|----|----|
| | controlling party | | computers | | | | | | | |
| Total | | | | -- | -- | 22,832.38 | -- | -- | -- | -- |
| Details of returned large sales | | | N/A | | | | | | | |
| 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 (if applicable) | | | In the reporting period, Hengfa Technology Company purchased LCD from Hengsheng Photoelectricity Company with RMB 22,720,000 approximately, 31.04% of the annual amount predicted at the beginning of the year; purchased LCD from HK Yutian Company with RMB 84,190,000, approximately, 27.61% of the annual amount predicted at the beginning of the year; sold LCD whole machine to HK Yutian Company with RMB 121,290,000 approximately, 36.16% of the annual amount predicted at the beginning of the year. | | | | | | | |

2. Related transaction incurred by purchase or sales of assets

Applicable Not applicable

No related transaction incurred by purchase or sales of assets in Period

3. Related transaction from jointly investment outside

Applicable Not applicable

No related transaction from jointly investment outside occurred in Period

4. Credits and liability of related party

Applicable Not applicable

Whether have non-operation related liabilities and credits relations or not

Yes No

The Company had no non-operation related liabilities or credits relations

5. Other significant related transactions

Applicable Not applicable

The Company had no other significant related transactions in the reporting period

III. Significant contracts and its implementation

1. Guarantees

Applicable Not applicable

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 |
| 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 |
| Hengfa Technology Company | 2014-04-22 | 50,000 | | 10,537 | Joint liability guarantee | 1 year | No | No |
| Total amount of approving guarantee for | | 50,000 | | Total amount of actual occurred guarantee | | 12,800 | | |

| | | | |
|--|--------|--|--------|
| subsidiaries in report period (B1) | | for subsidiaries in report period (B2) | |
| Total amount of approved guarantee for subsidiaries at the end of reporting period (B3) | 50,000 | Total balance of actual guarantee for subsidiaries at the end of reporting period (B4) | 10,537 |
| Total amount of guarantee of the Company(total of two abovementioned guarantee) | | | |
| Total amount of approving guarantee in report period (A1+B1) | 50,000 | Total amount of actual occurred guarantee in report period (A2+B2) | 12,800 |
| Total amount of approved guarantee at the end of report period (A3+B3) | 50,000 | Total balance of actual guarantee at the end of report period (A4+B4) | 10,537 |
| The proportion of the total amount of actually guarantee in the net assets of the Company (that is A4+ B4) | | | 38.30% |
| 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 Company exceed 50%(E) | | | 0 |
| Total amount of the aforesaid three guarantees(C+D+E) | | | 0 |
| Explanations on possibly bearing joint and several liquidating responsibilities for undue guarantees (if applicable) | | N/A | |
| Explanations on external guarantee against regulated procedures (if applicable) | | N/A | |

Explanation on details of guarantee by complex method

Nil

(1) Guarantee outside against the regulation

Applicable Not applicable

No guarantee outside against the regulation in Period

2. Other material contracts

Applicable Not applicable

The Company had no other material contracts in the reporting period.

3. Other material transactions

Applicable Not applicable

The Company had no other material transactions in the reporting period.

IX. Commitments made by the Company or shareholders holding above 5% shares of the Company in reporting period or occurred in the previous reporting period but continued to reporting period

Applicable Not applicable

| Commitments | Commitment party | Contents | Dated for commitment | Commitment term | Implementation |
|---|---|---|----------------------|--|----------------|
| Share Merger Reform | N/A | N/A | | | |
| 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 | 12 April 2007 to 11 April 2008; 13 May 2014 to 12 May 2015 | Implementing |
| Commitments in assets reorganization | N/A | N/A | | | |
| Commitments in initial public offering or refinancing | N/A | N/A | | | |
| Other commitments to minority shareholders of the Company | N/A | N/A | | | |
| Completed on time or not | No | | | | |
| Detail reasons for un-complement and further plan (if applicable) | <p>1. On 5 June 2008, approving by the 3rd 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;</p> <p>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.</p> <p>In April 2014, considering unpleasant operation of Hengsheng Photoelectricity, as well avoid causing loss to listed companies due to forced commitment fulfillment, holding shareholder Wuhan Zhongheng Group raised proposal of changing the commitment from perspective of maintaining long-term interests of listed company, which was changed to: within 1 year since the General Shareholders' Meeting approved, Wuhan Zhongheng Group sold its underneath street shops located in property of the 1st phase of Yutian Happy Sea in cash. The revised commitment has been approved in Shareholders' General Meeting of 2013 held on 13th May 2014.</p> | | | | |

V. Engagement and non-reappointment of CPA

Whether the semi-annual report was audited or not

Yes No

VI. Penalty and rectification

Applicable Not applicable

The Company had no penalty or rectification in the reporting period.

VII. Risk disclosure of delisting with laws and rules violated

Applicable Not applicable

The Company has no delisting risks with laws and rules violated in Period

VIII. Explanation on other significant events

(I)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.

(II) Controlling shareholder of the Company – Wuhan Zhongheng Group, derived established the “Wuhan Zhongheng New Technology Industrial Group Co., Ltd.” and “Wuhan Zhongheng Huaxin Industrial Co., Ltd.” in September 2013 for further resource integration and industry layout adjustment: “Wuhan Zhongheng New Technology Industrial Group Co., Ltd.” is the surviving corporation after derived, maintains original name of Wuhan Zhongheng Group and owns assets and equity with the real estate concerned under the name of former Wuhan Zhongheng Group; “Wuhan Zhongheng Huaxin Industrial Co., Ltd.” (Huaxin Industrial) is a newly company derived, owes assets and equity without real estate concerned under the name of former Wuhan Zhongheng Group. After splitting, the two enterprises have the same shareholder structures as 99 percent equity held by Mr. Li Zhongqiu and 1 percent equity owned by Wuhan Henghui Investment Consulting Co., Ltd.

After completion of splitting, Huaxin Industrial inherit 41.14 percent equity of the Company that held by former Wuhan Zhongheng Group, and the “Reply on Approval of Wuhan Zhongheng Huaxin Industrial Co., Ltd. Notified the Purchase Report and Exempted the Mandatory Tender Offer to Shenzhen Zhongheng Huafa Co., Ltd. issued by CSRC” (Zheng Jian Xu Ke [2013] No.1503) was received dated 27 November 2013. Up to end of the Period, ownership transfer procedures for the aforesaid shares are not completed.

Wuhan Zhongheng Group no longer owns shares of the Company after ownership of stock transfer, controlling shareholder of the Company change to Huaxin Industrial with actual controller stay the same as well as total share capital of the Company; the controlling shareholder splitting has no substantive impact on the Company.

Section VI. Changes in Shares and Particulars about Shareholders

I. Number of shares and shares held

In Share

| Total common shareholders at period-end | | 24,909 | Total preference shareholders with voting rights recovered at end of reporting period (if applicable) (see Note 8) | 0 | | | | |
|---|---------------------------------------|---------------------------|--|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------|-------------|
| Particulars about shares held above 5% by shareholders or top ten shareholders | | | | | | | | |
| Shareholders | Nature of shareholder | Proportion of shares held | Number of shares held at period-end | Changes in reporting period | Amount of the restricted shares held | Amount of the restricted shares held | Number of share pledged/frozen | |
| | | | | | | | State of share | Amount |
| Wuhan Zhongheng Group | 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 | 5.85% | 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 |
| BINGHUA LIU | Domestic nature person | 0.31% | 876,213 | | 0 | 876,213 | Pledged/frozen | 0 |
| Xie Deqing | Domestic nature person | 0.28% | 780,100 | | 0 | 780,100 | Pledged/frozen | 0 |
| Shi Feng | Domestic nature person | 0.25% | 714,273 | | 0 | 714,273 | Pledged/frozen | 0 |
| Wang Jianguang | Domestic nature person | 0.23% | 651,849 | | 0 | 651,849 | Pledged/frozen | 0 |
| Li Jianfeng | Domestic nature person | 0.23% | 637,600 | | 0 | 637,600 | Pledged/frozen | 0 |
| Zhu Ming | Domestic nature person | 0.22% | 611,348 | | 0 | 611,348 | Pledged/frozen | 0 |
| Jia Wenjun | Domestic nature person | 0.20% | 557,232 | | 0 | 557,232 | Pledged/frozen | 0 |
| Strategy investors or general corporate becomes top 10 shareholders due to rights | N/A | | | | | | | |

| issued (if applicable) | | | |
|--|--|------------------------------------|------------|
| 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 period-end | 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 |
| BINGHUA LIU | 876,213 | Domestically listed foreign shares | 876,213 |
| Xie Deqing | 780,100 | Domestically listed foreign shares | 780,100 |
| Shi Feng | 714,273 | RMB common share | 714,273 |
| Wang Jianguang | 651,849 | Domestically listed foreign shares | 651,849 |
| Li Jianfeng | 637,600 | Domestically listed foreign shares | 637,600 |
| Zhu Ming | 611,348 | Domestically listed foreign shares | 611,348 |
| Jia Wenjun | 557,232 | RMB common share | 557,232 |
| Wu Jingmin | 491,786 | RMB common share | 491,786 |
| 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 Group 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 involving margin business (if applicable)(see note 4) | Ended as the reporting period, in top ten shareholders, 714,273 shares of the Company were hold by Shifeng through the guarantee securities account of client credit trading under the name of China Merchants Securities Co., Ltd., representing 100 percent of the Company's stock held by himself | | |

Whether has a buy-back agreement dealing in reporting period

Yes No

The shareholders of the Company had no buy-back agreement dealing in reporting period.

II. Changes of controlling shareholders or actual controller

Changes of controlling shareholders in reporting period

Applicable Not applicable

Changes of controlling shareholders had no change in reporting period.

Changes of actual controller in reporting period

Applicable Not applicable

Changes of actual controller in reporting period had no change in reporting period.

III. Share holding increasing plan proposed or implemented in reporting period from shareholder of the Company and its concerted action person

Applicable Not applicable

As far as the Company know, there are no share holding increasing plan proposed or implemented in Period from shareholder of the Company and its concerted action person

Section VII. Preferred Stock

I. Issuance and listing of preferred stock in Period

Applicable Not applicable

II. Number of shareholders with preferred stock held and shareholdings

Applicable Not applicable

III. Repurchase and conversion of preferred stock

1. Preferred stock repurchased

Applicable Not applicable

2. Preferred stock converted

Applicable Not applicable

IV. Preferred stock with voting rights recovered and executed

Applicable Not applicable

V. Accounting policy taken for preferred stock and reasons

Applicable Not applicable

Section VIII. Directors, Supervisors and Senior Executives

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

Applicable Not applicable

Shares held by directors, supervisors and senior executives have no changes in reporting period, found more details in Annual Report 2013.

II. Resignation and dismissal of directors, supervisors and senior executives

Applicable Not applicable

| Name | Title | Type | Date | Reason |
|---------------|----------------------|-------------------|------------|---|
| Li Dingan | Independent director | End-of-term leave | 2014-05-13 | Term of office is about to expire for 6 years, apply to resigned independent director |
| Zhang Yi | Independent director | End-of-term leave | 2014-05-13 | Term of office is about to expire for 6 years, apply to resigned independent director |
| Zhang Zhaoguo | Independent director | Be elected | 2014-05-13 | Be elected as independent director of the Company |
| Qiu Daliang | Independent director | Be elected | 2014-05-13 | Be elected as independent director of the Company |

Section IX. Financial Report

I. Audit reports

Whether the semi-annual report was audited or not

Yes No

The financial report of this semi-annual report was unaudited

II. Financial statements

Units in Notes of Financial Statements is RMB

1. Consolidated balance sheet

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Item | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Current assets: | | |
| Monetary funds | 288,085,880.50 | 54,251,456.20 |
| Settlement funds | | |
| Lending funds | | |
| Tradable financial assets | | |
| Notes receivable | 62,149,080.06 | 154,375,936.49 |
| Accounts receivable | 370,534,892.45 | 162,278,705.83 |
| Prepayments | 134,263,486.22 | 13,483,243.19 |
| Premium receivable | | |
| Reinsurance accounts receivable | | |
| Reinsurance contract reserve receivable | | |
| Interest receivable | | |
| Dividend receivable | | |
| Other account receivable | 8,151,582.83 | 9,623,767.78 |
| Buying back the sale of financial assets | | |
| Inventory | 39,569,120.69 | 47,119,303.85 |
| Non-current assets due within one year | | |
| Other current assets | | |
| Total current assets | 902,754,042.75 | 441,132,413.34 |

| | | |
|--------------------------------------|------------------|----------------|
| Non-current assets: | | |
| Issuance of loans and advances | | |
| Financial assets available for Sale | | |
| Held-to-maturity investment | | |
| Long-term receivables | | |
| Long term equity investment | | |
| Investment real estate | 31,902,042.28 | 32,529,420.82 |
| Fixed asset | 190,900,570.00 | 195,542,067.03 |
| Project in progress | 4,090,567.21 | 2,323,356.00 |
| Project materials | | |
| Liquidation of fixed asset | | |
| Productive biological asset | | |
| Oil and gas asset | | |
| Intangible asset | 48,613,832.60 | 49,360,979.93 |
| Development expenditure | | |
| Goodwill | | |
| Long-term deferred expenditure | 1,188,108.26 | 1,773,524.86 |
| Deferred income tax asset | 8,191,169.61 | 8,686,737.88 |
| Other non-current asset | | |
| Total non-current asset | 284,886,289.96 | 290,216,086.52 |
| Total Assets | 1,187,640,332.71 | 731,348,499.86 |
| Current Liabilities: | | |
| Short-term borrowing | 170,394,502.49 | 162,140,601.13 |
| Borrowing from the central bank | | |
| Deposits and interbank deposit | | |
| Borrowed capital | | |
| Transaction financial liabilities | | |
| Notes payable | 42,926,747.44 | 34,646,052.79 |
| Accounts payable | 47,209,639.91 | 52,206,342.81 |
| Account received in advance | 1,651,857.66 | 1,572,324.29 |
| Financial assets sold for repurchase | | |
| Fees and commissions payable | | |
| Salary payable | 3,829,573.37 | 4,760,822.51 |
| Taxes payable | 14,932,208.31 | 14,943,081.06 |

| | | |
|---|------------------|-----------------|
| Interest payable | | |
| Dividend payable | | |
| Other payables | 28,971,805.32 | 22,392,413.99 |
| Reinsurance payables | | |
| Reserves for insurance contracts | | |
| Agency securities trading | | |
| Agency securities underwriting | | |
| Non-current liabilities due within one year | | |
| Other current liabilities | | |
| Total current liabilities | 309,916,334.50 | 292,661,638.58 |
| Non-current liabilities | | |
| Long-term loans | 600,000,000.00 | 162,418,800.00 |
| Bonds payable | | |
| Long-term payables | | |
| Special payables | | |
| Accrued liabilities | 2,604,411.81 | 2,604,411.81 |
| Deferred income tax liability | | |
| Other non-current liability | | |
| Total non-current liability | 602,604,411.81 | 165,023,211.81 |
| Total liability | 912,520,746.31 | 457,684,850.39 |
| Owners' equity (or Shareholder's equity): | | |
| Paid-in capital(share capital) | 283,161,227.00 | 283,161,227.00 |
| Capital surplus | 109,496,837.33 | 109,496,837.33 |
| Less: treasury stock | | |
| Special reserve | | |
| Surplus reserve | 77,391,593.25 | 77,391,593.25 |
| Reserve for general risks | | |
| Retained profit | -194,930,071.18 | -196,386,008.11 |
| Converted difference in foreign currency Statements | | |
| Total owner's equity attributable to parent company | 275,119,586.40 | 273,663,649.47 |
| Interest of minority shareholders | | |
| Total owners' equity (or shareholders equity) | 275,119,586.40 | 273,663,649.47 |
| Total liabilities and owners' equity (or shareholders equity) | 1,187,640,332.71 | 731,348,499.86 |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

2. Balance Sheet of Parent Company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Item | Closing balance | Opening balance |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Monetary fund | 223,238,213.51 | 18,575,925.94 |
| Tradable financial assets | | |
| Notes receivable | | |
| Accounts receivable | 1,699,750.46 | 38,718,332.28 |
| Prepayments | 500,000.00 | 1,004,976.83 |
| Interest receivable | | |
| Dividend receivable | | |
| Other account receivable | 378,317,866.58 | 100,394,931.80 |
| Inventory | 14,806.50 | 14,806.50 |
| Non-current assets due within one year | | |
| Other current assets | | |
| Total current assets | 603,770,637.05 | 158,708,973.35 |
| Non-current assets: | | |
| Financial assets available for Sale | | |
| Held-to-maturity investment | | |
| Long-term receivables | | |
| Long term equity investment | 187,708,900.00 | 186,708,900.00 |
| Investment real estate | 31,902,042.28 | 32,529,420.82 |
| Fixed assets | 102,295,284.64 | 104,096,997.92 |
| Project in progress | 2,693,356.00 | 2,323,356.00 |
| Project materials | | |
| Liquidation of fixed assets | | |
| Productive biological asset | | |
| Oil and gas asset | | |
| Intangible assets | 5,350,910.73 | 5,423,383.56 |
| Development expenditure | | |
| Goodwill | | |
| Long-term deferred expenditure | 1,123,666.67 | 1,698,633.25 |
| Deferred income tax asset | 8,527,442.54 | 8,485,262.26 |

| | | |
|---|----------------|----------------|
| Other non-current assets | | |
| Total non-current assets | 339,601,602.86 | 341,265,953.81 |
| Total assets | 943,372,239.91 | 499,974,927.16 |
| Current liabilities: | | |
| Short-term borrowing | 37,708,000.00 | 36,180,000.00 |
| Transaction financial liabilities | | |
| Notes payable | | |
| Accounts payable | 9,740,367.33 | 10,745,344.16 |
| Account received in advance | 1,050,045.10 | 126,522.29 |
| Salary payable | 655,258.44 | 655,258.44 |
| Taxes payable | 10,600,796.84 | 10,616,750.61 |
| Interest payable | | |
| Dividend payable | | |
| Others payables | 17,123,912.88 | 11,799,762.43 |
| Non-current liabilities due within one year | | |
| Other current liabilities | | |
| Total current liabilities | 76,878,380.59 | 70,123,637.93 |
| Non-current liabilities: | | |
| Long-term loans | 600,000,000.00 | 162,418,800.00 |
| Bonds payable | | |
| Long-term payables | | |
| Special payables | | |
| Accrued liabilities | 2,604,411.81 | 2,604,411.81 |
| Deferred income tax liability | | |
| Other non-current liability | | |
| Total non-current liability | 602,604,411.81 | 165,023,211.81 |
| Total liabilities | 679,482,792.40 | 235,146,849.74 |
| Owners' equity (or Shareholder's equity): | | |
| Paid-in capital(share capital) | 283,161,227.00 | 283,161,227.00 |
| Capital surplus | 109,496,837.33 | 109,496,837.33 |
| Less: treasury stock | | |
| Special reserve | | |
| Surplus reserve | 77,391,593.25 | 77,391,593.25 |
| Reserve for general risks | | |

| | | |
|---|-----------------|-----------------|
| Retained profit | -206,160,210.07 | -205,221,580.16 |
| Converted difference in foreign currency | | |
| Total owners' equity (or shareholders equity) | 263,889,447.51 | 264,828,077.42 |
| Total liabilities and owners' equity (or shareholders equity) | 943,372,239.91 | 499,974,927.16 |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

3. Consolidated Income Statements

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Item | Current Amount | Amount of the Previous Period |
|---|----------------|-------------------------------|
| I. Total operation revenue | 366,621,826.36 | 302,732,823.42 |
| Including: Operating revenue | 366,621,826.36 | 302,732,823.42 |
| Interest income | | |
| Earned premium | | |
| Fee and commission income | | |
| II Total Operating cost | 365,080,280.21 | 299,072,961.97 |
| Including: Operating costs | 326,921,602.88 | 263,513,507.38 |
| Interest costs | | |
| Fee and commission costs | | |
| Cash surrender | | |
| Net compensation expenses | | |
| Net extraction reserves for insurance contracts | | |
| Policy dividend payout | | |
| Reinsurance expense | | |
| Business tax and surcharge | 3,005,524.09 | 1,273,512.07 |
| Sales expenses | 5,564,699.14 | 4,557,574.73 |
| Administrative expenses | 19,519,931.83 | 21,074,358.43 |
| Financial expenses | 10,209,515.26 | 9,523,053.98 |
| Asset impairment losses | -140,992.99 | -869,044.62 |
| Add: gains from changes of fair value (Loss is listed with "-") | | |
| Investment gain (Loss is listed with "-") | | |
| Including: Investment gains on affiliated Company and joint venture | | |
| Exchange gains (Loss is listed with "-") | | |
| III. Operating profits (Loss is listed with "-") | 1,541,546.15 | 3,659,861.45 |

| | | |
|--|--------------|--------------|
| Add: Non-operating income | 652,682.97 | 718,320.79 |
| Less: Non-operating expenditure | 97,524.24 | 2,040,463.01 |
| Including: Disposal loss on non-current liability | 97,351.51 | 135,953.01 |
| IV Total profits (Total loss is listed with “-”) | 2,096,704.88 | 2,337,719.23 |
| Less: Income tax expenses | 640,767.95 | 369,738.80 |
| V. Net profit (Net loss is listed with “-”) | 1,455,936.93 | 1,967,980.43 |
| Including: Net profit generated by combined party before merged | | |
| Net profit attribute to owners of parent company | 1,455,936.93 | 1,967,980.43 |
| Minority interest | | |
| VI. Earnings per share(EPS) | -- | -- |
| (i) Basic Earnings per share(EPS) | 0.0051 | 0.0070 |
| (ii) Diluted Earnings per share(EPS) | 0.0051 | 0.0070 |
| VII. Other consolidated income | | |
| VIII. Total consolidated income | 1,455,936.93 | 1,967,980.43 |
| Total consolidated income attributable to owners of parent company | 1,455,936.93 | 1,967,980.43 |
| Total consolidated income attributable to minority shareholders | | |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

4. Profit Statement of parent company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Items | Current Amount | Amount of the Previous Period |
|---|----------------|-------------------------------|
| I. Operation revenue | 19,690,535.70 | 18,088,918.23 |
| Less: Operating costs | 3,355,943.00 | 2,725,748.13 |
| Business tax and surcharge | 1,326,375.12 | 1,239,814.83 |
| Sales expenses | | 139,350.72 |
| Administrative expenses | 10,625,182.87 | 10,055,927.41 |
| Financial expenses | 5,283,456.79 | 2,782,510.22 |
| Asset impairment losses | 168,721.11 | -869,044.62 |
| Add: gains from changes of fair value(Loss is listed with “-”) | | |
| Investment gain(Loss is listed with “-”) | | |
| Including: Investment gains on affiliated Company and joint venture | | |
| III. Operating profits (Loss is listed with “-”) | -1,069,143.19 | 2,014,611.54 |
| Add: Non-operating income | 88,333.00 | 20,094.30 |
| Less: Non-operating expenditure | | 1,889,105.71 |

| | | |
|---|-------------|-------------|
| Including: Disposal loss on non-current liability | | |
| III. Total profit (Loss is listed with “-”) | -980,810.19 | 145,600.13 |
| Less: Income tax expenses | -42,180.28 | -255,015.27 |
| IV. Net profit (net loss is listed with “-”) | -938,629.91 | 400,615.40 |
| V. Earnings per share(EPS): | -- | -- |
| (i) Basic Earnings per share(EPS) | -0.0033 | 0.0014 |
| (ii) Diluted Earnings per share(EPS) | -0.0033 | 0.0014 |
| VI. Other consolidated income | | |
| VII. Total consolidated income | -938,629.91 | 400,615.40 |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

5. Consolidated Cash Flow Statement

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Items | Current Amount | Amount of the Previous Period |
|---|----------------|-------------------------------|
| I. Cash flows arising from operating activities: | | |
| Cash received from selling commodities and providing labor services | 197,910,143.89 | 276,036,573.06 |
| 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 | | 3,999.97 |
| Other cash received concerning operating activities | 12,763,483.79 | 10,881,179.42 |
| Subtotal of cash inflow arising from operating activities | 210,673,627.68 | 286,921,752.45 |
| Cash paid for purchasing commodities and receiving labor service | 351,029,497.12 | 271,478,416.68 |
| 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 | 29,924,620.37 | 25,565,420.41 |
| Taxes paid | 5,286,876.42 | 5,855,226.92 |
| Other cash paid concerning operating activities | 13,020,320.30 | 12,580,645.64 |
| Subtotal of cash outflow arising from operating activities | 399,261,314.21 | 315,479,709.65 |
| Net cash flows arising from operating activities | -188,587,686.53 | -28,557,957.20 |
| 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 | 50,000.00 | |
| Net cash received from disposal of subsidiaries and other units | | |
| Other cash received concerning investing activities | | |
| Subtotal of cash inflow from investing activities | 50,000.00 | |
| Cash paid for purchasing fixed, intangible and other long-term assets | 2,870,541.76 | 1,476,896.06 |
| Cash paid for investment | | |
| Net increase of mortgaged loans | | |
| Net cash paid for obtaining subsidiaries and other units | | |
| Other cash paid concerning investing activities | | |
| Subtotal of cash outflow from investing activities | 2,870,541.76 | 1,476,896.06 |
| Net cash flows arising from investing activities | -2,820,541.76 | -1,476,896.06 |
| 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 | 799,000,437.23 | 166,842,751.16 |
| Cash received from issuing bonds | | |
| Other cash received concerning financing activities | | |
| Subtotal of cash inflow from financing activities | 799,000,437.23 | 166,842,751.16 |
| Cash paid for settling debts | 364,293,982.29 | 116,810,646.02 |
| Cash paid for dividend and profit distributing or interest paying | 9,819,249.04 | 9,870,762.72 |
| Including: Dividend and profit of minority shareholder paid by subsidiaries | | |
| Other cash paid concerning financing activities | | |
| Subtotal of cash outflow from financing activities | 374,113,231.33 | 126,681,408.74 |
| Net cash flows arising from financing activities | 424,887,205.90 | 40,161,342.42 |

| | | |
|--|----------------|----------------|
| IV. Influence on cash and cash equivalents due to fluctuation in exchange rate | 41,484.50 | -2,490,886.86 |
| V. Net increase of cash and cash equivalents | 233,520,462.11 | 7,635,602.30 |
| Add: Balance of cash and cash equivalents at the period -begin | 50,704,319.86 | 112,834,841.39 |
| VI. Balance of cash and cash equivalents at the period -end | 284,224,781.97 | 120,470,443.69 |

Legal Representative: Li Zhongqiu
Person in Charge of Accounting: Cao Li
Person in Charge of Accounting Department: Wu Aijie

6. Cash Flow Statement of parent company

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

| Item | Current Amount | Amount of the Previous Period |
|---|-----------------|-------------------------------|
| I. Cash flows arising from operating activities: | | |
| Cash received from selling commodities and providing labor services | 18,611,154.73 | 16,811,461.89 |
| Write-back of tax received | | |
| Other cash received concerning operating activities | 50,396,603.18 | 14,384,915.17 |
| Subtotal of cash inflow arising from operating activities | 69,007,757.91 | 31,196,377.06 |
| Cash paid for purchasing commodities and receiving labor service | | 1,177,778.17 |
| Cash paid to/for staff and workers | 2,542,177.05 | 2,740,597.93 |
| Taxes paid | 2,250,010.47 | 3,011,607.86 |
| Other cash paid concerning operating activities | 289,661,908.46 | 44,744,466.91 |
| Subtotal of cash outflow arising from operating activities | 294,454,095.98 | 51,674,450.87 |
| Net cash flows arising from operating activities | -225,446,338.07 | -20,478,073.81 |
| II. Cash flows arising from investing activities: | | |
| Cash received from recovering investment | | |
| Cash received from investment income | | |
| Net cash received from disposal of fixed, intangible and other long-term assets | | |
| Net cash received from disposal of subsidiaries and other units | | |
| Other cash received concerning investing activities | | |
| Subtotal of cash inflow from investing activities | | |
| Cash paid for purchasing fixed, intangible and other long-term assets | 882,600.00 | 557,629.50 |
| Cash paid for investment | 1,000,000.00 | |
| Net cash paid for obtaining subsidiaries and other units | | |
| Other cash paid concerning investing activities | | |
| Subtotal of cash outflow from investing activities | 1,882,600.00 | 557,629.50 |
| Net cash flows arising from investing activities | -1,882,600.00 | -557,629.50 |
| III. Cash flows arising from financing activities | | |

| | | |
|--|----------------|---------------|
| Cash received from absorbing investment | | |
| Cash received from loans | 627,000,000.00 | 26,000,000.00 |
| Cash received from issuing bonds | | |
| Other cash received concerning financing activities | | |
| Subtotal of cash inflow from financing activities | 627,000,000.00 | 26,000,000.00 |
| Cash paid for settling debts | 187,890,800.00 | 1,485,000.00 |
| Cash paid for dividend and profit distributing or interest paying | 7,130,341.85 | 6,276,583.74 |
| Other cash paid concerning financing activities | | |
| Subtotal of cash outflow from financing activities | 195,021,141.85 | 7,761,583.74 |
| Net cash flows arising from financing activities | 431,978,858.15 | 18,238,416.26 |
| IV. Influence on cash and cash equivalents due to fluctuation in exchange rate | 12,367.49 | -50,969.10 |
| V. Net increase of cash and cash equivalents | 204,662,287.57 | -2,848,256.15 |
| Add: Balance of cash and cash equivalents at the period -begin | 18,575,925.94 | 10,555,114.25 |
| VI. Balance of cash and cash equivalents at the period -end | 223,238,213.51 | 7,706,858.10 |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

7. Consolidated Statement on Changes of Owners' Equity

Prepared by SHENZHEN ZHONGHENG HUAFU CO., LTD

Current Amount

In RMB

| Item | Current Amount | | | | | | | | | |
|---|---|-----------------|----------------------|-----------------|-----------------|---------------------------|-----------------|-------|-----------------------------------|----------------------|
| | Owners' equity attributable to the parent company | | | | | | | | Interest of minority shareholders | Total owners' equity |
| | Paid-in capital (share capital) | Capital surplus | Less: treasury stock | Special reserve | Surplus reserve | Reserve for general risks | Retained profit | Other | | |
| I. Balance at the end of last year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -196,386,008.11 | | | 273,663,649.47 |
| Add: Changes of accounting policy | | | | | | | | | | |
| Error correction of previous period | | | | | | | | | | |
| Others | | | | | | | | | | |
| II. Balance at the beginning of this year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -196,386,008.11 | | | 273,663,649.47 |
| III. Increase/ Decrease in this year (Decrease is listed) | | | | | | | 1,455,936.93 | | | 1,455,936.93 |

| | | | | | | | | | |
|--|----------------|----------------|--|--|---------------|-----------------|--|--|----------------|
| with "-" | | | | | | | | | |
| (i) Net profit | | | | | | 1,455,936.93 | | | 1,455,936.93 |
| (ii) Other consolidated income | | | | | | | | | |
| Subtotal of (i) and (ii) | | | | | | 1,455,936.93 | | | 1,455,936.93 |
| (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) Special 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 | -194,930,071.18 | | | 275,119,586.40 |

Amount in last year

In RMB

| Items | Amount in last year | | | | | | | | | |
|--|---|-----------------|----------------------|-----------------|-----------------|---------------------------|-----------------|-------|-----------------------------------|----------------------|
| | Owners' equity attributable to the parent company | | | | | | | | Interest of minority shareholders | Total owners' equity |
| | Paid-in capital (share capital) | Capital surplus | Less: treasury stock | Special reserve | Surplus reserve | Reserve for general risks | Retained profit | Other | | |
| I. Balance at the end of last year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -189,868,606.67 | | | 280,181,050.91 |
| Add: retroactive adjustment arising from enterprise consolidation under the same control | | | | | | | | | | |
| Add: Changes of accounting policy | | | | | | | | | | |
| Error correction of previous period | | | | | | | | | | |
| Other | | | | | | | | | | |
| II. Balance at the beginning of this year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -189,868,606.67 | | | 280,181,050.91 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | | | | | | -6,517,401.44 | | | -6,517,401.44 |
| (i) Net profit | | | | | | | -6,517,401.44 | | | -6,517,401.44 |
| (II) Other consolidated income | | | | | | | | | | |
| Subtotal of (i) and (ii) | | | | | | | -6,517,401.44 | | | -6,517,401.44 |
| (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) Special 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 | | -196,386,008.11 | | | 273,663,649.47 |

Legal Representative: Li Zhongqiu

Person in Charge of Accounting: Cao Li

Person in Charge of Accounting Department: Wu Aijie

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

Prepared by SHENZHEN ZHONGHENG HUAFU CO., LTD

Current Amount

In RMB

| Items | Current Amount | | | | | | | |
|---|---------------------------------|-----------------|----------------------|-----------------|-----------------|---------------------------|-----------------|----------------------|
| | Paid-in capital (share capital) | Capital surplus | Less: treasury stock | Special reserve | Surplus reserve | Reserve for general risks | 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 | | -205,221,580.16 | 264,828,077.42 |
| Add: Changes of accounting policy | | | | | | | | |
| Error correction of previous period | | | | | | | | |
| Other | | | | | | | | |
| II. Balance at the beginning of this year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -205,221,580.16 | 264,828,077.42 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | | | | | | -938,629.91 | -938,629.91 |
| (i) Net profit | | | | | | | -938,629.91 | -938,629.91 |

| | | | | | | | | |
|--|----------------|----------------|--|--|---------------|--|-----------------|----------------|
| (II) Other consolidated income | | | | | | | | |
| Subtotal of (i) and (ii) | | | | | | | -938,629.91 | -938,629.91 |
| (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) Special 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 | | -206,160,210.07 | 263,889,447.51 |

Amount in last year

In RMB

| Item | Amount in last year | | | | | | | |
|------------------------------------|---------------------------------|-----------------|----------------------|-----------------|-----------------|---------------------------|-----------------|----------------------|
| | Paid-in capital (share capital) | Capital surplus | Less: treasury stock | Special reserve | Surplus reserve | Reserve for general risks | 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 | | -201,760,130.30 | 268,289,527.28 |
| Add: Changes of accounting policy | | | | | | | | |

| | | | | | | | | |
|--|----------------|----------------|--|--|---------------|--|-----------------|----------------|
| Error correction of previous period | | | | | | | | |
| Other | | | | | | | | |
| II. Balance at the beginning of this year | 283,161,227.00 | 109,496,837.33 | | | 77,391,593.25 | | -201,760,130.30 | 268,289,527.28 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | | | | | | -3,461,449.86 | -3,461,449.86 |
| (i) Net profit | | | | | | | -3,461,449.86 | -3,461,449.86 |
| (II) Other consolidated income | | | | | | | | |
| Subtotal of (i) and (ii) | | | | | | | -3,461,449.86 | -3,461,449.86 |
| (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) Special 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 | | -205,221,580.16 | 264,828,077.42 |

Legal Representative: Li Zhongqiu
Person in Charge of Accounting: Cao Li
Person in Charge of Accounting Department: Wu Aijie

III. Basic information of the Company

Shenzhen Zhongheng Huafa 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 June 30, 2014, 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 Wuhan 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., 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), Shenzhen Huafa Hengtian Co., Ltd. (hereinafter referred to as Huafa Hengtian Company), Shenzhen Yutian Henghua Co., Ltd. (hereinafter referred to as Yutian Henghua Company), Shenzhen Huafa Hengtai Co., Ltd. (hereinafter referred to as Huafa Hengtai 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.

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 different 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. Financial instruments

(1) Classification of financial instruments

Based on investment purpose and economic substance, the group classifies its financial assets into 4 major classes: financial assets measured at fair value with changes included into current profits and losses, held to maturity investments, loans and receivables, and financial assets available for sale.

Financial assets measured at fair value with changes included into current profits and losses refer to the financial assets held for

the main purpose of selling in short term, which is listed as held for trading financial assets in Balance Sheet.

Held to maturity investments refer to non-derivative financial assets with fixed maturity, fixed recoverable amount or that can be confirmed, or that the management has clear intention and capacity to hold to maturity.

Loans and receivables refer to non-derivative financial assets having no quote in active market, fixed recoverable amount or that can be confirmed.

Financial assets available for sale including non-derivative financial assets defined to be available for sale upon initial confirmation and financial assets having been classified as other assets.

(2) Confirmation basis and measurement methods of financial instruments

Financial assets will be confirmed as per fair value in Balance Sheet when the group becoming one party of the financial instrument contract. Relevant trading fees occurred at the time of obtaining financial assets measured at fair value with changes included into current profits and losses will be included in current profits and losses, while those of other financial assets will be included into initially confirmed amount.

Financial assets measured at fair value with changes included into current profits and losses and financial assets available for sale will be measured subsequently at fair value. Loans and receivables, as well as held to maturity investments will be listed as amortized cost calculated by effective interest method.

Changes in the fair value of financial assets measured at fair value with changes included into current profits and losses will be included into profits and losses on the changes in fair value; interests or cash dividends gained during asset-holding period will be confirmed as investment income; at time of disposal, the balance between its fair value and initial recorded amount will be confirmed as investment gains and losses, and the profits and losses on changes in fair value will be adjusted at the same time.

Except for the exchange gains and losses generated via impairment losses and foreign currency financial assets, changes in the fair value of financial assets available for sale will be directly included into shareholders' equity, and till the time of confirming that financial asset finally, the accumulated amount of changes in fair value directly included into equity will be transferred to current profits and losses. Interest of available-for-sale debt instruments in its holding period will be calculated by effective interest method, and, together with the cash dividends related to the available-for-sale debt instruments declared to issue by investee unit will be included into current profits and losses.

(3) Confirmation basis and measurement methods for transfer of financial assets

Financial assets meeting one of the following conditions shall be confirmed for termination: ① Contractual rights of charging the cash flow of that financial asset are terminated; ② The financial asset has been transferred, and the group has transferred all risks and returns on the ownership of that financial asset to the other party; ③ The financial asset has been transferred, and the group has given up its control over that financial asset although it neither transfers nor retains almost all risks and returns on the ownership of that financial asset.

In case the enterprise neither transfers nor retains almost all risks and returns on the ownership of or hasn't given up its control over that financial asset, relevant financial asset shall be confirmed as per the degree of financial assets it transferred as it further involves, and relevant liabilities shall also be confirmed correspondingly. The degree of financial assets it transferred as it further

involves refers to the risk level facing by enterprise due to changes in the value of financial assets.

For overall transfer of financial assets meeting termination confirming conditions, the balance between the book value of transferred financial assets and the total accumulative amount of consideration received due to transfer and changes in fair value of other consolidated income previously included will be included in current profits and losses.

For partial transfer of financial assets meeting termination confirming conditions, the book value of transferred financial assets will be apportioned as per relative fair value respectively between the part confirming termination and the part unconfirmed; and the balance among the total accumulative amount of consideration received due to transfer and previously included changes in fair value of other consolidated income being apportioned to the part confirming termination, as well as the foresaid apportioned book value shall be included in current profits and losses.

(4) Termination confirming conditions of financial assets

Financial liabilities of the group are classified into financial liabilities measured at fair value with changes included into current profits and losses and other financial liabilities upon initial confirmation.

Financial liabilities measured at fair value with changes included into current profits and losses include trading financial liabilities and those defined as financial liabilities measured at fair value with changes included into current profits and losses upon initial confirmation, which will be measured subsequently at fair value, and the profits and losses formed due to changes in fair value as well as the dividends and interest expenses related to that financial liability shall be included in current profits and losses.

Other financial liabilities will be measured subsequently as per amortized cost calculated by effective interest method.

In case the current obligation of financial liabilities is entirely or partially dissolved, the dissolved part of that financial liability or obligation shall be confirmed for termination. Balance between the book value of the part confirmed termination and the consideration paid shall be included into current profits and losses.

(5) Confirmation method of the fair value of financial assets and financial liabilities

For financial instruments existing in active mark, the quote prices in that active market will be used for confirming its fair value. In active market, financial assets already held or financial liabilities to be born by the group will take the current offering price as fair vale of corresponding assets or liabilities; financial assets to be bought or financial liabilities already born by the group will take the current asking price as fair vale of corresponding assets or liabilities. For financial assets or financial liabilities without current offering and asking prices, if there are no important changes to the recent economic environment after trading day, the market price of the latest transaction shall be adjusted referring to the current price or interest rate of similar financial assets or financial liabilities, so as to confirm the fair value of that financial assets or financial liabilities. For those the group has enough evidence to proof that the market price of the latest transaction is not fair value, the market price of the latest transaction shall be appropriately adjusted so as to confirm the fain value of that financial assets or financial liabilities.

For financial instruments not existing in active mark, the fair value shall be confirmed by valuation techniques which including taking reference of the used price in the latest marketing transaction of each party that being familiar with and willing to trade, taking reference of the current fair value of other financial assets with the same substance, discounted cash flow method, and Option Pricing Model and so on.

(6) Impairment test method and impairment provision accrual method of financial assets (excluding receivables)

Except for financial assets measured at fair value with changes included into current profits and losses, the group checks the book value of other financial assets upon the date of balance sheet; if there are objective evidences proving that a financial asset is impaired, withdraw impairment provision.

In impairment incurred to financial assets measured at amortized cost, impairment provision shall be withdrawn as per the balance between the current value of estimated future cash flow (excluding future credit losses that have not yet occurred) and the book value. If there are objective evidences proving that the value of that financial assets has been recovered, and it is related to the affairs occurred after confirming that losses, the originally confirmed impairment losses shall be returned and included into current profits and losses.

In the fair value of financial assets available for sale is greatly or non-temporarily declining, the accumulative losses previously included into shareholder's equity and formed due to decline of fair value shall be transferred and included into impairment losses. For available-for-sale debt instruments with impairment losses already confirmed, if the fair value rises after expiration and it is objectively related to the affairs occurred after confirming the original impairment losses, the previously confirmed impairment losses shall be transferred and included into impairment losses. For available-for-sale debt instruments with impairment losses already confirmed, the fair value rises after expiration shall be directly included into shareholder's equity.

Various recognition standards of impairment of various available-for-sale financial assets

(7) For undue held -to-maturity investments reclassified as financial assets available for sale, intention of holding or evidence for changes in abilities shall be defined

- a. The duration of holding the financial asset is uncertain;
- b. The financial asset will be sold upon occurrence of changes in market interest rates, changes in liquidity needs, changes in alternative investment opportunities and other investment yield, changes in financing sources and conditions, changes in foreign currency exchange risk and so on;
- c. Issuer of the financial asset can pay off at the amount obviously lower than its amortized cost;
- d. No financial resources that can be used to continuously provide financial support for that financial asset investment so as to ensure holding to maturity of the financial asset;
- e. Restriction of laws and administrative regulations makes it difficult for enterprise to hold the financial asset to maturity;
- f. Other conditions indicate that the enterprise has no intention or ability to hold the financial asset with fixed duration to maturity.

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

The Group takes the following conditions as recognition standards of bad debt loss of accounts receivable: The debtor is revoked, bankrupt, solvent, seriously lack of cash flow, unable to repay the debts within predictable period due to shutdown resulted from serious natural disasters; the debtor delays the performing of the debt repaying obligation for over 5 years; other unambiguous evidence indicates that the debts cannot be recovered or the debts are unlikely to recover.

Allowance method is adopted for accounting of possible bad debt loss. Impairment test will be carried out at the end of the period separately or in a combined way. Bad-debt provision will be accrued and included in current profit or loss. As for accounts receivable indicated by unambiguous evidence that are indeed unrecoverable, they will be viewed as bad debt loss with the approval of the Group according to the stipulated procedure and then used to charge against bad-debt provision already drawn.

(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 specific bad debt preparation | Provision bad debt preparation in accordance with the difference of present value of future cash flow below the book value |

(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 | 0.00% | 0.00% |
| 1-2 year (s) | 5.00% | 5.00% |
| 2-3 year (s) | 10.00% | 10.00% |
| Over 3 years | 30.00% | 30.00% |

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. |

11. 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

12. 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.

13. 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.

14. 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

Financing lease refers to a type of lease that has substantially transferred all risks and rewards related to assets ownership which may be finally transferred or not. If one or several of the following standards is fulfilled, it shall be recognized as financing lease:

- a. The ownership of the leased assets is transferred to the lessee upon expiry of term of lease.
- b. The lessee has a option for purchase of leased assets and the purchase price established is expected to be much lower than the fair value of leased assets upon exercising of option. Therefore, it can be reasonably determined that the lessee will exercise this option upon lease inception.
- c. The term of lease takes up a majority part of the service life of the leased assets even if the ownership of the assets is not transferred.
- d. The present value of minimum lease payment of the lessee upon the lease inception is almost equal to the fair value of leased assets upon the lease inception; the present value of minimum lease receipt of the lessor upon the lease inception is almost equal to the fair value of leased assets upon the lease inception
- e. The nature of leased assets is special and only the lessees can use such assets unless significant reconstruction is made.

The entry value of the fixed assets leased by financing lease shall be determined as the lower one between fair value of leased assets upon lease inception and present value of minimum lease payment.

(3) Depreciation methods of various fixed assets

Fixed assets include houses and buildings, machines, molds, equipment, transportation equipment, instruments and equipment, tools and equipment, and office equipment.

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.

15. 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.

16. 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.

17. 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. 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.

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

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 excepted 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

Research refers to ingenious and planed investigation conducted with the purpose of acquiring and understanding new scientific or technological knowledge.

Development refers to application of research findings or other knowledge in a certain plan or design before commercial

production or use to produce new or substantially improved materials, device, products, etc..

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.

18. 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.

19. 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.

20. 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.

21. 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.

22. Government Grant

(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 Policies

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.

23. 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.

24. 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.

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%

The applicable corporate income tax rate of subsidiaries of the Company, i.e. Huafa Property Company, Huafa Technology Company, Huafa Trading Company, Huafa Hengtian Company, Yutian Henghua Company, and Huafa Hengtai Company, 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") , Shenzhen Huafa Hengtian Co., Ltd. (hereinafter referred to Huafa Hengtian Company), Shenzhen Yutian Henghua Co., Ltd. (hereinafter referred to as Yutian Henghua Company), Shenzhen Huafa Hengtai Co., Ltd. (hereinafter referred to as Huafa Hengtai 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 | 18,1643100 | 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 | 100000.00 | Selling, goods import and export business of optoelectronic products | 100,000.00 | | 100% | 100% | Yes | | | |
| Yutian Henghua Company | Company of limited liabilities | Shenzhen | Property Management | 100,000.00 | Property Management | 1,000,000.00 | | 100.00% | 100.00% | Yes | | | |
| Huafa Hengtian Company | Company of limited liabilities | Shenzhen | Property Management | 1,000,000.00 | Selling, goods import and export business of optoelectronic products | 1,000,000.00 | | 100.00% | 100.00% | Yes | | | |
| Huafa Hengtai Company | Company of limited liabilities | Shenzhen | Property Management | 1,000,000.00 | Lease and management of self-owned property | 1,000,000.00 | | 100.00% | 100.00% | Yes | | | |

2. Introduction to the change of merger scope

Introduction to the scope change of the merger statement

Applicable Not applicable

Compared with previous year, 1 new combined unit is increased in current year (period). The reason is

A wholly-owned subsidiary is newly established in current period.

Compared with previous year, 0 new combined unit is reduced in current year (period). The reason is

3. Subject concluded into merger scope during report period and subject that will be not concluded into merger scope any more during report period

Subsidiaries and subjects with special purpose concluded into merger scope newly this term become operating entity that forms control right through entrusted operation or lessee way.

Unit: RMB

| Name | Ending net asset | Net profit in this term |
|------------------------|------------------|-------------------------|
| Huafa Hengtian Company | 999,940.00 | -60.00 |

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 | -- | -- | 958,392.16 | -- | -- | 492,314.95 |
| RMB | -- | -- | 910,718.18 | -- | -- | 422,312.83 |
| HKD | 48,999.18 | 0.8 | 38,896.04 | 77,966.13 | 0.79 | 61,326.60 |
| USD | 1,426.77 | 6.2 | 8,777.94 | 1,422.45 | 6.1 | 8,675.52 |
| Bank Deposit | -- | -- | 283,266,389.81 | -- | -- | 50,212,004.91 |
| RMB | -- | -- | 266,191,824.08 | -- | -- | 26,233,133.17 |
| HKD | 114,611.34 | 0.8 | 90,979.63 | 114,309.76 | 0.79 | 89,913.77 |
| USD | 2,760,314.07 | 6.2 | 16,983,586.10 | 3,918,213.84 | 6.1 | 23,888,957.97 |
| Other Monetary Fund | -- | -- | 3,861,098.53 | -- | -- | 3,547,136.34 |
| RMB | -- | -- | 3,860,867.93 | -- | -- | 1,818,436.68 |
| USD | 37.48 | 6.2 | 230.60 | 283,537.48 | 6.1 | 1,728,699.66 |

| | | | | | | |
|-------|----|----|----------------|----|----|---------------|
| Total | -- | -- | 288,085,880.50 | -- | -- | 54,251,456.20 |
|-------|----|----|----------------|----|----|---------------|

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 | 62,149,080.06 | 154,352,869.68 |
| Commercial Acceptance Bill | | 23,066.81 |
| Total | 62,149,080.06 | 154,375,936.49 |

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

Unit: RMB

| Issuer | Issuing Date | Due Date | Amount | Note |
|--|---------------|---------------|----------------------|-----------|
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | Jan. 14, 2014 | Jul. 14, 2014 | 3,271,000.48 | |
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | Mar. 17, 2014 | Sep. 17, 2014 | 6,020,000.00 | |
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | Apr. 16, 2014 | Oct. 16, 2014 | 7,782,132.28 | |
| TCL Air-conditioner (Wuhan) Co., Ltd. | Apr. 23, 2014 | Oct. 23, 2014 | 3,000,000.00 | |
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | Jun. 16, 2014 | Dec. 16, 2014 | 5,865,153.51 | |
| Total | -- | -- | 25,938,286.27 | -- |

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 | 7,649,789.11 | 2.00% | 6,340,168.08 | 82.88% | 7,649,789.11 | 4.40% | 6,227,694.47 | 81.41% |

| | | | | | | | | |
|---|----------------|--------|---------------|---------|----------------|--------|---------------|---------|
| debt preparation separately | | | | | | | | |
| Other receivables with accrual of bad debt reserve according to combination | | | | | | | | |
| Aging portfolio | 369,392,469.75 | 96.64% | 167,198.33 | 0.05% | 160,967,562.02 | 92.60% | 110,950.83 | 0.07% |
| Subtotal of combination | 369,392,469.75 | 96.64% | 167,198.33 | 0.05% | 160,967,562.02 | 92.60% | 110,950.83 | 0.07% |
| Accounts receivable that were not significant but have been provisioned bad debt preparation separately | 5,210,953.41 | 1.36% | 5,210,953.41 | 100.00% | 5,210,953.41 | 3.00% | 5,210,953.41 | 100.00% |
| Total | 382,253,212.27 | -- | 11,718,319.82 | -- | 173,828,304.54 | -- | 11,549,598.71 | -- |

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 | 100.00% | Can not be taken back |
| TCL Wangpai Electric Appliance (Huizhou) Co., Ltd. | 1,325,431.75 | 1,325,431.75 | 100.00% | Can not be taken back |
| Skyworth Multimedia(Shenzhen) Co.,Ltd. | 672,769.28 | 672,769.28 | 100.00% | Can not be taken back |
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | 1,225,326.15 | 1,225,326.15 | 100.00% | Can not be taken back |
| H. K. Haowei Industry Co., Ltd. | 1,870,887.18 | 561,266.15 | 30.00% | Failure to recover on time because of customer's fund shortage |
| Total | 7,649,789.11 | 6,340,168.08 | -- | -- |

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 | 368,835,141.99 | | 0.00 | 160,410,234.26 | | |
| 1-2 year (s) | | | | 224,990.00 | 5.00% | 11,249.50 |
| 2-3 year (s) | 557,327.76 | 30.00% | 167,198.33 | 332,337.76 | 30.00% | 99,701.33 |
| Total | 369,392,469.75 | -- | 167,198.33 | 160,967,562.02 | -- | 110,950.83 |

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 | 100.00% | Can not be taken back |
| Shenzhen Wandial Number Science and Technology Co.,Ltd. | 351,813.70 | 351,813.70 | 100.00% | Can not be taken back |
| Shenzhen Dalong Electric Co.,Ltd. | 344,700.00 | 344,700.00 | 100.00% | Can not be taken back |
| Shenzhen Qunpin Electric Co.,Ltd. | 304,542.95 | 304,542.95 | 100.00% | Can not be taken back |
| China Galaxy Electric(Hong Kong) Co.,Ltd. | 288,261.17 | 288,261.17 | 100.00% | Can not be taken back |
| Dongguan Weite Electric Co.,Ltd. | 274,399.80 | 274,399.80 | 100.00% | Can not be taken back |
| Hong Kong New Century Electric Co.,Ltd. | 207,409.40 | 207,409.40 | 100.00% | Can not be taken back |
| Shenyang Beitai Electric Co.,Ltd. | 203,304.02 | 203,304.02 | 100.00% | Can not be taken back |
| Beijing Xinfanweiye Science and Technology Co.,Ltd. | 193,000.00 | 193,000.00 | 100.00% | Can not be taken back |
| TCL Electric(Hong kong) Co.,Ltd. | 145,087.14 | 145,087.14 | 100.00% | Can not be taken back |
| Huizhou TCL New and Special Electronics Co., Ltd. | 142,707.14 | 142,707.14 | 100.00% | Can not be taken back |
| Shenzhen Skyworth-RGB Electric Co.,Ltd. | 133,485.83 | 133,485.83 | 100.00% | Can not be taken back |
| Shenzhen Xinfu Electronics Co., Ltd. | 119,094.78 | 119,094.78 | 100.00% | Can not be taken back |
| Others | 2,121,978.52 | 2,121,978.52 | 100.00% | Can not be taken back |
| Total | 5,210,953.41 | 5,210,953.41 | -- | -- |

(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 |
|--|-------------------------------------|----------------|---------------|---------------------------------|
| Hong Kong Tianyu International Investment Co.,Ltd. | The same ultimate controlling party | 227,771,482.59 | Within 1 year | 59.57% |
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | Nonaffiliated parties | 63,079,537.47 | Within 1 year | 16.50% |
| Fangchenggang Zhongyi Heavy Industry Co., Ltd. | Nonaffiliated parties | 19,549,410.19 | Within 1 year | 5.11% |

| | | | | |
|--|-----------------------|----------------|---------------|--------|
| Qingdao Haidayuan Purchase Service Co., Ltd. | Nonaffiliated parties | 11,272,485.87 | Within 1 year | 2.95% |
| TCL Air-conditioner (Wuhan) Co., Ltd. | Nonaffiliated parties | 6,793,338.82 | Within 1 year | 1.78% |
| Total | -- | 328,466,254.94 | -- | 85.91% |

(3) About the accounts receivable from the related parties

Unit: RMB

| Unit name | Relation with this company | Amount | As a percentage in accounts receivable |
|--|-------------------------------------|----------------|--|
| Hong Kong Tianyu International Investment Co.,Ltd. | The same ultimate controlling party | 227,771,482.59 | 59.57% |
| Total | -- | 227,771,482.59 | 59.57% |

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 | 5,662,187.38 | 30.47% | 5,662,187.38 | 100.00% | 5,662,187.38 | 28.23% | 5,662,187.38 | 100.00% |
| Other receivables with accrual of bad debt reserve according to combination | | | | | | | | |
| Aging portfolio | 8,918,265.02 | 47.99% | 766,682.19 | 8.60% | 10,081,917.80 | 50.27% | 458,150.02 | 4.54% |
| Subtotal of combination | 8,918,265.02 | 47.99% | 766,682.19 | 8.60% | 10,081,917.80 | 50.27% | 458,150.02 | 4.54% |
| Accounts receivable that were not significant but have been provisioned bad debt preparation separately | 4,004,746.63 | 21.55% | 4,004,746.63 | 100.00% | 4,313,278.80 | 21.50% | 4,313,278.80 | 100.00% |
| Total | 18,585,199.03 | -- | 10,433,616.20 | -- | 20,057,383.98 | -- | 10,433,616.20 | -- |

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 |
|---|--------------|--------------|---------------|-----------------------|
| Hebei Botou Court | 520,021.00 | 520,021.00 | 100.00% | Can not be taken back |
| Traffic incident indemnity | 555,785.81 | 555,785.81 | 100.00% | Can not be taken back |
| Shenzhen Boteman Bowling Club Co., Ltd. | 4,021,734.22 | 4,021,734.22 | 100.00% | Can not be taken back |
| Zhao Baomin | 564,646.35 | 564,646.35 | 100.00% | Can not be taken back |
| Total | 5,662,187.38 | 5,662,187.38 | -- | -- |

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 | 5,549,838.26 | | | 7,751,585.53 | | |
| 1-2 year (s) | 869,344.22 | 5.00% | 43,467.21 | 963,798.62 | 5.00% | 48,189.93 |
| 2-3 year (s) | 132,548.90 | 10.00% | 13,254.89 | | | |
| Over 3years | 2,366,533.64 | 30.00% | 709,960.09 | 1,366,533.65 | 30.00% | 409,960.09 |
| Total | 8,918,265.02 | -- | 766,682.19 | 10,081,917.80 | -- | 458,150.02 |

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 |
|--|--------------|-------------------------|---------------|-----------------------|
| Shenzhen Lotus Island Restaurant Co.,Ltd | 236,293.80 | 236,293.80 | 100.00% | Can not be taken back |
| Weili Electric Corporation Co.,Ltd, Zhangzhou City, Fujian Province | 112,335.62 | 112,335.62 | 100.00% | Can not be taken back |
| Employee canteen ect. | 1,036,916.46 | 1,036,916.46 | 100.00% | Can not be taken back |
| Individual loan and expenditure | 469,161.93 | 469,161.93 | 100.00% | Can not be taken back |
| Trade Union | 297,402.55 | 297,402.55 | 100.00% | Can not be taken back |
| Chuangjing workshop | 192,794.00 | 192,794.00 | 100.00% | Can not be taken back |
| Others | 1,659,842.27 | 1,659,842.27 | 100.00% | Can not be taken back |

| | | | | |
|-------|--------------|--------------|----|----|
| Total | 4,004,746.63 | 4,004,746.63 | -- | -- |
|-------|--------------|--------------|----|----|

(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 | 21.64% |
| Hengfa Complex Building | Nonaffiliated parties | 1,770,157.50 | Within 1 year | 9.52% |
| Hubei Electric Power Company Wuhan Power Supply Company | Nonaffiliated parties | 895,588.92 | Within 1 year | 4.82% |
| Gree Electric Appliance (Wuhan) Co., Ltd | Nonaffiliated parties | 330,000.00 | Within 1 year | 1.78% |
| Zhao Baomin | Nonaffiliated parties | 564,646.35 | Over 3years | 3.04% |
| Total | -- | 7,582,126.99 | -- | 40.80% |

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 | 134,263,486.22 | 100.00% | 13,346,708.54 | 99.00% |
| 1-2 year (s) | | | 136,534.65 | 1.00% |
| Total | 134,263,486.22 | -- | 13,483,243.19 | -- |

(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 |
|--|----------------------------|---------------|----------------|--------------------------|
| Lenggang Wuhan Trade & Industry Co., Ltd. | Nonaffiliated parties | 49,535,640.03 | Within 1 year | Not to settlement period |
| Wuhan Hengsheng Photoelectric Industry Co., Ltd. | Common final controller | 47,932,487.84 | Within 1 year | Not to settlement period |
| Wuhan Dashunchao Materials Trading Co., Ltd. | Nonaffiliated parties | 17,893,000.00 | Within 1 year | Not to settlement period |

| | | | | |
|--|-----------------------|----------------|---------------|--------------------------|
| Guangxi Blue Bay International Trade Co., Ltd. | Nonaffiliated parties | 7,409,891.00 | Within 1 year | Not to settlement period |
| Wuhan Vimsome Iron and Steel Trade Co., Ltd. | Nonaffiliated parties | 5,373,764.23 | Within 1 year | Not to settlement period |
| Total | -- | 128,144,783.10 | -- | -- |

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 | 27,719,037.10 | 4,583,517.25 | 23,135,519.85 | 29,655,107.32 | 4,893,231.35 | 24,761,875.97 |
| Finishing Product | 217,174.18 | | 217,174.18 | 27,982.75 | | 27,982.75 |
| Stocked Goods | 14,791,475.36 | 3,222,621.17 | 11,568,854.19 | 19,282,804.52 | 3,222,621.17 | 16,060,183.35 |
| Low priced and easily worn articles | 1,017,720.57 | 363,236.79 | 654,483.78 | 914,440.54 | 363,236.79 | 551,203.75 |
| Self-made semi-finished product | 4,183,520.54 | 250,244.88 | 3,933,275.66 | 2,287,490.60 | 250,244.88 | 2,037,245.72 |
| Processed Materials upon entrustment | 59,813.03 | | 59,813.03 | 3,680,812.31 | | 3,680,812.31 |
| Total | 47,988,740.78 | 8,419,620.09 | 39,569,120.69 | 55,848,638.04 | 8,729,334.19 | 47,119,303.85 |

(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 | 4,893,231.35 | | 309,714.10 | | 4,583,517.25 |
| Stocked Goods | 3,222,621.17 | | | | 3,222,621.17 |
| Low priced and easily worn articles | 363,236.79 | | | | 363,236.79 |
| Self-made semi-finished product | 250,244.88 | | | | 250,244.88 |
| 合计 | 8,729,334.19 | | 309,714.10 | | 8,419,620.09 |

(3) Inventory Falling Price Reserves

| Item | Basis for accrual of inventory falling price reserves | Reason of reversal of inventory falling price reserves in current period | Ratio of amount reverse in current period in the ending balance of the inventory |
|-------------------------------------|---|---|--|
| Raw Materials | Lower one between book value and net realizable value | Some raw materials with accrual of falling price reserves already processed in current period | 1.12% |
| Stocked Goods | Lower one between book value and net realizable value | | |
| Finishing Product | Lower one between book value and net realizable value | | |
| Turnover materials | Lower one between book value and net realizable value | | |
| Consumable biological assets | Lower one between book value and net realizable value | | |
| Low priced and easily worn articles | Lower one between book value and net realizable value | | |
| Self-made semi-finished product | Lower one between book value and net realizable value | | |

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 | 0.00 | 0.00 | 107,661,686.94 |
| 1. Houses & Buildings | 107,661,686.94 | | | 107,661,686.94 |
| II. Sum of accumulated depreciation and accumulated amortization | 75,132,266.12 | 627,378.54 | 0.00 | 75,759,644.66 |
| 1.Houses & Buildings | 75,132,266.12 | 627,378.54 | | 75,759,644.66 |
| III. Total net book value of investment real estate | 32,529,420.82 | -627,378.54 | 0.00 | 31,902,042.28 |
| 1.Houses & Buildings | 32,529,420.82 | -627,378.54 | 0.00 | 31,902,042.28 |
| 2. Land-use Right | 0.00 | 0.00 | 0.00 | |

| | | | | |
|---|---------------|-------------|------|---------------|
| V. Total book value of investment real estate | 32,529,420.82 | -627,378.54 | 0.00 | 31,902,042.28 |
| 1. Houses & Buildings | 32,529,420.82 | -627,378.54 | 0.00 | 31,902,042.28 |
| 2. Land-use Right | 0.00 | 0.00 | 0.00 | |

Unit: RMB

| | Current period |
|--|----------------|
| Current depreciation and amortization amount | 627,378.54 |
| Current accrual amount of impairment provision of investment real estate | 0.00 |

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: | 350,913,340.60 | 3,172,651.94 | | 1,393,831.09 | 352,692,161.45 |
| Among it: Houses & Buildings | 218,177,134.33 | | | | 218,177,134.33 |
| Machinery Equipment | 85,808,429.03 | 1,872,298.04 | | 1,333,931.99 | 86,346,795.08 |
| Means of conveyance | 4,718,484.59 | 510,000.00 | | | 5,228,484.59 |
| Tooling Equipment | 10,200,502.85 | 244,665.68 | | 38,224.80 | 10,406,943.73 |
| Office Equipment | 6,402,627.02 | 15,394.76 | | 21,674.30 | 6,396,347.48 |
| Mould Equipment | 11,729,493.84 | 527,672.10 | | | 12,257,165.94 |
| Apparatus Equipment | 13,876,668.94 | 2,621.36 | | | 13,879,290.30 |
| -- | Book balance at the beginning of period | Current increment | Current accrual | Current decrement | Current ending balance |
| II. Total accumulated depreciation | 152,485,739.35 | | 7,503,196.36 | 1,082,878.48 | 158,906,057.23 |
| Among it: Houses & Buildings | 61,872,274.85 | | 2,909,481.71 | | 64,781,756.56 |
| Machinery Equipment | 53,695,012.53 | | 3,225,697.84 | 1,029,245.98 | 55,891,464.39 |
| Means of conveyance | 3,400,834.30 | | 172,905.45 | | 3,573,739.75 |
| Tooling Equipment | 6,523,785.79 | | 158,235.11 | 34,402.40 | 6,647,618.50 |
| Office Equipment | 5,620,512.11 | | 79,648.32 | 19,230.10 | 5,680,930.33 |
| Mould Equipment | 9,363,297.03 | | 874,127.91 | | 10,237,424.94 |
| Apparatus Equipment | 12,010,022.74 | | 83,100.02 | | 12,093,122.76 |
| -- | Book balance at the beginning of period | -- | | | Current ending balance |

| | | | |
|---|----------------|----|----------------|
| III. Total net book value of fixed assets | 198,427,601.25 | -- | 193,786,104.22 |
| Among it: Houses & Buildings | 156,304,859.48 | -- | 153,395,377.77 |
| Machinery Equipment | 32,113,416.50 | -- | 30,455,330.69 |
| Means of conveyance | 1,317,650.29 | -- | 1,654,744.84 |
| Tooling Equipment | 3,676,717.06 | -- | 3,759,325.23 |
| Office Equipment | 782,114.91 | -- | 715,417.15 |
| Mould Equipment | 2,366,196.81 | -- | 2,019,741.00 |
| Apparatus Equipment | 1,866,646.20 | -- | 1,786,167.54 |
| 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 |
| Tooling Equipment | 120,847.02 | -- | 120,847.02 |
| Office Equipment | 72,480.11 | -- | 72,480.11 |
| Mould Equipment | | -- | 0.00 |
| Apparatus Equipment | 1,088,204.88 | -- | 1,088,204.88 |
| V. Total book value of fixed assets | 195,542,067.03 | -- | 190,900,570.00 |
| Among it: Houses & Buildings | 156,304,859.48 | -- | 153,395,377.77 |
| Machinery Equipment | 30,613,803.20 | -- | 28,955,717.39 |
| Means of conveyance | 1,213,261.38 | -- | 1,550,355.93 |
| Tooling Equipment | 3,555,870.04 | -- | 3,638,478.21 |
| Office Equipment | 709,634.80 | -- | 642,937.04 |
| Mould Equipment | 2,366,196.81 | -- | 2,019,741.00 |
| Apparatus Equipment | 778,441.32 | -- | 697,962.66 |

The depreciation allowance of the current period is RMB 7,503,196.36; the original price of fixed assets transferred from construction in process in the current period is RMB0.00.

(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 | 10,012,680.57 | 8,293,352.39 | 1,233,761.45 | 485,566.73 | |
| Means of | 41,548.00 | 37,393.20 | 4,154.80 | 0.00 | |

| | | | | | |
|---------------------|---------------|--------------|------------|------------|--|
| conveyance | | | | | |
| Tooling Equipment | 1,213,732.59 | 1,076,384.94 | 64,619.55 | 72,728.10 | |
| Office Equipment | 378,102.00 | 303,202.57 | 46,730.39 | 28,169.04 | |
| Mould Equipment | 8,350,729.36 | 7,515,656.43 | | 835,072.93 | |
| Apparatus Equipment | 10,519,305.06 | 9,394,337.24 | 741,885.93 | 383,081.89 | |

(3) Fixed assets borrowed through financing lease

Unit: RMB

| Type | End-of-period book value |
|---------------------|--------------------------|
| Houses & buildings | 95,848,856.38 |
| Machinery Equipment | 574,284.31 |

(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 |
|--------------------|--|--|
| Houses & buildings | Relevant procedures are being handled. | 2014 |

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 | 2,039,000.00 | | 2,039,000.00 | 1,669,000.00 | | 1,669,000.00 |
| Boiler installation works of foam factory | 1,397,211.21 | | 1,397,211.21 | | | |
| Total | 4,090,567.21 | 0.00 | 4,090,567.21 | 2,323,356.00 | 0.00 | 2,323,356.00 |

(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 | Amount at the end of period |
|--|----------------|-----------------------------|-------------------|--------------------------|-----------------|--|--------------|--|---|--|-------------------|-----------------------------|
| Huafa building renovation project | | 654,356.00 | | | | | | | | | Own funds | 654,356.00 |
| Gongming Electronics Town renovation project | | 1,669,000.00 | 370,000.00 | | | | | | | | Own funds | 2,039,000.00 |
| Boiler installation works of foam factory | | 0.00 | 1,397,211.21 | | | | | | | | Own funds | 1,397,211.21 |
| Total | | 2,323,356.00 | 1,767,211.21 | | | -- | -- | | | -- | -- | 4,090,567.21 |

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: | 55,849,705.33 | 0.00 | 0.00 | 55,849,705.33 |
| Land-use Right | 55,187,826.36 | | | 55,187,826.36 |
| Software cost | 661,878.97 | | | 661,878.97 |
| II. Total accumulated amortization | 6,488,725.40 | 747,147.33 | 0.00 | 7,235,872.73 |
| Land-use Right | 6,236,209.05 | 722,204.37 | | 6,958,413.42 |
| Software cost | 252,516.35 | 24,942.96 | | 277,459.31 |
| III. Total net book value of intangible assets | 49,360,979.93 | -747,147.33 | 0.00 | 48,613,832.60 |
| Land-use Right | 48,951,617.31 | -722,204.37 | 0.00 | 48,229,412.94 |
| Software cost | 409,362.62 | -24,942.96 | 0.00 | 384,419.66 |
| Land-use Right | | | | |
| Software cost | | | | |
| Total book value of intangible assets | 49,360,979.93 | -747,147.33 | | 48,613,832.60 |

| | | | | |
|----------------|---------------|-------------|------|---------------|
| Land-use Right | 48,951,617.31 | -722,204.37 | 0.00 | 48,229,412.94 |
| Software cost | 409,362.62 | -24,942.96 | 0.00 | 384,419.66 |

The amortization amount of the current period is RMB747,147.33.

11. Long-term deferred charges

Unit: RMB

| Items | Amount at the beginning of period | Current increment | The amortization amount of the current period | Other reduction amounts | Amount at the end of period | Cause for other decrease |
|-------------------------|-----------------------------------|-------------------|---|-------------------------|-----------------------------|--------------------------|
| Golf membership fee | 511,133.25 | | 35,333.37 | 159,133.19 | 316,666.69 | Transfer of membership |
| Renovation expenditures | 1,262,391.61 | | 390,950.04 | | 871,441.57 | |
| Total | 1,773,524.86 | | 426,283.41 | 159,133.19 | 1,188,108.26 | -- |

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: | | |
| Provisions for impairment of assets | 7,540,066.66 | 7,575,314.91 |
| Deductible loss | | 460,320.02 |
| Estimated liabilities | 651,102.95 | 651,102.95 |
| Subtotal | 8,191,169.61 | 8,686,737.88 |
| 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 | 38,408,137.25 | 37,473,229.25 |
| Provision for bad debt impairment of Huafa Lease Company | 3,153,172.51 | 3,153,172.51 |
| Provision for Fixed Assets Impairment of Huafa Trade Company | 143,951.20 | 143,951.20 |

| | | |
|-------|---------------|---------------|
| Total | 41,705,260.96 | 40,770,352.96 |
|-------|---------------|---------------|

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 |
|-------|-----------------------------|-----------------------------------|------|
| 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 | 33,350,633.02 | |
| 2018 | 3,999,377.97 | 3,064,469.97 | |
| Total | 38,408,137.25 | 37,473,229.25 | -- |

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. | | |
| Subtotal | 0.00 | 0.00 |
| Deductible difference project | | |
| Deductible loss | 0.00 | 1,841,280.09 |
| Provision drawn for assets impairment | 30,159,966.62 | 30,300,959.61 |
| Estimated liabilities | 2,604,411.81 | 2,604,411.81 |
| Subtotal | 32,764,378.43 | 34,746,651.51 |

(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 | 8,191,169.61 | | 8,686,737.88 | |

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 | 21,983,214.91 | 168,721.11 | | | 22,151,936.02 |
| II. Provision for Depreciation of Inventories | 8,729,334.19 | | 309,714.10 | | 8,419,620.09 |
| VII. Provision for Fixed Assets Impairment | 2,885,534.22 | | | | 2,885,534.22 |
| IX. Provision for impairment of construction in progress | 0.00 | | | | 0.00 |
| Total | 33,598,083.32 | 168,721.11 | 309,714.10 | 0.00 | 33,457,090.33 |

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 | 53,773,346.90 | 49,493,738.74 |
| Mortgage Loan | 78,913,155.59 | 67,348,857.39 |
| Credit loan | 37,708,000.00 | 45,298,005.00 |
| Total | 170,394,502.49 | 162,140,601.13 |

15. Notes Payable

Unit: RMB

| Type | Amount at the end of period | Amount at the beginning of period |
|----------------------|-----------------------------|-----------------------------------|
| Bank acceptance bill | 42,926,747.44 | 34,646,052.79 |
| Total | 42,926,747.44 | 34,646,052.79 |

Amounts to be matured at the next accounting period will be RMB 42,926,747.44.

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 | 46,297,264.97 | 42,060,913.97 |
| Over 1 year | 912,374.94 | 10,145,428.84 |
| Total | 47,209,639.91 | 52,206,342.81 |

17. Advance receipts**(1) Conditions of advance receipts**

Unit: RMB

| Items | Amount at the end of period | Amount at the beginning of period |
|---------------|-----------------------------|-----------------------------------|
| Within 1 year | 1,651,857.66 | 1,491,467.29 |
| Over 1 year | | 80,857.00 |
| Total | 1,651,857.66 | 1,572,324.29 |

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 | 4,028,594.41 | 22,616,537.54 | 23,410,354.62 | 3,234,777.33 |
| II. Staff Welfare Treatment Fund | | 2,707,905.24 | 2,707,905.24 | 0.00 |
| III. Social Insurance Premium | 17,948.16 | 2,226,674.30 | 2,226,674.30 | 17,948.16 |
| Among it: Medical insurance premium | 23,041.98 | 258,977.72 | 258,977.72 | 23,041.98 |
| Basic retirement insurance premium | -5,093.82 | 762,734.34 | 762,734.34 | -5,093.82 |
| Unemployment Insurance Premium | | 139,882.88 | 139,882.88 | 0.00 |
| Industrial Injury Insurance Premium | | 763,911.18 | 763,911.18 | 0.00 |

| | | | | |
|--------------------------|--------------|---------------|---------------|--------------|
| Birth Insurance Premium | | 301,168.18 | 301,168.18 | 0.00 |
| IV. Public Housing Fund | 24,310.00 | 417,574.04 | 491,229.44 | -49,345.40 |
| V. Welfare of retirement | | | | 0.00 |
| VI. Others | 689,969.94 | 22,893.40 | 86,670.06 | 626,193.28 |
| Total | 4,760,822.51 | 27,991,584.52 | 28,922,833.66 | 3,829,573.37 |

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

Union funds and employee education expenses is RMB 626,193.28, amounts of non-monetary benefits is RMB 0.00 , and compensations for terminating the labor relation is RMB 0.00.

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

The inventory falling price reserves are issued every month according to the actual conditions.

19. Taxes Payable

Unit: RMB

| Items | Amount at the end of period | Amount at the beginning of period |
|--------------------------------------|-----------------------------|-----------------------------------|
| VAT | 4,217,877.45 | 4,546,472.19 |
| Consumption Tax | 0.00 | |
| Business Tax | 1,183,644.71 | 1,185,572.87 |
| Enterprise Income Tax | 8,459,650.14 | 8,314,523.29 |
| Personal Income Tax | 52,074.12 | 43,155.25 |
| Urban Maintenance & Construction Tax | 44,864.26 | 23,767.75 |
| Property Tax | 415,491.05 | 610,591.84 |
| Land use tax | 196,205.10 | 195,937.53 |
| Educational Surcharge | 10,219.05 | 16,053.95 |
| Others | 352,182.43 | 7,006.39 |
| Total | 14,932,208.31 | 14,943,081.06 |

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 | 22,348,554.84 | 9,721,208.00 |
| Over 1 year | 6,623,250.48 | 12,671,205.99 |
| Total | 28,971,805.32 | 22,392,413.99 |

(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 | 0.00 | 3,654.74 |
| Total | 0.00 | 3,654.74 |

21. Estimated liabilities

Unit: RMB

| Items | Amount at the beginning of period | Increment this year | Decrement this year | Amount at the end of period |
|----------------------|-----------------------------------|---------------------|---------------------|-----------------------------|
| Pending legal action | 2,604,411.81 | | | 2,604,411.81 |
| Total | 2,604,411.81 | | | 2,604,411.81 |

Description of estimated liabilities

See Item IX "Contingency" of Notes to Financial Statements for details.

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 |
|---------------|-----------------------------|-----------------------------------|
| Pledged loan | 600,000,000.00 | |
| Mortgage Loan | | 162,418,800.00 |
| Total | 600,000,000.00 | 162,418,800.00 |

(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 | 6.55% | | | | 72,418,800.00 |
| China Construction Bank Shangbu branch | Apr.3, 2009 | Mar. 11, 2016 | RMB | 6.55% | | | | 90,000,000.00 |

| | | | | | | | | |
|-------------------------------------|---------------|---------------|-----|-------|----|----------------|----|----------------|
| China CITIC Bank Shenzhen Branch | Jun. 9, 2014 | Jun. 8, 2026 | RMB | 8.19% | | 140,000,000.00 | | |
| China CITIC Bank Shenzhen Branch | Jun. 16, 2014 | Jun. 15, 2026 | RMB | 8.19% | | 460,000,000.00 | | |
| Total | -- | -- | -- | -- | -- | 600,000,000.00 | -- | 162,418,800.00 |

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;

The Company signed *Fixed Assets Loan Contract* (No.: (2014) S.Y.H.Z. No. 0017) with China CITIC Bank Corporation Limited Shenzhen Branch on May 28, 2014. The loan amount agreed in the contract is RMB 600 million Yuan with a loan term of 12 years. RMB 600 million Yuan was drawn as of the date of approval and issuance of this financial report. The actual drawing dates were June 9, 2014 (RMB 140 million Yuan) and June 16, 2014 (RMB 460 million Yuan). During the loan term, the borrowing interest rate from the first year to the third year is 25% up-floated based on loan benchmark interest rate of same grade issued by People's Bank of China in the same period upon the actual drawing date of loan, while that from the fourth year to the twelfth year is 30% up-floated based on loan benchmark interest rate of same grade issued by People's Bank of China in the same period upon the actual drawing date of loan. It is agreed in the contract that the property from floor 1 to floor 6 of Huafa Building (property certificate numbers: S.F.D.Z. No. 3000503696, S.F.D.Z. No. 3000522977, S.F.D.Z. No. 3000522975, S.F.D.Z. No. 3000522976, S.F.D.Z. No. 3000503720 and S.F.D.Z. No. 3000511945) is used as mortgage.

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 | Subtotal | |
| Total shares | 283,161,227.00 | | | | | | 283,161,227.00 |

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 |

25. Surplus Reserves

Unit: RMB

| Items | Amount at the beginning of period | Increment this year | Decrement this year | 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 |

26. Undistributed profits

Unit: RMB

| Items | Amount | Proportion retained or distributed |
|--|-----------------|------------------------------------|
| Undistributed profit by the end of last year before adjusting | -196,386,008.11 | -- |
| Beginning-of-year undistributed profits after adjusting | -196,386,008.11 | -- |
| Add: net profit belonging to the owner of the parent company of the current period | 1,455,936.93 | -- |
| End-of-period undistributed profits | -194,930,071.18 | -- |

Schedule of beginning-of-year undistributed profits:

- 1) Influence over the beginning-of-year undistributed profits 0 (RMB) due to retroactive adjustment of *Accounting Standards for Business Enterprises* and relevant new provisions;
- 2) Influence over the beginning-of-year undistributed profits 0 (RMB) due to change in the accounting policy;
- 3) Influence over the beginning-of-year undistributed profits 0 (RMB) due to change in significant accounting errors;
- 4) Influence over the beginning-of-year undistributed profits 0 (RMB) due to change of consolidated range caused by business merger of the same control;
- 5) Influence over the beginning-of-year undistributed profits 0 (RMB) due to other adjustments.

Description of undistributed profits; for those companies initially and publicly issuing the securities, if the accumulation profits before issuance are jointly owned by the new and old shareholders based on the resolution of general meeting of shareholders, this shall be clearly stated; if the accumulation profits before issuance are to be distributed before issuance and owned by the old shareholders based on the resolution of general meeting of shareholders, the Company shall clearly disclose the audited profits owned by the old shareholders in the dividends payable.

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 | 344,441,701.65 | 284,004,581.24 |
| Revenues from Other Business | 22,180,124.71 | 18,728,242.18 |
| Business revenues | 326,921,602.88 | 263,513,507.38 |

(2) Main Businesses(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 | 140,670,450.02 | 138,062,144.77 | 133,537,646.59 | 128,492,605.17 |
| Injection moulded pieces | 145,506,562.10 | 131,348,336.50 | 113,391,058.85 | 100,752,264.75 |
| Foamed pieces | 41,549,843.23 | 36,581,795.46 | 37,075,875.80 | 31,514,478.13 |
| Steel | 16,714,846.30 | 16,664,364.08 | | |
| Total | 344,441,701.65 | 322,656,640.81 | 284,004,581.24 | 260,759,348.05 |

(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 | 140,670,450.02 | 138,062,144.77 | 133,537,646.59 | 128,492,605.17 |
| Injection moulded pieces | 145,506,562.10 | 131,348,336.50 | 113,391,058.85 | 100,752,264.75 |
| Foamed pieces | 41,549,843.23 | 36,581,795.46 | 37,075,875.80 | 31,514,478.13 |
| Steel | 16,714,846.30 | 16,664,364.08 | | |
| Total | 344,441,701.65 | 322,656,640.81 | 284,004,581.24 | 260,759,348.05 |

(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 | 121,292,733.85 | 120,304,763.74 | 133,537,646.59 | 128,492,605.17 |
| Central China | 223,148,967.80 | 202,351,877.07 | 150,466,934.65 | 132,266,742.88 |
| Total | 344,441,701.65 | 322,656,640.81 | 284,004,581.24 | 260,759,348.05 |

(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 | 121,292,733.85 | 33.08% |
| Qingdao Hai'er Spare Parts Procurement | 116,568,466.32 | 31.80% |

| | | |
|--|----------------|--------|
| Co., Ltd. | | |
| Gree Electric Appliance (Wuhan) Co., Ltd | 41,905,943.82 | 11.43% |
| TCL Air-conditioner (Wuhan) Co., Ltd. | 15,418,298.42 | 4.21% |
| Shenzhen Hefengtai Photoelectric Display Co., Ltd. | 9,442,021.79 | 2.58% |
| Total | 304,627,464.20 | 83.10% |

28. Business Tax & Surcharges

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period | Calculation and payment criteria |
|--------------------------------------|--------------------------------|---------------------------------|----------------------------------|
| Business Tax | 919,344.05 | 831,077.84 | 5% |
| Urban Maintenance & Construction Tax | 880,800.95 | 59,429.19 | 7% |
| Educational Surcharge | 377,486.11 | 24,514.42 | 3% |
| Property Tax | 221,129.28 | 221,129.28 | 1.20% |
| Land use tax | 119,997.05 | 119,997.05 | |
| Local education development fees | 251,715.96 | 15,785.72 | 2% |
| Others | 235,050.69 | 1,578.57 | |
| Total | 3,005,524.09 | 1,273,512.07 | -- |

29. Selling expense

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period |
|-------------------------------|--------------------------------|---------------------------------|
| Transportation expenses | 1,640,972.15 | 1,316,383.46 |
| Payroll | 2,366,623.38 | 2,172,728.83 |
| Commodity inspection expenses | 25,888.25 | 136,796.25 |
| Customs affairs fee | 42,010.48 | 116,758.97 |
| Commodity wastage | 135,866.33 | 179,834.93 |
| Others | 1,353,338.55 | 635,072.29 |
| Total | 5,564,699.14 | 4,557,574.73 |

30. Management expense

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period |
|---------|--------------------------------|---------------------------------|
| Payroll | 3,414,921.41 | 4,318,164.71 |

| | | |
|---|---------------|---------------|
| Depreciation costs | 2,222,108.41 | 2,904,543.90 |
| Social Insurance Premium | 2,860,536.72 | 3,162,084.85 |
| Social contact fees | 1,056,157.06 | 1,120,131.60 |
| Tax and surcharges | 1,057,982.57 | 1,939,037.30 |
| Staff Welfare Treatment Fund | 1,382,314.05 | 794,739.73 |
| Business trip costs | 812,526.04 | 744,453.52 |
| Amortization of intangible assets | 747,147.33 | 731,673.84 |
| Transportation fees | 578,267.87 | 728,160.71 |
| Consulting fees | 1,525,594.57 | 450,087.44 |
| Safety protection fee | 798,185.86 | 698,491.28 |
| Repair costs | 540,639.15 | 756,716.03 |
| Auditing costs | 763,171.95 | 826,562.25 |
| Office costs | 374,404.37 | 385,633.38 |
| Communication fees | 155,905.69 | 163,143.76 |
| Amortization of low-value, perishable goods | 313,042.21 | 197,904.86 |
| Securities information disclosure fees | 181,550.56 | 128,000.00 |
| Legal action costs | 6,520.89 | 65,810.60 |
| Others | 728,955.12 | 959,018.67 |
| Total | 19,519,931.83 | 21,074,358.43 |

31. Financial Expenses

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period |
|-------------------------|--------------------------------|---------------------------------|
| Interest Expenditures | 11,565,916.38 | 7,740,367.06 |
| Less: interest return | 158,372.81 | |
| Add: exchange loss | -1,276,739.86 | 1,738,993.25 |
| Add: other expenditures | 78,711.55 | 43,693.67 |
| Total | 10,209,515.26 | 9,523,053.98 |

32. Assets Impairment Loss

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period |
|---|--------------------------------|---------------------------------|
| I. Provision for Bad Debts | 168,721.11 | -869,044.62 |
| II. Provision for Depreciation of Inventories | -309,714.10 | |
| Total | -140,992.99 | -869,044.62 |

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 | 161,398.90 | 140,940.18 | 161,398.90 |
| Among it: income from fixed assets disposition | 161,398.90 | 140,940.18 | 161,398.90 |
| Accept donation. | 74,500.00 | 102,293.06 | 74,500.00 |
| Governmental award | 0.00 | 450,000.00 | |
| Payment that can not be paid | 327,211.07 | | 327,211.07 |
| Penalty fine income | 88,333.00 | 18,836.00 | 88,333.00 |
| Penalty income | 1,240.00 | 6,251.55 | 1,240.00 |
| Others | 0.00 | | |
| Total | 652,682.97 | 718,320.79 | 652,682.97 |

(2) Governmental subsidy counted into current income and loss

Unit: RMB

| Subsidy item | Accrual in this term | Accrual of last term | Relevant to asset/income | Whether belong to non-recurrent income and loss |
|--|----------------------|----------------------|--------------------------|---|
| Special funds for enterprise technology innovation and development | 0.00 | 50,000.00 | Relevant to income | Yes |
| Special funds to support servo system transformation | 0.00 | 200,000.00 | Relevant to income | Yes |
| Others | 0.00 | 200,000.00 | Relevant to income | Yes |
| Total | 0.00 | 450,000.00 | -- | -- |

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 | 97,351.51 | 135,953.01 | 97,351.51 |
| Among it: Loss from fixed-assets disposition | 97,351.51 | 135,953.01 | 97,351.51 |
| Litigation indemnity | 0.00 | 1,889,105.71 | |
| Others | 172.73 | 15,404.29 | 172.73 |
| Total | 97,524.24 | 2,040,463.01 | 97,524.24 |

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. | 145,199.68 | 624,754.07 |
| Adjustment of deferred income taxes | 495,568.27 | -255,015.27 |
| Total | 640,767.95 | 369,738.80 |

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 | 1,455,936.93 | 1,967,980.43 |
| Incidental loss & profit ascribed to mother company | 2 | 416,369.05 | -849,865.79 |
| Net profit ascribed to shareholder of mother company after deducting incidental loss & profit | 3=1-2 | 1,039,567.88 | 2,817,846.22 |
| 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 | 8 | | |

| | | | |
|---|---|----------------|----------------|
| shrinking | | | |
| 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 | 6 | 6 |
| Averagely weighted common shares issued | $12=4+5+6 \times 7 \div 11-8 \times 9 \div 11-10$ | 283,161,227.00 | 283,161,227.00 |
| Basic earning per share (I) | $13=1 \div 12$ | 0.0051 | 0.0070 |
| Basic earning per share (II) | $14=3 \div 12$ | 0.0037 | 0.0100 |
| 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 | | |
| Diluted earning per share (I) | $19=[1+(15-16) \times (1-17)] \div (12+18)$ | 0.0051 | 0.0070 |
| Diluted earning per share (II) | $19=[3+(15-16) \times (1-17)] \div (12+18)$ | 0.0037 | 0.0100 |

37. Annotations to cash flow statement

(1) Other Cash Received Related to Operation Activities

Unit: RMB

| Items | Amount |
|--|---------------|
| Other received cashes related to investment activities | 12,763,483.79 |
| Total | 12,763,483.79 |

(2) Other Paid Related to Operation Activities

Unit: RMB

| Items | Amount |
|--|---------------|
| Other Paid Related to Operation Activities | 13,020,320.30 |
| Total | 13,020,320.30 |

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 | 1,455,936.93 | 1,967,980.43 |
| Add: provision drawn for assets impairment | -140,992.99 | -869,044.62 |
| Depreciation of fixed assets, depletion of oil and gas, depreciation of production materials or equipment | 7,047,696.42 | 8,014,558.68 |
| Amortization of Intangible Assets | 747,147.33 | 354,940.81 |
| Amortization of Long-term Expenses to be Apportioned | 585,416.60 | 172,850.06 |
| Loss from Disposal of Fixed Assets, Intangible Assets & Other Long-term Assets (Proceeds indicated by "--") | -50,000.00 | -18,790.60 |
| Financial Expenses (Proceeds indicated by "--") | 12,009,100.55 | 9,522,859.70 |
| Decrement of Deferred Income Tax Assets (Addition indicated by "--") | 495,568.27 | -255,015.27 |
| Decrement of Inventories (Addition indicated by "--") | -7,538,818.68 | -31,782,543.94 |
| Decrement of Operative Receivables (Addition indicated by "--") | -151,010,599.10 | -8,578,463.49 |
| Increment of Operative Payables (Decrease indicated by "--") | -52,188,141.86 | -7,087,288.96 |
| Net Cash Flow Provided by Operating Activities | -188,587,686.53 | -28,557,957.20 |
| 2. Important investment and fund raising activities involving no cash: | -- | -- |
| 3. Net Variation of Cash and Cash Equivalent: | -- | -- |
| Year-end balance of cash | 284,224,781.97 | 120,470,443.69 |
| Less: year-beginning balance of cash | 50,704,319.86 | 112,834,841.39 |
| Net increase of cash and cash equivalent | 233,520,462.11 | 7,635,602.30 |

(2) Composition of cash and cash equivalents

Unit: RMB

| Items | Amount at the end of period | Amount at the beginning of period |
|--|-----------------------------|-----------------------------------|
| I. Cash | 284,224,781.97 | 50,704,319.86 |
| III. Balance of Cash & Cash Equivalents at Term End III. Balance of Cash & Cash Equivalents at Term End | 284,224,781.97 | 50,704,319.86 |

VIII. Connected parties and connected transactions

1. Condition of parent company of the Enterprise

| 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 | 41.14% | 41.14% | Li Zhongqiu | 711954601 |

2. Condition of subsidiaries of the Enterprise

| 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 |
| Yutian Henghua Company | Holding subsidiary | Company of limited | Shenzhen | Li Zhongqiu | Property management | 1,000,000.00 | 100% | 100% | 08078761-5 |
| Huafa Hengtian Company | Holding subsidiary | Company of limited | Shenzhen | Li Zhongqiu | Property management | 1,000,000.00 | 100% | 100% | 08077019-4 |
| Huafa Hengtai Company | Holding subsidiary | Company of limited | Shenzhen | Li Zhongqiu | Property management | 1,000,000.00 | 100.00% | 100.00% | 08858556-7 |

3. Condition of the other affiliates of the Enterprise

| Name of other affiliates | Relation with this company | Code of Organization |
|---|---|----------------------|
| Wuhan Hengsheng Yutian Industry Co., Ltd. (hereinafter referred to as Hengsheng Yutian) | Under the control of the same final controlling party | 73108664-5 |
| Wuhan Hengsheng Optoelectronic Industry Co., Ltd. (hereinafter referred to as Hengsheng Optoelectronic) | Under the control of the same final controlling party | 59454567-2 |
| Shenzhen Zhongheng Huafa Technology Co., Ltd. (hereinafter referred to as Huafa Technology) | Under the control of the same final controlling party | 68536237-X |
| Wuhan Xindongfang Real Estate Development Co., Ltd. | Under the control of the same final controlling party | 74476047-5 |
| Wuhan Zhongheng Property Management Co.,Ltd. | Under the control of the same final controlling party | 75180426-1 |
| Wuhan Guanggu Display System Co., Ltd. | Under the control of the same final controlling party | 75510305-9 |
| Yutian Property(Wuhan) Co.,Ltd | Under the control of the same final controlling party | 66348637-1 |
| Wuhan Yutian Industrial Land Co., Ltd. | Under the control of the same final controlling party | 05571411-5 |
| Wuhan Yutian Dongfang Land Co., Ltd. | Under the control of the same final controlling party | 05571415-8 |
| Wuhan Xiahua Zhongheng Electronic Co., Ltd. | Under the control of the same final controlling party | 27186154-X |
| Wuhan Zhongheng Yutian Trade Co., Ltd. | Under the control of the same final controlling party | 56559237-3 |
| Wuhan Yutian Hongguang Real Estate Co., Ltd. | Under the control of the same final controlling party | 56234774-3 |
| Shengzhen Zhongheng Huayu Investment Holdings Limited | Under the control of the same final controlling party | 58918224-8 |
| Hong Kong Yutian International Investment Co.,Ltd | Under the control of the same final controlling party | |
| Yutian Capital Limited | Under the control of the same final controlling party | |
| Yutian International Co., Ltd. | Under the control of the same final controlling party | |
| Hong Kong Zhongheng Yutian Co., Ltd. | Under the control of the same final controlling party | |

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 |
| Yutian International | Procurement of LCD screen | The price for raw material from Yutian International is the same to that of the market; | 84,194,940.24 | 25.81% | 101,309,262.65 | 36.15% |
| Hengsheng Optoelectronic | Procurement of LCD screen | Procure raw material from Hengsheng Optoelectronic, determine the price according to about 1% lower than average transaction price of the market principally and refer to the bargaining power of both parties. | 22,721,458.51 | 6.96% | 5,440,928.29 | 2.06% |

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 |
| Yutian International | Sales of LCD screen | The price for selling LCD screen to Yutian International shall be determined based on the | 121,292,733.90 | 33.08% | 124,180,555.69 | 43.72% |

| | | | | | | |
|--------------------------|---------------------|----------------------------------|------------|-------|-----------|-------|
| | | sales order price of the client. | | | | |
| Hengsheng Optoelectronic | Sales of LCD screen | The price of the market | 123,773.00 | 0.03% | 22,254.90 | 0.01% |

(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 | Jul. 1, 2014 | Dec. 31, 2014 | Market price | 1,472,769.00 |

(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, Our company | Hengfa Technology Company | 80,000,000.00 | Jun.17, 2013 | Jun.17, 2014 | None |

5. Receivables and payable of related party

Receivables of listed company from related party

Unit: RMB

| Project name | Associated party | Ending | | Initial | |
|------------------|--------------------------|----------------|-------------------------|---------------|-------------------------|
| | | Book balance | Provision for Bad Debts | Book balance | Provision for Bad Debts |
| Notes Receivable | Yutian International | 227,771,482.59 | | 58,271,302.17 | |
| Advance payment | Yutian International | 17,304,786.77 | | 8,310,763.53 | |
| Notes Receivable | Hengsheng Optoelectronic | 84,450.00 | | | |
| Advance payment | Hengsheng Optoelectronic | 47,932,487.84 | | | |

Payables of listed company to related party

Unit: RMB

| Project name | Associated party | Ending amount | Initial amount |
|-------------------------|------------------|---------------|----------------|
| Other accounts Payables | Zhongheng Group | 0.00 | 3,654.74 |

IX. 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. (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.

On May 5, 2013, Futian District People's Court of Shenzhen City has made judgment regarding abovementioned case (S.F.F.M.E.C.Z.No.9 in 2010): the company shall, within 10 days after the judgment becomes effective, pay RMB2,386,995.81 to Shaanxi Linghua as damages and Shaanxi Linghua shall, within 10 days after the judgment becomes effective, pay RMB869,458.96 as the residual payment for the goods to the company and compensate the interest loss.

The Company shall lodge the suit on July 7, 2013 to Shenzhen Municipal Intermediate People's Court regarding the judgment. According to the existing judgment, the company has withdrawn RMB2,360,203.26 as the litigation cost of the case and determines as expected liabilities.

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

(2) 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 SFZZ 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. 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.

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 | 5,094,414.36 | 48.59% | 3,784,793.33 | 74.29% | 5,094,414.36 | 10.76% | 3,672,319.72 | 72.09% |
| Other receivables with accrual of bad debt reserve according to combination | | | | | | | | |
| Aging portfolio | 557,327.76 | 5.32% | 167,198.33 | 30.00% | 37,407,188.47 | 79.03% | 110,950.83 | 0.30% |
| Subtotal of combination | 557,327.76 | 5.32% | 167,198.33 | 30.00% | 37,407,188.47 | 79.03% | 110,950.83 | 0.30% |
| Accounts receivable that were not significant but have been provisioned bad debt preparation separately | 4,832,157.56 | 46.09% | 4,832,157.56 | 100.00% | 4,832,157.56 | 10.21% | 4,832,157.56 | 100.00% |
| Total | 10,483,899.68 | -- | 8,784,149.22 | -- | 47,333,760.39 | -- | 8,615,428.11 | -- |

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 |
|--|--------------|-------------------------|---------------|-----------------------|
| TCL Wangpai Electric Appliance (Huizhou) Co., Ltd. | 1,325,431.75 | 1,325,431.75 | 100.00% | Can not be taken back |
| Skyworth Multimedia(Shenzhen) Co.,Ltd. | 672,769.28 | 672,769.28 | 100.00% | Can not be taken back |

| | | | | |
|--|--------------|--------------|---------|--|
| Qingdao Hai'er Spare Parts Procurement Co., Ltd. | 1,225,326.15 | 1,225,326.15 | 100.00% | Can not be taken back |
| H. K. Haowei Industry Co., Ltd. | 1,870,887.18 | 561,266.15 | 30.00% | Failure to recover on time because of customer's fund shortage |
| Total | 5,094,414.36 | 3,784,793.33 | -- | -- |

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 | | | | 224,990.00 | 5.00% | 11,249.50 |
| 1-2 year (s) | | | | 455,510.84 | | |
| 2-3 year (s) | 557,327.76 | 30.00% | 167,198.33 | 36,726,687.63 | 0.27% | 99,701.33 |
| Over 3years | 557,327.76 | -- | 167,198.33 | 37,407,188.47 | -- | 110,950.83 |
| Total | 378,771,293.88 | -- | 453,427.30 | 100,848,359.10 | -- | 453,427.30 |

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 | 100.00% | Can not be taken back |
| Shenzhen Wandial Number Science and Technology Co.,Ltd. | 351,813.70 | 351,813.70 | 100.00% | Can not be taken back |
| Shenzhen Dalong Electric Co.,Ltd. | 344,700.00 | 344,700.00 | 100.00% | Can not be taken back |
| Shenzhen Qunpin Electric Co.,Ltd. | 304,542.95 | 304,542.95 | 100.00% | Can not be taken back |
| China Galaxy Electric(Hong Kong) Co.,Ltd. | 288,261.17 | 288,261.17 | 100.00% | Can not be taken back |
| Dongguan Weite Electric Co.,Ltd. | 274,399.80 | 274,399.80 | 100.00% | Can not be taken back |
| Hong Kong New Century Electric Co.,Ltd. | 207,409.40 | 207,409.40 | 100.00% | Can not be taken back |

| | | | | |
|---|---------------------|---------------------|-----------|-----------------------|
| Shenyang Beitai Electric Co.,Ltd. | 203,304.02 | 203,304.02 | 100.00% | Can not be taken back |
| Beijing Xinfanweiye Science and Technology Co.,Ltd. | 193,000.00 | 193,000.00 | 100.00% | Can not be taken back |
| TCL Electric(Hong kong) Co.,Ltd. | 145,087.14 | 145,087.14 | 100.00% | Can not be taken back |
| Huizhou TCL New and Special Electronics Co., Ltd. | 142,707.14 | 142,707.14 | 100.00% | Can not be taken back |
| Shenzhen Skyworth-RGB Electric Co.,Ltd. | 133,485.83 | 133,485.83 | 100.00% | Can not be taken back |
| Shenzhen Xinfu Electronics Co., Ltd. | 119,094.78 | 119,094.78 | 100.00% | Can not be taken back |
| Others | 1,743,182.67 | 1,743,182.67 | 100.00% | Can not be taken back |
| Total | 4,832,157.56 | 4,832,157.56 | -- | -- |

(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 (%) |
|---|----------------------------|---------------------|--------------|--|
| H. K. Haowei Industry Co., Ltd. | Nonaffiliated parties | 1,870,887.18 | Over 3 years | 17.85% |
| TCL Wangpai Electric Appliance (Huizhou) Co., Ltd. | Nonaffiliated parties | 1,325,431.75 | Over 3 years | 12.64% |
| Skyworth Multimedia(Shenzhen) Co.,Ltd. | Nonaffiliated parties | 672,769.28 | Over 3 years | 6.42% |
| Shenzhen Huixin Video Science and Technology Co.,Ltd. | Nonaffiliated parties | 381,168.96 | Over 3 years | 3.64% |
| Shenzhen Dalong Electric Co.,Ltd. | Nonaffiliated parties | 344,700.00 | Over 4 years | 3.29% |
| Total | -- | 4,594,957.17 | -- | 43.84% |

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 | 10,221,046.53 | 2.60% | 10,221,046.53 | 100.00% | 10,221,046.53 | 8.88% | 10,221,046.53 | 100.00% |

| | | | | | | | | |
|---|----------------|--------|---------------|---------|----------------|--------|---------------|---------|
| preparation separately | | | | | | | | |
| Other receivables with accrual of bad debt reserve according to combination | | | | | | | | |
| Aging portfolio | 378,771,293.88 | 96.38% | 453,427.30 | 0.12% | 100,848,359.10 | 87.64% | 453,427.30 | 0.45% |
| Subtotal of combination | 378,771,293.88 | 96.38% | 453,427.30 | 0.12% | 100,848,359.10 | 87.64% | 453,427.30 | 0.45% |
| Accounts receivable that were not significant but have been provisioned bad debt preparation separately | 4,004,746.63 | 1.02% | 4,004,746.63 | 100.00% | 4,004,746.63 | 3.48% | 4,004,746.63 | 100.00% |
| Total | 392,997,087.04 | -- | 14,679,220.46 | -- | 115,074,152.26 | -- | 14,679,220.46 | -- |

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 |
|---|---------------|---------------|---------------|-----------------------|
| Hebei Botou Court | 520,021.00 | 520,021.00 | 100.00% | Can not be taken back |
| Traffic incident indemnity | 555,785.81 | 555,785.81 | 100.00% | Can not be taken back |
| Huafa Lease Company | 4,558,859.15 | 4,558,859.15 | 100.00% | Can not be taken back |
| Shenzhen Boteman Bowling Club Co., Ltd. | 4,021,734.22 | 4,021,734.22 | 100.00% | Can not be taken back |
| Zhao Baomin | 564,646.35 | 564,646.35 | 100.00% | Can not be taken back |
| Total | 10,221,046.53 | 10,221,046.53 | -- | -- |

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 | 376,535,416.02 | | | 41,110,109.07 | | |
| 1-2 year (s) | 869,344.22 | 5.00% | 43,467.21 | 869,344.22 | 5.00% | 43,467.21 |
| 2-3 year (s) | 1,366,533.64 | 30.00% | 409,960.09 | 58,868,905.81 | 0.70% | 409,960.09 |
| Over 3years | 378,771,293.88 | -- | 453,427.30 | 100,848,359.10 | -- | 453,427.30 |

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 |
|---|--------------|-------------------------|---------------|-----------------------|
| Shenzhen Lotus Island Restaurant Co.,Ltd | 236,293.80 | 236,293.80 | 100.00% | Can not be taken back |
| Weili Electric Corporation Co.,Ltd, Zhangzhou City, Fujian Province | 112,335.62 | 112,335.62 | 100.00% | Can not be taken back |
| Employee canteen ect. | 1,036,916.46 | 1,036,916.46 | 100.00% | Can not be taken back |
| Individual loan and expenditure | 469,161.93 | 469,161.93 | 100.00% | Can not be taken back |
| Trade Union | 297,402.55 | 297,402.55 | 100.00% | Can not be taken back |
| Chuangjing workshop | 192,794.00 | 192,794.00 | 100.00% | Can not be taken back |
| Others | 1,659,842.27 | 1,659,842.27 | 100.00% | Can not be taken back |
| Total | 4,004,746.63 | 4,004,746.63 | -- | -- |

(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 | Subsidiary | 275,766,995.68 | Within 1 year and over 3 years | 70.17% |
| Huafa Trade | Subsidiary | 100,000,000.00 | Within 1 year | 25.45% |
| Huafa Lease Company | Subsidiary | 4,558,859.15 | Over 3years | 1.16% |
| Shenzhen Boteman Bowling Club Co., Ltd. | Nonaffiliated parties | 4,021,734.22 | Over 3years | 1.02% |
| Zhao Baomin | Nonaffiliated parties | 564,646.35 | Over 3years | 0.14% |
| Total | -- | 384,912,235.40 | -- | 97.94% |

(3) Other receivables from affiliated parties

Unit: RMB

| Unit name | Relation with this company | Amount | Proportion in other receivables |
|---------------------|----------------------------|----------------|---------------------------------|
| Hengfa Technology | Subsidiary | 275,766,995.68 | 70.17% |
| Huafa Trade | Subsidiary | 100,000,000.00 | 25.45% |
| Huafa Lease Company | Subsidiary | 4,558,859.15 | 1.16% |
| Total | -- | 380,325,854.83 | 96.78% |

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 | 60.00% | 60.00% | | 600,000.00 | | |
| Huafa Property Company | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 100.00% | 100.00% | | | | |
| Hengfa Technology Company | Cost method | 183,608,900.00 | 183,608,900.00 | | 183,608,900.00 | 100.00% | 100.00% | | | | |
| Huafa Trade Company | Cost method | 100,000.00 | 100,000.00 | | 100,000.00 | 100.00% | 100.00% | | | | |
| Yutian Henghua Company | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 100.00% | 100.00% | | | | |
| Huafa Hengtian Company | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 100.00% | 100.00% | | | | |
| Huafa Hengtai Company | Cost method | 1,000,000.00 | | 1,000,000.00 | 1,000,000.00 | 100.00% | 100.00% | | | | |
| Total | -- | 188,308,900.00 | 187,308,900.00 | 1,000,000.00 | 188,308,900.00 | -- | -- | -- | 600,000.00 | | |

4. Business Revenues & Business Cost**(1) Business Revenues**

Unit: RMB

| Items | Accruals of the current period | Accruals of the previous period |
|------------------------------|--------------------------------|---------------------------------|
| Revenues from Other Business | 19,690,535.70 | 18,088,918.23 |

| | | |
|---------------|---------------|---------------|
| Total | 19,690,535.70 | 18,088,918.23 |
| Business cost | 3,355,943.00 | 2,725,748.13 |

(2) Operating income of the top 5 clients of the Company

Unit: RMB

| Name of customer | Total amount of operating income | Proportion among the total Business revenues of the company |
|---|----------------------------------|---|
| Zhenxing Branch of China Merchants Bank | 3,798,516.00 | 19.29% |
| Jifang Investment | 2,413,471.00 | 12.26% |
| Dai Boqiang 4F Hotel | 1,564,244.00 | 7.94% |
| Shenzhen Zhongheng Huafa Science and Technology Co., Ltd. | 1,472,769.00 | 7.48% |
| West, Block 1, Building 410, Dijie Entertainment | 1,317,147.00 | 6.69% |
| Total | 10,566,147.00 | 53.66% |

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 | -938,629.91 | 400,615.40 |
| Add: provision drawn for assets impairment | 168,721.11 | -869,044.62 |
| Depreciation of fixed assets, depletion of oil and gas, depreciation of production materials or equipment | 2,941,691.82 | 4,238,517.65 |
| Amortization of Intangible Assets | 72,472.83 | 72,472.86 |
| Amortization of Long-term Expenses to be Apportioned | 574,966.58 | 162,400.04 |
| Financial Expenses (Proceeds indicated by "-") | 7,083,638.04 | 2,782,510.22 |
| Decrement of Deferred Income Tax Assets (Addition indicated by "-") | -42,180.28 | -299,964.66 |
| Decrement of Operative Receivables (Addition indicated by "-") | -246,431,571.27 | -27,326,491.31 |
| Increment of Operative Payables (Decrease indicated by "-") | 11,124,553.01 | 360,910.61 |
| Net Cash Flow Provided by Operating Activities | -225,446,338.07 | -20,478,073.81 |
| 2. Important investment and fund raising activities involving no cash | -- | -- |
| 3. Net Variation of Cash and Cash Equivalent | -- | -- |
| Year-end balance of cash | 223,238,213.51 | 7,706,858.10 |
| Less: year-beginning balance of cash | 18,575,925.94 | 10,555,114.25 |

| | | |
|--|----------------|---------------|
| Net increase of cash and cash equivalent | 204,662,287.57 | -2,848,256.15 |
|--|----------------|---------------|

XI. Supplementary Materials

1. Current Irregular Profits and Losses Schedule

Unit: RMB

| Item | Amount | Description |
|--|------------|-------------|
| Gains and losses on disposal of non-current assets (including elimination withdrawn assets impairment provision) | 64,047.39 | |
| Non-operating income and cost except for the above items | 491,111.34 | |
| Less: impact amount of income tax | 138,789.68 | |
| Total | 416,369.05 | -- |

Governmental subsidy counted into concurrent income and loss is recurrent income and loss and the determination reason shall be disclosed item by item.

Applicable Not Applicable

2. 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 | 0.53% | 0.0051 | 0.0051 |
| Net profit belonging to parent company shareholders after excluding non-recurring items | 0.38% | 0.0037 | 0.0037 |

3. Introduction to the abnormal conditions and reason of main items of accounting statement of the company

(1) Items in the consolidated balance sheet at the end of current period which change relatively significantly compared with those in the year beginning are presented as follows:

| Item | Ending balance | Opening balance | Amount of variation | Note |
|------------------|----------------|-----------------|---------------------|--|
| Monetary Fund | 288,085,880.50 | 54,251,456.20 | 431.02% | Bank loan increased due to the operation and development demand of the Company |
| Notes Receivable | 62,149,080.06 | 154,375,936.49 | -59.74% | Transfer of endorsement i in current period. |
| Notes Receivable | 370,534,892.45 | 162,278,705.83 | 128.33% | Revenue increase in current period. |

| | | | | |
|----------------------------|----------------|----------------|---------|--|
| Advance payment | 134,263,486.22 | 13,483,243.19 | 895.78% | Trade prepayment is increased in this report period |
| Project in Progress | 4,090,567.21 | 2,323,356.00 | 76.06% | Boiler installation works are increased in current period. |
| Long-term deferred charges | 1,188,108.26 | 1,773,524.86 | -33.01% | Transfer of Golf membership occurs in current period. |
| Long-term borrowings | 600,000,000.00 | 162,418,800.00 | 269.42% | Bank loan increased due to the operation and development demand of the Company |

(2) Items in the consolidated income statement of current period which change relatively significantly compared with those in previous period are presented as follows:

| Item | Amount of current period | Amount of previous period | Amount of variation | Note |
|---------------------------|--------------------------|---------------------------|---------------------|---|
| Business Tax & Surcharges | 3,005,524.09 | 1,273,512.07 | 136.00% | Export rebates haven't occurred in current period. |
| Assets Impairment Loss | -140,992.99 | -869,044.62 | -83.78% | Reversal of bad debt occurred in previous period. |
| Non-business Expenditures | 97,524.24 | 2,040,463.01 | -95.22% | Accrual expected liability lawsuits in previous period |
| Expenses of Income Tax | 640,767.94 | 369,738.80 | 73.30% | Reversal of deferred income taxes in previous period in current period. |

(3) Items in the consolidated cash flow statement of current period which change relatively significantly compared with those in previous period are presented as follows:

| Item | Amount of current period | Amount of previous period | Amount of variation | Remark |
|--|--------------------------|---------------------------|---------------------|---|
| Refund of tax and levies | | 3,999.97 | -100.00% | Export rebates haven't occurred in current period. |
| Net amount of cash flow generated by operating activities | -188,587,686.53 | -28,557,957.20 | -560.37% | The sales payment collection is reduced and the prepaid price for goods is increased in current period. |
| Cash paid to purchase fixed assets, intangible assets and other long-term assets | 2,870,541.76 | 1,476,896.06 | 94.36% | Boiler expenditure is increased in current period. |
| Cash received from borrowings | 799,000,437.23 | 166,842,751.16 | 378.89% | Bank loan increased due to the operation and development demand of the Company |
| Cash paid for repayment of debts | 364,293,982.29 | 116,810,646.02 | 211.87% | A part of increased loan is used to return due loan in current period.. |

Section X. Documents available for Reference

- I. Text of semi-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.

Board of Directors of
SHENZHEN ZHONGHENG HUAFU CO., LTD.

21 August 2014