深圳华发电子股份有限公司

SHENZHEN HUAFA ELECTRONICS CO., LTD.
SEMIANNUAL REPORT 2007

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

Important Notice

The Board of Directors and the Supervisory Committee of Shenzhen Huafa Electronics Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives confirm that there are no fictitious records, misleading statements or material omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. No directors, supervisors or senior executives stated that he (she) couldn't ensure the reality, accuracy and completion of the contents of the Interim Report or have objection to this report.

The Independent Director of the Company Mr. Yan Haizhong did not attend the Board Meeting due to a business trip and entrusted Independent Director Ms. Song Pingping to attend the Meeting and exert the voting right; other directors all attend the Board Meeting.

Mr. Li Zhongqiu, Chairman of Board and General Manager of the Company, Mr. Shi Cheng, Person in charge of Accounting Work, and Mr. Zhang Zhiyong, Person in Charge of Accounting Organ hereby state that: the financial report of the 2007 Semi-annual Report is true and complete.

The Interim financial report of the Company has not been audited.

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

Contents

I. Company Profile

I. Company Profile

(I) Name of the Company

In Chinese: 深圳华发电子股份有限公司

In English: SHENZHEN HUAFA ELECTRONICS CO., LTD.

(II) Legal Representative: Che Wenshen

(III) Agent Secretary of the Board: Shi Cheng

Securities Affairs Representative: Weng Xiaojue

Contact Address: 6/F, West Tower of 411 Bldg., Huafa Road (N), Futian District, Shenzhen.

Tel: (86) 755-83352207, 83352206

Fax: (86) 755-83323160, 83352200

E-mail: hwafainvestor@163.com

(IV) Registered Address: 411 Bldg., Huafa Road (N), Futian District, Shenzhen.

Office Address: 6/F, East Tower of 411 Bldg., Huafa Road (N), Futian District, Shenzhen.

Post Code: 518031

Company's Internet Website: http://www.hwafa.com

(V) Newspapers for Disclosing the Information of the Company:

China Securities, Securities Times and Hong Kong Wen Wei Po

Internet Website for Publishing the Semi-annual Report: http://www.cninfo.com.cn

The Place Where the Semi-annual Report is Prepared and Placed: Office of Board of Directors of Shenzhen Huafa Electronics Co., Ltd.

(VI) Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHENHUAFA-A, SHENHUAFA-B

Stock Code: 000020, 200020

(VII) Other Relevant Information of the Company

Initial registered date and place or changed registered date and place

Registered date: May, 1992

Registered place: 411 Bldg., Huafa Road (N), Futian District, Shenzhen

Registration code of enterprise legal person's business license: 100296

Registration code of tax: 113260

II. Major financial data and indexes

Unit: RMB

	At the end of this report period	At the period-end of last year		Increase/decrease at the end of this report period compared with that at the end of last year（%）	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Total assets	343,020,250.25	376,031,844.21	376,031,844.21	-8.78	-8.78
Owners' equity (Shareholders' equity)	221,567,580.46	223,842,836.53	223,842,836.53	-1.02	-1.02
Net assets per share	0.782	0.791	0.791	-1.02	-1.02

	In this report period (Jan. to Jun.)	The same period of last year		Increase/decrease in this report period year-on-year (%)	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Operating profit	-6,374,297.27	523,625.00	523,625.00	-1317.34	-1317.34
Total profit	-2,275,256.07	570,082.98	570,082.98	-499.11	-499.11

Net profit	-2,275,256.07	570,082.98	570,082.98	-499.11	-499.11
Net profit after deducting non-recurring gains and losses	-6,374,297.27	523,625.00	523,625.00	-1317.34	-1317.34
Basic earnings per share	-0.008	0.002	0.002	-499.11	-499.11
Diluted earnings per share	-0.008	0.002	0.002	-499.11	-499.11
Return on equity	-1.03%	0.24%	0.24%	Decreased 1.27 percentage points	Decreased 1.27 percentage points
Net cash flow arising from operating activities	-10,834,097.67		15,002,710.46		-172.21
Cash flow arising from operating activities per share	-0.038		0.053		-172.21

Items of non-recurring gains and losses	Amount
Donation Assets calculated into current gains and losses	3,660,621.21
Other non-recurring gains and losses	438,419.99
Total	4,099,041.20

Note: Shenzhen Huafa Electronics Co., Ltd. (hereinafter referred to as the Company) is a listed company of both A-share and B-share. There was no difference in the Company's net profit as calculated according to the relevant system of Chinese Accounting Standards (CAS) and International Accounting Standards (IAS).

II. Change in Share Capital and Particulars about Shares Held by Main Shareholders

I. Particulars about change in share capital

	Before the change		Increase/decrease in the change of this time (+, -)					After the change	
	Amount	Proportion	New share issued	Bonus shares	Capitalization of public reserve	others	subtotal	Amount	Proportion
I. Restricted shares	124,956,261	44.13				-8,440,119	-8,440,119	116,516,142	41.15
1. State-owned shares									
2. State-owned legal person's shares									
3. Other domestic shares	124,956,261	44.13				-8,440,119	-8,440,119	116,516,142	41.15
Including:									
Domestic legal person's shares	124,925,828	44.12				-8,435,934	-8,435,934	116,489,894	41.14
Domestic natural person's shares (shares of senior executives)	30433	0.01				-4185	-4185	26248	0.01
4. Foreign shares									
Including:									
Foreign legal person's shares									

Foreign natural person's shares								
II. Unrestricted shares	158,204,966	55.87				8,440,119	8,440,119	166,645,085	58.85
1. RMB Ordinary shares	56,209,130	19.85				8,440,119	8,440,119	64,649,249	22.83
2. Domestically listed foreign shares	101,995,836	36.02				0	0	101,995,836	36.02
3. Overseas listed foreign shares									
4. Others									
Ⅲ. Total shares	283,161,227	100				0	0	283,161,227	100

1. On May 18, 2007, the share stock structure of the Company changed for the implementation of Share Merger Reform.
2. In accordance with the provisions of China Securities Regulatory Commission and China Securities Depository and Clearing Corporation Limited Shenzhen Branch on releasing the sale restriction of shares held by directors, supervisors and senior executives of listed companies, 8,750 shares held by directors, supervisors and senior executives of the Company are released from the sale restriction in the report period.

II. Particulars about shareholders (registered on Jun.30, 2007)

Total shareholders	25,088

Particulars about shares held by the top ten shareholders

Full name of Shareholders	Nature of shareholders	Proportion of shares held	Total amount of shares held	Amount of restricted shares held	Amount of shares pledged or frozen
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Domestic non-state-owned legal person shares	41.14%	116,489,894	116,489,894	0
SEG (HONG KONG) CO., LTD.	Foreign legal person	5.85%	16,569,560	0	Unknown
GOOD HOPE CORNER INVESTMENTS LTD	Foreign legal person	4.91%	13,900,000	0	Unknown
LUO YA	Domestic natural person	0.44%	1,254,008	0	Unknown
KGI ASIA LIMITED	Foreign legal person	0.42%	1,202,000	0	Unknown
XU JING XIN	Foreign natural person	0.36%	1,033,135	0	Unknown
HOU LI XUAN	Domestic natural person	0.32%	909,000	0	Unknown
BINGHUA LIU	Foreign natural person	0.31%	876,213	0	Unknown
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	Foreign legal person	0.23%	648,262	0	Unknown
CHEN QING QI	Foreign natural person	0.22%	618,000	0	Unknown

Particulars about shares held by the top ten shareholders of unrestricted shares		
Name of shareholders	Unrestricted shares held	Type of shares
SEG (HONG KONG) CO., LTD.	16,569,560	Domestically listed foreign share
GOOD HOPE CORNER INVESTMENTS LTD	13,900,000	Domestically listed foreign share
LUO YA	1,254,008	RMB common share
KGI ASIA LIMITED	1,202,000	Domestically listed foreign share
XU JING XIN	1,033,135	Domestically listed foreign share
HOU LI XUAN	909,000	RMB common share
BINGHUA LIU	876,213	Domestically listed foreign share
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	648,262	Domestically listed foreign share
CHEN QING QI	618,000	Domestically listed foreign share
CHEN MIAO FENG	613,300	Domestically listed foreign share
Explanation on associated relationship among the aforesaid shareholders or consistent action	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 shareholders, nor they belong to consistent actors that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies.	

III. The amount and sale restriction condition of shares held by the top ten restricted shareholders

No.	Name of restricted shareholders	Amount of restricted shares held	Date of being listed for transactions	Amount of newly added shares being listed for transactions	Restriction condition
1	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	116,489,894	May 18, 2010	0	Promising that the non-tradable shares of the Company held by it will not be listed for transaction within 36 months since the date of acquiring circulating right.

4. Change of the controlling shareholder of the Company

On June，2005, Shenzhen SEG Group Co., Ltd. (hereinafter referred to as SEG Group) and China Zhenhua Electrics Group Co., Ltd. (hereinafter referred to as Zhenhua Group), which are the former first and second largest shareholders of the Company, signed the Equity Transfer Agreement with Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. (hereinafter referred to as "Wuhan Zhongheng") and transferred all the equity of the Company held by them to Wuhan Zhongheng. On Apr.12, 2007, all the transfer procedures of the equity transfer was completely

settled, and the shares held by the shareholders of the Company changed; SEG Group and Zhenhua Group no longer hold the shares of the Company, and Wuhan Zhongheng holds 124,925,828 shares of the Company, accounting for 44.12% of the total capital stock of the Company, so that it becomes the first largest shareholder of the Company. On May 18, 2007, for the implementation of Share Merger Reform Plan of the Company, the amount of shares held by Wuhan Zhongheng were changed as 116,489,894 shares, proportion of holding shares changed as 41.14%.
(1) Name of the controlling shareholder: Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.
Legal representative: Li Zhongqiu
Date of foundation: Mar.21, 1996
Registered capital: RMB 138,000,000
Business scope: Production; sales of computers, TV set, display, other hardware and computer software; development of internal data communication network, building of packing materials and light weight building material for packaging; hardware metal product, plastic product; acoustic product and electronic equipment; fabrics and garments; sales of building materials; management of exports business for the own products and technologies for the Company and member enterprise; management of export business on raw material, apparatus and instrument, machinery equipments, spare parts and technologies (barring those limited on operations or forbidden products or techniques of export and import by nation), development of real-estate and sales of commercial housings.

Li Zhongqiu

↓ 98.4%

Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.

↓ 41.14%

Shenzhen Huafa Electronics Co., Ltd.

Name of new controlling shareholder	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.
Date of changing new controlling shareholder	Apr.12, 2007
Date of disclosure on changing new controlling shareholder	Apr.13, 2007
Newspapers for disclosure on changing new controlling shareholder	China Securities, Securities Times and Hong Kong Wen Wei Po

III. Particulars about directors, supervisors and senior executives

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

Name	Duty	Shares holding in period-begin	Increased shares holding in current period	Decreased shares holding in current period	Shares holding in period-end	Reason for changes

Ye Daming	Chairman of the supervisory committee (has already left his post due to personnel term changes on Jul.18, 2007)	30,433	4565	0	34,998	Acquired bonus shares from implementation of share merger reform scheme

II. The directors, supervisors, and senior executives of the Company haven't changed in the report period.

On Jun.29, 2007, decided by the 6th extraordinary meeting of the board of directors of the Company in 2007, and the 8th extraordinary meeting of the 5th supervisory committee, the board of directors, the supervisory committee of the Company carry on election at expiration of office terms in advance.

On Jul.18, 2007, decided by the 2nd extraordinary shareholders' meeting in 2007, Li Zhongqiu, Tang Chongyin, Chen Zhigang, Shi Cheng, Yan Haizhong, Song Pingping were elected directors of the 6th board of directors of the Company, thereinto Yan Haizhong and Song Pingping as independent director; Cao Li, Tang Ganyu were elected the supervisors of 6th supervisory committee of the Company. In addition, Weng Xiaojue was elected the employee representative supervisor of the 6th supervisory committee of the Company.

On Jul.18, 2007, elected by the 1st meeting of the 6th board of directors of the Company, Li Zhongqiu was elected the chairman of the board of the Company; Tang Chongyin was elected the vice chairman of the board of the Company; according to the nomination of chairman of the board, Mr. Li Zhongqiu was engaged as the general manager; according to the nomination of general manager, Mr. Shi Cheng was engaged as deputy general manager, and act on secretary of the board's responsibility as a deputy. At the same day, elected by the 1st meeting of the 6th supervisory committee of the Company, Cao Li was elected as the chairman of supervisory committee of the Company.

IV. Discussion and analysis on management

I. Brief analysis on operational result and financial status

Along with the completion of transfer of state-owned equity in April, the Company was in the transitional period of new and old system conversion in the first half year, partial employees resigned in succession after acquired employee compensation for allocation, the personnel subrogation proportion was relatively large, the customers looked on, the orders decreased sharply, the processing business of printed circuit board and injection mold pieces is partially broke down with an instability status. In the report period, the printed circuit board business lost RMB 2.33 million, the injection mode business lost RMB 0.22 million; as the newly added project after purchase and restructure, the LCD whole machine business is still in starting phase at present, whose customer group is still waited to cultivate to be grandness, the scale effect is not formed yet, in the report period, the gross profit is nearly RMB 0.2 million; and as the main profit resource, the property leasing business maintained a steady development in the report period, the property leasing rate reached 91%, the leasing revenue amounted to RMB 18.48 million, the leasing profit amounted to RMB 10.77 million, and reclaimable ratio of rent was approximately 98%.

After officially overall took over the operation of the Company, the new controlling shareholder Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. at once carried on asset check and business integration work of the Company, and latent loss and problem resulted from long-term not well management gradually exposed. Thereinto, ended Jun.30, 2007, the account receivable concerning the printed circuit board business amounted to RMB 31.19 million, partial arrear was difficult to reclaim due to long period, business personnel changed frequently, and original voucher data not complete etc., and reclaimable amount and time existed relatively large uncertainty, the Company is in process of pressing on with liquidating through various approaches, its influence on the Company's business performance is still can't be estimated yet.

Main operation results in the report period:

Unit: RMB

	Jan. to Jun., 2007	Jan. to Jun., 2006	Increase or decrease year-on-year（%）
Business revenue	67,894,925.19	74,961,150.99	-9.43
Business profit	-6,374,297.27	523,625.00	-1317.34
Net profit	-2,275,256.07	570,082.98	-499.11
Net increase of cash and cash	-8,965,980.93	-5,938,042.88	-50.99
	At the period-end of current year	At the period-end of last year	Increase/decrease in period-end of current period compared with the period-begin（%）
Total asset	343,020,250.25	376,031,844.21	-8.78%
Shareholders' equity（excluding minority shareholders' equity）	221,567,580.46	223,842,836.53	-1.02%

The analysis on reasons of changes in main financial index of the company in the report period:

1. The main reason for great decrease in business revenue, business profit, and net profit year-on-year: i. Paid compensation allocation for employees not having a Shenzhen registered permanent residence approximately amounting to RMB 3 million; ii. The processing of printed circuit board and injection mode pieces business are partially broken down and in an instability status, the orders decreased sharply and price of raw material increased which made the aforesaid business lost RMB 2.55 million.

2. The reason for great decrease in net increase amount of cash and cash equivalent: i. The revenue from printed circuit board and injection mode pieces decreased which resulted in the decrease in cash inflows; ii. In order to maintain a steady production and orderly purchase, the cash outflow resulted from paying payments payable for goods in previous years increased.

II. Operation situation

(I) Main business scope and operation status

The main business of the Company is electronic product production, including production and sales of printed circuit board and injection mode pieces as well as LCD whole machine business, the production sales mainly centralized in south China. The details are as following statement:

Unit: RMB

Industry	Operating revenue	Operating cost	Gross profit ratio（%）	Increase/decrease in operating revenue year-on-year（%）	Increase/decrease in operating cost year-on-year（%）	Increase/decrease in gross profit ratio year-on-year（%）
Plastic injection hardware	3,644,586.98	3,867,190.31	-6.11	-44.33	-41.88	Decreased 4.48
Circuit boards	30,445,990.20	32,775,831.90	-7.65	-36.61	-26.99	Decreased 14.19
LCD	12,734,984.43	12,543,513.56	1.50	—	—	—
Total	46,825,561.61	49,186,535.77	-5.04	-14.20	-4.57	Down 10.60 percentage points

Area	Operating revenue	Increase/decrease of operating revenue year-on-year（%）
South China	46,825,561.61	-14.20

（II）In the report period, the profit composition, main business and its structure as well as profit-earning ability haven't had any significant changes.

（III）Other operating business of the Company that had significant influences on net profit in the report period

Other operating business	Profit or loss occurred （RMB' 0000）
Property leasing	1,076.62
Property management	41.54

(IV) There's no yield of single share holding company that had over 10%(contains 10%) influences on net profit of the Company in the report period.

(V) Problems and difficulties in the operation

In the report period, along with the successful transfer of state-owned equity, the Company is experiencing the spallation of state-owned system to private business system, the differences between new and old system, the collision of different culture, the subrogation of personnel etc., which all made the production and operation of the enterprise exist unsteady factors in short-term period, the business reforming, system reconstruction, flow completion etc. that urged the enterprise to be orderly has been carried on in succession, but the appearance of effect is still need some time.

The electric power supply in Shenzhen is still intense, although the Company depends on self generating electricity and eased the problem, the power cut resulted from suddenly burden exceeding still influence normal production and operation frequently, the Company has tried best to reduce disadvantageous influence through various manners such as communicating with power supply department, restrict the lessee to use electricity, reasonably arrange production etc..

III. Investment

(I) Usage of raised fund

In the report period, the Company hasn't raised any fund or fund raised in previous period used lasting to the report period.

(II) Investment with significant non-raised fund

The Company hasn't had any investment with non-raised fund in the report period.

V. Significant Events

I. Administration of the Company

Strictly in accordance with requirements of relevant laws and regulations of CSRC, the Company continuously consummates the legal-person administrative structure of the Company, establish modern enterprise system, and standardize the operation of the Company. In the report period, according to regulations of newly promulgated Company Law, Securities Law, and Guidelines on Articles of Association of Listed Companies (2006 revision), the Company revised Articles of Association and rules of procedure of shareholders' meeting, board meeting and supervisory meeting; established internal control systems such as Administrative System of Raised Fund, Administrative System of Information Disclosure Business, Administrative System of Related Transaction, Work System of Reception and Promotion etc.. Moreover, according to the spirit of Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies by CSRC, the Company did an overall self-inspection on the administration and set up the communication platform for special activity on the Company's governance, the Company will reform the shortage on corporate governance according to the opinion of public comment and supervision organizations, further improve the corporate governance level of the Company.

II. Implementation of profit distribution plan

The Company hasn't drawn any preplan on profit distribution or converting public reserve into share capital in the half year, that is, in the half of year 2007, doesn't implement profit distribution, also doesn't convert capital public reserve into share capital.

III. Significant lawsuits and arbitrations

In the report period, the Company hasn't any significant lawsuit or arbitration.

IV. Security investment

In the report period, the Company hasn't carried on security investment, nor held equity of other listed company, non-listed financial enterprise or company that planned to be listed.

V. Significant asset purchase, sales and restructure

The former 1st and 2nd largest shareholder of the Company SEG Group and Zhenhua Group has signed Equity Transfer Agreement with Wuhan Zhongheng in Jun. 2005, transferred its equity of the Company to Wuhan Zhongheng. On Apr.12, 2007, the registration transfer procedure of this equity transfer has been fully completed, Wuhan Zhongheng held 124,925,828 shares of the Company, which accounting for 44.12% of the total shares capital of the Company, and is the 1st largest shareholder of the Company. On Nov.13, 2006, the Company held related A-share shareholders' meeting, examined and approved share merger reform scheme: Wuhan Zhongheng take asset restructuring of the Company and bonus shares for circulating share shareholders as consideration, donate Baolilong and LCD whole machine installment business relevant assets to the Company and implement business integration on the Company. On May 18, 2007, the Company completed implementation of share consideration paying in the share merger reform scheme; in Aug., 2007, the assets donated by Wuhan Zhongheng have been totally completed transfer registration.

VI. Significant related transaction

The aforesaid asset purchase and restructuring made the Company started to set foot in the whole machine business of LCD, based on the upper and lower stream relationship of industrial chain, Wuhan Zhongheng completed the production of liquid crystal screen of LCD, the Company purchase liquid crystal screen from Wuhan Zhongheng and its controlling subsidiary Wuhan Hengsheng Photoelectricity Industry Co., Ltd., and complete whole machine installment and channel sales link in LCD industry flow, held 2006 annual shareholders' meeting on Jun.29, 2007 and examined and approved Proposal on Wuhan Zhongheng New Science & Technology Industrial Group Carrying on Routine Related Transactions in 2007, the pricing principle is that transaction price is lower than average market price of that time at least 1%, for details please refer to public notice No.34 in 2007 of the Company. Ended Jun.30, 2007, the Company accumulatively purchased LCD from related party amounting to RMB 33.3864 million, which accounting for 11% of estimated related purchase in 2007.

VII. Significant contracts and their implementations

(I) In 2001, the Company signed Building Leasing Contract of first to forth floor of Huafa building with Shenzhen Wanshang Friendship Department Store Co., Ltd. and China Resources Vanguard Co., Ltd., with total leasing area amounting to 22241.7 square meter with ten years leasing period, established "CR Vanguard Department Store" etc. emporium. In the report period, this contract is performed well.

(II) The Company hasn't any significant guarantee contract occurred in the report period or occurred in previous period but lasted to the report period.

(III) The Company hasn't any significant entrusting event of others to manage assets of the Company occurred in the report period or previous period but lasted to the report period; neither has other entrusted financing events.

VIII. Liability current of related debt

In the report period, the Company hasn't provided any fund for related parties or vice versa.

IX. Commitments

(I) Commitments that probably have significant influence on operational result and financial status of the Company occurred in the report period or previous period but lasted to the report period made by the Company or shareholders holding over 5% (including 5%) of the Company.

Name of shareholder	Commitment	Performance of commitment
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Since the implementation date of share merger reform scheme, transfer Baolilong and current asset, machinery equipment, other asset, current liability and other liabilities that related with whole machine installment business to the Company within a month; transfer relevant housing construction and land use right to the Company within 3 months, and complete all procedure of the transfer.	The procedure of transferring registration has been transacted completely in Aug. 2007

（II）Commitments of controlling shareholders made in the share merger reform scheme of the Company

Name of shareholder	Special commitment	Performance of commitment
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Promised that the holding non-circulating shares of the Company won’t be traded on the market within 36 months since they acquired listed trading right.	Being performed

X. Audit

The financial report of the Company in half year of 2007 hasn’t been audited. The audit organization of the Company in 2007 hasn’t been engaged.

XI. Other significant events

(I) In the report period, the Company, board of directors and directors of the Company haven’t received any inspection, administrative penalty, criticism by circulation, other penalty from administrative departments and public condemn of Stock Exchange.

(II) In the report period, the Company hasn’t had any reception or research, communication, interview etc. activities.

VI. Financial Report (Un-audited)

BALANCE SHEET

Prepared by Shenzhen Huafa Electronics Co., Ltd.   June 30, 2007   Unit: RMB

Items	Notes	Amount at period-end	Amount at period-begin	Amount at period-end	
		Consolidation	Parent Company	Consolidation	Parent Company
Current assets:					
Monetary funds	VII.1	10,644,655.08	9,017,081.24	19,610,336.01	17,579,528.19
Settlement provisions					
Capital lent					
Transaction finance asset					
Notes receivable	VII.2	4,974,452.03	4,974,452.03	3,965,810.00	3,965,810.00
Accounts receivable	VII.3	34,248,517.26	34,072,600.99	88,757,569.38	88,730,872.11
Accounts in advance	VII.4	3,686,373.53	3,686,373.53	363,575.68	363,575.68
Insurance receivable					
Reinsurance receivables					
Contract reserve of reinsurance receivable					
Interest receivable					
Other receivables	VII.5	14,181,311.83	15,913,910.72	11,744,468.19	13,622,750.77
Purchase restituted finance asset					
Inventories	VII.6	43,602,291.14	43,602,291.14	14,400,324.64	14,400,324.64
Non-current asset due within one year					
Other current assets					
Total current assets		111,337,600.87	111,266,709.65	138,842,083.90	138,662,861.39
Non-current assets:					
Granted loans and advances					
Finance asset available sales					
Held-to-maturity securities					
Long-term account receivable					
Long-term equity investment	VII.7				
Investment property	VII.8	46,578,351.12	46,578,351.12	50,874,949.73	50,874,949.73
Fixed assets:	VII.9	183,816,841.31	183,698,975.36	186,153,999.13	185,998,753.08
Construction in progress	VII.10	1,287,456.95	1,287,456.95	160,811.45	160,811.45
Engineering material					
Disposal of fixed asset					
Consumable biological asset					
Oil and gas asset					
Intangible assets					

Expense on Research and Development					
Goodwill					
Long-term expenses to be apportioned					
Deferred income tax asset					
Other non-current asset					
Total non-current asset		231,682,649.38	231,564,783.43	237,189,760.31	237,034,514.26
Total assets		343,020,250.25	342,831,493.08	376,031,844.21	375,697,375.65
Current liabilities:					
Short-term loans	VII.11	74,800,000.00	74,800,000.00	67,300,000.00	67,300,000.00
Loan from central bank					
Absorbing deposit and interbank deposit					
Capital borrowed					
Transaction financial liabilities					
Notes payable		3,086,388.09	3,086,388.09		
Accounts payable	VII.12	28,443,877.98	28,334,028.88	74,524,574.49	74,414,725.39
Accounts received in advance	VII.13	2,604,207.44	2,604,207.44	1,079,361.39	1,079,361.39
Selling financial asset of repurchase					
Commission charge and commission payable					
Wage payable		100,690.44	11,113.13	988.73	988.73
Taxes payable	VII.14	1,263,669.03	1,227,248.79	1,922,721.93	1,826,111.71
Interest payable					
Other accounts payable	VII.15	11,153,836.81	11,200,926.29	7,361,361.14	7,233,351.90
Reinsurance payables					
Insurance contract reserve					
Security trading of agency					
Security sales of agency					
Long-term liabilities due within 1 year					
Other current liabilities					
Total current liabilities		121,452,669.79	121,263,912.62	152,189,007.68	151,854,539.12
Non-current liabilities:					
Long-term loans					
Bonds payable					
Long-term account payable					
Special accounts payable					
Projected liabilities					
Deferred income tax liabilities					
Other non-current liabilities					
Total non-current liabilities					
Total liabilities		121,452,669.79	121,263,912.62	152,189,007.68	151,854,539.12
Owner’s equity (or shareholders’ equity):					
Paid-in capital (or share	VII.16	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00

capital)					
Capital public reserve	VII.17	106,032,173.92	106,032,173.92	106,032,173.92	106,032,173.92
Less: Inventory shares					
Surplus public reserve	VII18	77,391,593.25	77,391,593.25	77,391,593.25	77,391,593.25
Provision of general risk					
Retained profit	VII.19	(245,017,413.71)	(245,017,413.71)	(242,742,157.64)	(242,742,157.64)
Balance difference of foreign currency translation					
Total owner's equity attributable to parent company		221,567,580.46	221,567,580.46	223,842,836.53	223,842,836.53
Minority interests					
Total owner's equity		221,567,580.46	221,567,580.46	223,842,836.53	223,842,836.53
Total liabilities and owner's equity		343,020,250.25	342,831,493.08	376,031,844.21	375,697,375.65
ii. Diluted earnings per share		(0.0080)	(0.0080)	0.0020	0.0020

Principal of the Company: Li Zhongqiu Person in charge of accounting works: Shi Cheng
Person in charge of accounting institutes: Zhang Zhiyong

PROFIT STATEMENT

Prepared by Shenzhen Huafa Electronics Co., Ltd. Jan.-Jun., 2007 Unit: RMB

Items	Notes	This period		Same period of last year	
		Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income		67,894,925.19	66,887,285.19	74,961,150.99	73,901,709.99
Including: Operating income	VII.20	67,894,925.19	66,887,285.19	74,961,150.99	73,901,709.99
Interest income					
Insurance gained					
Commission charge and commission income					
II. Total operating cost		74,269,222.46	73,261,582.46	74,437,525.99	73,378,084.99
Including: Operating cost	VII.20	59,062,394.20	58,482,544.03	61,556,170.35	60,812,311.79
Interest expense					
Commission charge and commission expense					
Cash surrender value					
Net amount of expense of compensation					
Net amount of withdrawal of insurance contract reserve					
Bonus expense of guarantee slip					
Reinsurance expense					
Operating tax and extras	VII.21	980,165.08	927,799.00	1,011,466.47	956,375.53
Sales expenses		1,746,199.80	1,746,199.80	1,639,193.59	1,639,193.59
Administration expenses		10,456,267.74	10,077,194.27	7,746,872.86	7,485,335.38
Financial expenses	VII.22	2,024,195.64	2,027,845.36	2,483,822.72	2,484,868.70
Losses of devaluation of asset					
Add: Changing income of fair value(Loss is listed with "-")					
Investment income					

(Loss is listed with "-")					
Including: Investment income on affiliated company and joint venture					
Exchange income (Loss is listed with "-")					
III. Operating profit (Loss is listed with "-")		(6,374,297.27)	(6,374,297.27)	523,625.00	523,625.00
Add: Non-operating income	VII.23	4,104,509.60	4,104,509.60	46,457.98	46,457.98
Less: Non-operating expense	VII.24	5,468.40	5,468.40		
Including: Disposal loss of non-current asset					
IV. Total Profit (Loss is listed with "-")		(2,275,256.07)	(2,275,256.07)	570,082.98	570,082.98
Less: Income tax					
V. Net profit (Net loss is listed with "-")		(2,275,256.07)	(2,275,256.07)	570,082.98	570,082.98
Net profit attributable to owner's equity of parent company		(2,275,256.07)	(2,275,256.07)	570,082.98	570,082.98
Minority shareholders' gains and losses					
VI. Earnings per share					
i. Basic earnings per share		(0.0080)	(0.0080)	0.0020	0.0020
ii. Diluted earnings per share		(0.0080)	(0.0080)	0.0020	0.0020

Principal of the Company: Li Zhongqiu Person in charge of accounting works: Shi Cheng
Person in charge of accounting institutes: Zhang Zhiyong

CASH FLOW STATEMENT

Prepared by Shenzhen Huafa Electronics Co., Ltd. Jan.-Jun., 2007 Unit: RMB

Items	Notes	This period		Same period of last year	
		Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows arising from operating activities:					
Cash received from selling commodities and providing labor services		121,190,176.89	120,331,755.89	60,423,050.61	59,384,815.61
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					
Insured savings and net increase of 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					
Other cash received concerning operating activities		9,460,931.76	9,340,408.76	7,338,714.58	7,163,812.35
Subtotal of cash inflow arising from operating activities		130,651,108.65	129,672,164.65	67,761,765.19	66,548,627.96
Cash paid for purchasing commodities and receiving labor service		110,721,321.70	110,721,321.70	17,555,259.54	17,555,259.54
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		15,857,957.33	15,495,755.78	14,676,146.77	14,246,866.97
Taxes paid		2,474,437.54	2,396,913.68	6,166,637.73	6,100,106.99
Other cash paid concerning operating activities	VII.25	12,431,489.75	11,489,037.18	14,361,010.69	13,639,629.69
Subtotal of cash outflow arising from operating activities		141,485,206.32	140,103,028.34	52,759,054.73	51,541,863.19
Net cash flows arising from operating activities		(10,834,097.67)	(10,430,863.69)	15,002,710.46	15,006,764.77
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				28,000.00	28,000.00
Net cash received from disposal of subsidiaries and other units					
Other cash received concerning investing activities					
Subtotal of cash inflow from investing activities				28,000.00	28,000.00
Cash paid for purchasing fixed, intangible and other long-term assets		3,250,796.40	3,250,496.40	1,064,198.00	1,063,238.00
Cash paid for investment					
Net increase of mortgaged loans					

Net cash received from subsidiaries and other units					
Other cash paid concerning investing activities					
Subtotal of cash outflow from investing activities		3,250,796.40	3,250,496.40	1,064,198.00	1,063,238.00
Net cash flows arising from investing activities		(3,250,796.40)	(3,250,496.40)	(1,036,198.00)	(1,035,238.00)
III. Cash flows arising from financing activities					
Cash received from absorbing investment					
Including: Cash received from absorbing minority shareholders' investment by subsidiaries					
Cash received from loans		10,000,000.00	10,000,000.00	34,830,000.00	34,830,000.00
Cash received from issuing bonds					
Other cash received concerning financing activities					
Subtotal of cash inflow from financing activities		10,000,000.00	10,000,000.00	34,830,000.00	34,830,000.00
Cash paid for settling debts		2,500,000.00	2,500,000.00	51,950,000.00	51,950,000.00
Cash paid for dividend and profit distributing or interest paying		2,381,086.86	2,381,086.86	2,788,141.82	2,788,141.82
Including: Dividend and profit of minority shareholder paid by subsidiaries					
Other cash paid concerning financing activities					
Subtotal of cash outflow from financing activities		4,881,086.86	4,881,086.86	54,738,141.82	54,738,141.82
Net cash flows arising from financing activities		5,118,913.14	5,118,913.14	(19,908,141.82)	(19,908,141.82)
IV. Influence on cash due to fluctuation in exchange rate		0.00		3,586.48	3,586.48
V. Net increase of cash and cash equivalents		(8,965,980.93)	(8,562,446.95)	(5,938,042.88)	(5,933,028.57)
Add: Balance of cash and cash equivalents at the period -begin		19,610,336.01	17,579,528.19	17,090,691.20	15,864,966.44
VI. Balance of cash and cash equivalents at the period–end		10,644,355.08	9,017,081.24	11,152,648.32	9,931,937.87

Principal of the Company: Li Zhongqiu Person in charge of accounting works: Shi Cheng
Person in charge of accounting institutes: Zhang Zhiyong

CONSOLIDATED STATEMENT ON CHANGES OF OWNERS' EQUITY

Prepared by Shenzhen Huafa Electronics Co., Ltd. June, 2007 Unit: RMB

Items	Amount in this year									Amount in last year								
	Owners' equity belonged to the parent company							Minority interest	Total owners' equity	Owners' equity belonged to the parent company							Minority interest	Total owners' equity
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Surplus reserves	General risk provision	Retained profit	Others			Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Surplus reserves	General risk provision	Retained profit	Others		
I. Balance at the end of the last year	283,161,227.00	106,032,173.92		77,391,593.25		-242,742,157.64			223,842,836.53	283,161,227.00	101,494,017.00		77,391,593.25		-223,187,908.99			238,858,928.26
Add: Changes of accounting policy																		
Error correction of the last period																		
II. Balance at the beginning of this year	283,161,227.00	106,032,173.92	0.00	77,391,593.25	0.00	-242,742,157.64	0.00	0.00	223,842,836.53	283,161,227.00	101,494,017.00	0.00	77,391,593.25	0.00	-223,187,908.99	0.00	0.00	238,858,928.26
III. Increase/ Decrease in this year (Decrease is listed with"-")	0.00	0.00	0.00	0.00	0.00	-2,275,256.07	0.00	0.00	-2,275,256.07	0.00	0.00	0.00	0.00	0.00	570,082.98	0.00	0.00	570,082.98
(I) Net profit						-2,275,256.07			-2,275,256.07						570,082.98			570,082.98
(II) Profits and losses calculating into owners' equity																		
1. Net changing amount of fair value of financial assets available for sale																		
2. Effect of changes of other owners' equity of invested units under equity method																		
3.Effect of income tax related to owners'																		

equity																		
4. Others																		
Subtotal of (I)and (II)	0.00	0.00	0.00	0.00	0.00	-2,275,256.07	0.00	0.00	-2,275,256.07	0.00	0.00	0.00	0.00	0.00	570,082.98	0.00	0.00	570,082.98
(III) Owners' devotion and decreased capital																		
1. Owners' devotion 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 conversed to capital (share capital)																		
2. Surplus reserves conversed to capital (share capital)																		
3.Remedying loss with profit surplus																		
4.Others																		
IV. Balance at the end of this report period	283,161,227.00	106,032,173.92	0.00	77,391,593.25	0.00	-245,017,413.71	0.00	0.00	221,567,580.46	283,161,227.00	101,494,017.00	0.00	77,391,593.25	0.00	-222,617,826.01	0.00	0.00	239,429,011.24

Principal of the Company: Li Zhongqiu　　Person in charge of accounting works: Shi Cheng

Person in charge of accounting institutes: Zhang Zhiyong

Annotations to the Accounting Statement

1. Company Profile

This company was established in December 8th, 1981 as a Sino-foreign joint venture established by sponsorship jointly by three legal entities, including Shenzhen Electronics Group Co., Ltd, China Zhenhua Electronics Group and Hong Kong Luks Industrial Co., Ltd. The company was incorporated into a limited company in 1991 and its Registration No, of corporate Business license is Enterprise Securities Yue Shen General Zi No. 100296. In the same year, the company publicly offered and issued 53,130,000.equity shares with 1 RMB par value per share at the first time, among which there are 29,630,000 A-shares and 23,500,000 B-shares. In 1992, A-shares and B-shares of the company were listed in Shenzhen Securities Exchange with 53,130,000 tradable share shares and 159,203,000.non-tradable share shares.

In November 1996, Hong Kong Luks Industrial Co., Ltd transferred 12% of its shareholdings (25,500,000 shares) to Seg (Hong Kong) Co., Ltd, which was approved by Shenzhen Securities Management Office and was registered for transference in March 5th 1997 in Shenzhen Securities Registration Company Limited After the transference, shares hold by Hong Kong Luks Industrial Co., Ltd was reduced to 25,796,663 shares, accounting for 12.16% of this company's total shares, and SEG (Hong Kong) Co., Ltd holds 25,500,000 shares, accounting for 12% of the company's total shares.

In December 1997, the company implemented placement share scheme, by issuing and selling new shares 63,699,895 in total to all shareholders with 10:3 ratio based upon the base number of 212,332,989 (total shareholdings before the rights offering). Among them, 30,777,997 shares were acquired by foreign corporate shareholders, 3,600,000 shares were acquired by domestic corporate shareholders, and the remained 27,177,997 shares of offering rights were transferred to public shareholders with value, 15,388,998 shares were offered and sold to foreign-fund corporate shareholders. Foreign-fund corporate shareholders acquired 1,800,000 shares, and abandoned 13,588,998 shares. 9,777,900 shares were offered to public shareholders and 7,755,000 shares were offered and sold to oversea listed foreign-fund shareholders.

In January 1998, the company implemented the change of capital accumulation fund to augmented capital stock. The specific procedure is as follows: upon the base number of 212,332,989 shares which is the total shares at the end of 1996, increase 2 shares for every 10 shares to all shareholders, increase 1.764 shares for every 10 shares according to total 240,701,488 shares after rights offering in 1997.

In January 5th 2001, 6,394,438 transferred offering rights of the company became tradable in Shenzhen Securities Exchange upon approval.

In May 29th 2001, upon approval of China Securities Regulatory Commission, 62,462,914 foreign-fund non-tradable shares of the company were transferred to tradable shares, by then, all foreign-fund shares become tradable.

In November 30th and December 7th in 2001, Hong Kong Luks Industrial Co., Ltd reduced its B-shares of the company respectively by 14,158,000 and 14,159,000 shares. Up to December 17th 2001, Seg (Hong Kong) Co., Ltd had reduced accumulatively 14,487,400 shares of the company's foreign-fund shares which account for 5.12% of the company's total shareholdings.

Up to December 31st 2006, the company's overall shareholdings were 283,160,000, and the tradable shares were 158,240,000.including 56,240,000 A-shares and 102,000,000 B-shares.

In June 6th 2005, the company's original dominating shareholders: Shenzhen Electronics Group Co., Ltd and Zhenhua Group planned to transfer 124,920,000 state-owned corporate shareholdings of the company to Wuhan Zhongheng New Technology Industrial Group Co., Ltd (hereinafter called Wuhan Zhongheng). The transfer was approved by State-owned Assets Supervision and Administration Commission, Ministry of Commerce and China Securities Regulatory Commission and relevant governmental departments and the transferring formalities were completed in April 11th 2007.

In November 13th 2006, the shareholder's meeting of the company approved *Share Structure Reform Program.* According to the program, Wuhan Zhong Heng would restructure the company's assets, including conferring assets and integrating industry, paying 1.5 share consideration per 10 shares to the tradable A-shares shareholders registered at the shareholding registration date of the program implementation, and paying totally 8,435,934 shares to tradable share shareholders which would be tradable on the first day of trading after the reform program was implemented. In May 18th 2007, the company had accomplished the measurement of share consideration payment in the program. In August 2007, the company had finished all transferring procedures of conferring assets.

Business Scope: producing and operating various kinds of color TV, radios, sound devices, electronic watches, electronic video game devices, computers and other electronic products and fitted printed wiring board, precise injecting molding components, hardware components (including industrial die), plating and cover treatment and tin wires. There are joint companies in Wuhan, Jilin and branches in all provincial capitals and directly-governed cities in the country (except Lhasa).

2. Preparation Basis

The financial statement is prepared on the basis of the company's actual transactions and matters during its continuous operation and is confirmed and measured on the basis of *Accounting Standards for Business Enterprises* and *Guidance of Accounting Standards for Business Enterprises* issued by Ministry of Finance in 2006, and relevant regulations.

3. Declaration for abiding by the *Accounting Standards for Business Enterprises*

The financial statement of this company is in conformity with the *Accounting Standards for Business Enterprises,* and discloses true and complete information about the company's financial state, operating achievements and cash flow etc.

4. Major accounting policies and preparing approaches for accounting estimation and consolidated financial statement.

4.1 Fiscal year

The fiscal year is from Gregorian calendar January 1st to December 31st.

4. 2. Recording Currency

RMB is the recording currency.

4.3. Recording basis and accounting measurement

The company adopts accrual system as the basis for accounting confirmation, measurement and reporting, and for debit-credit bookkeeping approach.

The company generally applies historical cost in measuring accounting elements, for replacement cost, net realizable value, present value and fair value in measurement, the confirmed accounting elements shall be guaranteed to be obtainable and shall be measured reliably.

4.4. Foreign currency transaction

For business transactions involving foreign currency, the company adopts the spot exchange rate (Mid-rate of RMB foreign exchange quotation published by People's Bank of China) and converts the foreign currency amount to recording currency amount. On the balance sheet date, the company conducts accounting solution by distinguishing foreign currency monetary items form foreign currency non-monetary items.

(1) foreign currency monetary items are converted according to the spot exchange rate on balance sheet date, exchange loss due to difference between the spot exchange rate on the balance sheet date and that initially confirmed or on the previous balance sheet, belongs to the exchange loss generated by loan due to purchasing and constructing fixed assets, and shall be handled in the principle of Loan Expenses Capitalization. Others shall be accounted for current profit and loss.

(2) Foreign currency non-monetary items measured by historical cost shall adopt the spot exchange rate on the trading date, without changing their recording currency value. Foreign currency non-monetary items measured by fair value shall adopt the spot exchange rate on the confirming date of fair value. The loss after exchange shall be handled as fair value change (including exchange change) and be accounted as current profit and loss.

4.5 Recognizing standards for cash equivalents

Cash equivalents refers to investment hold by the company with short period, strong floatability, low value-change risk and is easy to be converted to value-known cash.

4.6 Bad debt calculation approach

Bad debts recognition standards：

Amounts uncollectible after assets liquidation or heritage settlement after the debtor going into bankruptcy or being dead

Receivable amount that is proved to be uncollectible due to payment default of the debtor exceeding more than 3 years

Bad debts calculation applies allowance approach, and withdrawn of provision shall be conducted by the product of remaining receivable amount at the end of the period (including receivable accounts and other receivables) and the withdrawing rate confirmed by aging analysis approach. The age ranges and corresponding withdraw rate are as following:

Account Age	**Withdraw Rate**
Within 1 year	-
1-2 years	5%
2-3 years	10%
Over 3 years	30%

At the same time, on the basis of comprehensive information analysis related to actual financial states and cash floating volume of corresponding debt entities of overdue receivables, the company prepares for special bad debt withdrawing for those receivables with little hope to collect.

4.7 Inventory calculation approach

Inventory including raw materials, unfinished products, finished products, low-value and consumptive products, packs and so on shall be shown by the lower of cost or changeable net realizable value

Inventory shall be accounted according to actual cost upon receiving. Cost of material upon sending shall be calculated according to FIFO approach. Cost of finished products upon sending shall be calculated according to Weighted Average Approach. Cost of low value consumptive products upon using shall be calculated according to one-off charging approach. Packs shall be accounted for producing cost in one time upon using. Cost of finished products and producing products also includes all indirect cost of raw materials and direct manual work and all indirect cost appropriated according to proper ratio under normal producing capacity.

Inventory system adopts the Perpetual Inventory System combined with periodic inventory system.

At the end of the period, the price of inventory is evaluated as the lower of cost or net realizable value. On the basis of complete check of the inventory, estimated cost-uncollectible part due to damage, time-wearing or obsolesce, or lower-than-cost selling price, shall be prepared for Allowance on Inventory Price Reduction based upon the loss between single inventory cost and its net realizable value. The net realizable value is determined by deducting estimated complete cost, selling expense and tax fee from the estimated selling price.

4.8 Long-term investment on shares

（1）the company’s long-term investment on shares applies actual paid purchase price amount as the initial investment cost including directly related expenses, tax fee and other necessary expenses.

（2） Recognition approach for long-term investment on shares: ① for long-term investment on shares within the range of consolidated accounting statement, cost approach is adopted for calculation; ② except investment within the range of consolidated accounting statement, the company adopts equity approach to calculate investment to other unit which accounts for 20% or more than 20% of that unit’s total voting capital, or less than 20% but with significant influence. For investment to other unit with less than 20% of its total voting capital or over 20% but without significant influence, the company adopts cost approach for calculation.

4.9 Investment on real-estates

Investments on real-estates refer to those the company holds for earning rent fee or capital appreciation or both.

Investment on real-estates are calculated and measured by cost mode, and be withdrawn for depreciation or amortization according to relevant regulations. As to the conversion between investment real-estates and other estates, book value before the conversion of the real-estates is recognized as the book value entering into the account after the conversion. When the company sells, transfers or discards investment real-estate or in case of real-estates damage, the amount after deducting book value and relevant tax fee from the handling income shall be accounted for the profit and loss of that period.

The withdrawal of assets depreciation reserves of investment real-estate shall refer to relevant accounting policies of assets impairment. Impairment loss, once upon confirmation, shall not be recovered during later accounting periods.

4.10 Fix-assets' price evaluation and depreciation approach

(1) the criteria for defining fix-assets: Tangible assets with comparatively high unit value and over 1 year of service circle for producing products, providing services, leasing or operating and managing.

(2) categories of fix-assets: Houses and buildings, machines, transportation devices, and other devices.

(3) Fix-assets price evaluation: Apply using cost as book value entering into the account. Using cost includes purchase price, import tariffs, transportation and insurance fee, and necessary expenses for preparing the fix-assets for expected usage state.

(4) Fix-assets depreciation adopts approach of lines for calculation and is withdrawn averagely within the estimated economic service circle by deducting the net residual value (10% of the original value) from the original value of various kinds of fix-assets. Improvement expense of operating rented fix-assets through leasing shall be withdrawn for depreciation by the shorter of the remained leasing period and remaining service period of the rented estate; the decoration expense of fix-assets shall be withdrawn for depreciation by the shorter of interval period between two decorations and the remaining service period of the fix-assets.

(5) confirming the classified depreciation rate as following:

Assets category	**Service period**	**Annual depreciation rate**
House and buildings	20-50years	1.80-4.50%
General devices	10years	9.00%
Special devices	5years	18.00%
Transportation instrument	5years	18.00%
Other devices	3-5years	18.00-30.00%

(6) Withdrawal of provision for fix-assets depreciation refers to relevant accounting policies of assets depreciation. The depreciation loss, once confirmed, can not be recovered during later accounting periods.

4.11 Project under construction

Project under construction is calculated by actual cost of the project and is changed into fix-assets after reaching its expected usage state. Project that reaching the expected usage state but has not carried out the completion settlement, shall be accounted with estimation price which is subject to adjustment after completing check and finishing completion settlement procedures.

The withdrawal of provision for assets depreciation of project in construction refers to relevant accounting policies. Depreciation loss, once confirmed, shall not be recovered during later accounting periods.

4.12 Borrowing expenses

Borrowing expenses refer to interest or other cost incurred by the company's borrowing including loan interest, amortization of discount or premium, auxiliary expense and exchange loss cause by foreign currency borrowing.

The borrowings of the company that could be attributed to purchasing and constructing or producing assets and that meet the requirements of capitalization, shall be capitalized and be accounted for relevant assets cost; other borrowing expenses shall be recognized for expenses when the borrowing is conducted and be accounted for profit and loss of that period.

Capitalization of assets that meet the requirement of capitalization shall be terminated in case the purchasing and constructing or producing process is terminated abnormally and the termination lasts for over 3 months (including 3 months). Borrowing expense during the termination shall be recognized for expense and be accounted for profit and loss of the period, until the purchasing and constructing or producing process being restarted; if the termination is a necessary procedure for leading the purchasing and constructing or producing assets that meet the requirement of capitalization to the expected using or selling state, the capitalization of borrowing expense shall be continued.

4. 13 Intangible assets

(1) The confirming standard for intangible assets is: Non-monetary assets hold or controlled by the company and with no recognizable material form.

(2) Intangible assets price evaluation: Intangible assets obtained by purchasing or by legal application shall be accounted with actual spending amount. Intangible assets transferred from investment, shall be accounted by value stipulated in the contract or confirmed by evaluation. For intangible assets developed by the company, all expenses during the developing process shall be accounted as expenses for the profit and loss; expenses during the developing process that meet the following terms shall be capitalized.

①With technical feasibility to make the intangible assets into usable or sellable assets.

② With purpose to complete the intangible assets and use it or sell it.

③ the intangible assets could generate economic profits.

④ With sufficient technical and financial support and other resource support to complete its development, and being able to use or sell the intangible assets.

⑤Expenses related with and during the intangible assets development process could be calculated and measured reliably.

Price the assets by the lower of the book value or the collectible amount at the end of the period.

(3) Amortization approach of the intangible assets: intangible assets with limited service circle could be amortized appropriately and be accounted for profit and loss within the service circle commencing from when the assets are usable. The amortization approach shall reflect the expected realizing approach of the assets' relevant economic profit. In case of being unable to determine the expected realizing approach in a reliable way, approach of lines shall be applied in amortization. Intangible assets with undefined service circle shall not be amortized.

(4) Withdrawal of provision for intangible assets impairment refers to relevant accounting policies of assets impairment. The impairment loss, once confirmed, shall not be recovered during later accounting periods.

4. 14 long-term deferred expenses.

Long-term deferred expenses refer to expenses already incurred by the company and with over 1 year limitation of amortization by this period or later periods, including improvement expenses of fix-assets rented through operating leasing, etc.

Long-term deferred expenses are accounted by actual expenses and shall be amortized averagely during the expected profit period.

4.15 Assets Impairment

At the end of the period, the company would conduct checks on long-term investment on shares, fixed-assets, project in construction, intangible assets and brand goodwill to determine whether there is sign for impairment. Brand goodwill formed by enterprise consolidation and intangible assets with indefinite service circle shall undergone impairment test every year regardless whether there is impairment sign.

If there is sign for impairment, estimate the collectible amount which shall be determined by the higher of the net value by deducting the handling expense from the fair value of the assets and the estimated future cash flow. When the assets' collectible amount is lower than the book value, the book value shall be written down to collectible value. The decreased amount shall be recognized to be loss and be accounted for profit and loss of that period. Assets impairment of Long-term investment on shares, investment real-estate measured by cost mode, fixed-assets, intangible assets and brand goodwill, once confirmed, can not be recovered during later accounting periods.

4.16 Payable compensation for employees

Compensation for employees refers to all forms of remuneration and other relevant expenses to compensate for employees' services. Remuneration includes salary, bonus, subsidy and allowance, employee's welfare, social insurance, housing fund, work union fee, employees' education fee, non-monetary welfare, compensation for terminating labor relations etc. During the employees' service accounting period, the company recognizes the payable compensation for employees as debt. Except compensation for terminating labor relations, the company accounts the debt for corresponding expenses or assets according to the beneficiary. According to relevant regulations, the company withdraws insurance fee with a certain rate based upon the total salary within the range of regulation, and pay to the labor and social guarantee organization. Relevant expenses shall be accounted for expenses or assets of that period.

17. Recognition principle of anticipated debts

If the duty related to the contingent items accords with all the following requirements, it should be recognized as debt:

(1) The duty is the current duty of the company

(2) The execution of the duty may cause outflow of economic interest from the company

(3) The duty can be measured reliably

The sum of anticipated debt is the best estimation of the expenditure needed to discharge the debt. If there is a sum scope of the expenditure needed, the best estimation should be the average value of the upper and lower limit value of the scope.

Otherwise, the best estimation should be fixed as follows:

(1) If the contingent item involves only one item, the best estimation should be fixed according to the sum which is most likely to occur.

(2) If the contingent item involves more than one item, the best estimation should be fixed according to all sum which is likely to occur and the probability

If the total or partial anticipation of expenditure needed of the recognized debt is compensated by the third party or others, the compensation sum should be recognized as asset separately when it is basically confirmed to be receivable.

18. Revenue Recognition

(1) The recognition principle of product selling income: the main risk and reward of the product property have been transferred to the purchasers, the company has not retained the continued management authority usually related to the property or control effectively the products sold, the income can be measured reliably, the related economic interest is likely to flow into the company, the related cost materialized or going to be materialized can be measured reliably.

(2) The recognition principle of income from rendering of service: the income can be measured reliably, the related economic interest is likely to flow into the company, the completion rate of progress can be confirmed reliably, and the cost materialized or going to be materialized of the transaction can be measured reliably.

(3) The recognition principle of usufruct income of the released assets: the income can be measured reliably, and the related economic interest is likely to flow into the company.

19. Accounting method for income tax

(1) Recognition

①While the company is procuring assets and debts, it should recognize the taxing basis. For the difference between the book value of assets and debts and their taxing basis, recognize the deferred income tax asset or deferred income tax debts caused.

②For the counteractable temporary discrepancy related to investment to subsidiary companies, affiliated companies and joint ventures, if it meets both of the following requirements, the company recognizes the corresponding deferred income tax asset: the temporary discrepancy is likely to be conversed in the foreseeable feature，and the taxable income is likely to be obtained to counteract the temporary discrepancy in the future.

③For the counteractable loss and tax offset carried forward to the next year, the company will take the future taxable income which is likely to be procured to counteract the counteractable loss and tax offset as limitation and confirm the corresponding deferred income tax asset.

(2) Measurement

①While measuring the deferred income tax asset and deferred income tax debts, the company adopts the tax rate and taxing basis accordant to the anticipation of collecting asset or discharging debts.

②The company records the current income tax and deferred income tax in the current profit and losses as income tax expenses income, except the income tax result from the following cases: enterprise combination; the exchanges or items directly recognized in the owner's equity. For the current income tax and deferred income tax related to transactions or items directly recorded in owner's equity, record them in owner's equity.

③On the basis of calculating and recognizing the current income tax (i.e. current payable income tax) and deferred income tax expenses (or profit), the company shall recognize sum of them as income tax expense (or profit) in profit statement, except the income tax impact of transactions or items directly recorded in owner's equity.

20. Enterprise combination and preparation method for consolidated financial statements

(1) Accounting enterprise combination under different combination modes is divided into enterprise combination under same control and enterprise combination under different control. A. the asset and debt procured from enterprise combination under same control should be measured with the book value of combined party on the combination date. Adjust capital reserve for the difference of book value of procured net asset and the book value of consolidated consideration paid (or total par value of shares issued). Adjust the retained earnings if the capital reserve is not sufficient for abatement. B. measure the asset paid or debt taken for enterprise combination consideration on purchasing date of enterprise combination under different control, with fair value, and record the difference of fair value and book value in current profit and losses. Recognize the difference as goodwill if the combination cost is more than the fair value of distinguishable net asset of the purchased party procured through combination. For the difference that the combination cost is less than the fair value of distinguishable net asset of the purchased party procured through combination, first, check the fair value of procured distinguishable asset, debt and contingent debt of the purchased party and the measurement to combination cost, then, after checking, record the difference in current profit and losses if the combination cost is still less than the fair value of distinguishable net asset of the purchased party.

(2) Consolidation scope

The consolidation scope of consolidated financial statement is recognized on the basis of controlling. All subsidiary companies are included in the consolidated statement. If the company owns over half of the voting right of invested companies directly or through subsidiary companies, the invested companies are recognized as subsidiary companies and included in the scope of consolidated financial statement.

(3) Consolidation procedure and method

The method is to take the accounting statements of the parent company and subsidiary companies as basis, prepare according to other related data after adjusting the long-term equity investment to the subsidiary companies according to the equity law.

The company shall consolidate the accounting policy and accounting period adopted in subsidiary companies to make it accordant to that of the parent company. While preparing and consolidating accounting statement, importance principle should be followed and the interior exchanges and equity investment items between the parent company and the subsidiary companies or among the subsidiary companies.

21. Important accounting policies, accounting estimation changes and important accounting error rectification

Accounting policy changing

From Jan. 1st 2007, the company began to execute the *Accounting Standards for Business Enterprises-Basic Standards* issued in "CaiKuai [2006] wen" by the ministry of finance and other regulations of detailed accounting standards (referred as "new accounting standards" for short). Accounting to new accounting standards, the balance sheet debt method is applied to the accounting of the income tax. On Jan. 1 2007, for the temporary discrepancy caused by the difference between the book value and taxing basis of asset and debt, recognize deferred income tax asset and deferred income tax debt according to related requirements and adjust the impact sum for retained earnings.

According to current accounting standard, by Dec. 31 2006, the company has accumulatively withdrawn bad debt reserve for RMB 53,336,328.53, inventory depreciation reserve for RMB 20,626,434.05, provision for long-term investment depreciation for RMB 900,000.00 and provision for fixed asset depreciation for RMB 973,496.73. Caused by the above items, the book value of asset is less than the taxing basis, and the counteractable temporary discrepancy is RMB 75,836,259.31, and it can lead to the deferred income tax asset for RMB 11,375,438.90. By 2006, the uncompensated tax loss of the company is RMB 18,994,042.11. According to the current earning capacity of the company, it is speculated that there will not be enough taxable income to counteract the counteractable temporary discrepancy in the near future. Therefore, temporarily, the company will not recognize the current deferred income tax asset until it is likely to procure enough taxable income to counteract the counteractable temporary discrepancy in the future.

No important accounting estimation changing and accounting error rectification occurred to the company in this period.

V. Main taxes

The main taxes and tax rates of the company:

Tax	Taxing basis	Tax rate
VAT	Product sales revenue	17%
Business tax	Real estate lease and management income	5%
City construction and maintenance tax	Turnover tax paid	1%
Extra charges for education	Turnover tax paid	3%
Real estate tax	70% of the initial value of real estate	1.20%
Enterprises income tax	Taxable income	15%

VI. Enterprise combination and consolidated accounting statement

1. profile of the subsidiary company included in the consolidated accounting statement

Name of company	Registration place	Legal representative	Registered capital	Actual investment amount	Share ratio	Main operations
Shenzhen Huafa Real Estate Lease and Management Co., Ltd	Shenzhen	Liu Zuodong	RMB 1,000,000	RMB 600,000	60%	Real estate lease and management

2. profile of the subsidiary companies not included in the consolidated accounting statement

Name of company	Registration place	Legal representative	Registered capital	Actual investment amount	Share ratio	Main operation
Guizhou Huafa Electrical Appliance Co., Ltd	Guizhou	Wang Longdi	RMB 500,000	RMB 300,000	60%	Deal with electronic parts
Wuxi Jingfa Electronic Co., Ltd	Wuxi	Cai Guiyong	RMB 500,000	RMB 300,000	60%	Deal with household appliances

Guangzhou Shuangshi Electronic Co., Ltd	Guangzhou	Cai Guiyong	RMB 500,000	RMB 300,000	60%	Deal with household appliances

Because of fierce competition in the color television market, the company had stopped supplying for the above three companies on 5th Dec. 2000. According to the information provided by the local industrial and commercial administration bureaus: Wuxi Jingfa Electronic Co., Ltd had been logged out on 12th June 2002, the business license of Guangzhou Shuangshi Electronic Co., Ltd had been revoked by the local industrial and commercial administration bureau on 21st Sept. 2001, and the business license of Guizhou Huafa Electrical Appliance Co., Ltd had been revoked by the local industrial and commercial administration bureau on 15th Sept. 2003, so these three companies is not included in the consolidated accounting statement.

3. The consolidation scope of this year is not changed

VII. Notes on Main Items of Consolidation accounting statement

1. currency fund

category	6.30 2007 Original currency amount	Exchange rate	Amount to RMB	12.31 2006 Original currency amount	Exchange rate	Amount to RMB
cash RMB	92,241.64		92,241.64	272,753.99		272,753.99
HKD	5,301.83	1.00	5,301.83	9,503.43	1.00	9,503.43
USD	1,348.74	7.80	10,520.17	1,348.74	7.80	10,520.17
Cash subtotal			108,063.64			292,777.59
Bank deposit RMB	8,293,118.58		8,293,118.58	12,907,814.30		12,907,814.30
HKD	89,026.45	1.00	89,026.45	911,063.63	1.00	911,063.63
USD	64,929.64	7.80	506,451.19	71,802.37	7.80	560,058.49
Bank deposit subtotal			8,888,596.22			14,378,936.42
Other currency fund						
RMB	1,646,971.22		1,646,971.22	4,937,598.00		4,937,598.00
HKD	1,024.00	1.00	1,024.00	1,024.00	1.00	1,024.00
Other currency fund subtotal			1,647,995.22			4,938,622.00
Total sum			10,644,655.08			19,610,336.01

Balance at the end of the term of other currency fund RMB 1,647,995.22 is L/C guarantee deposits.

2. bills receivable

Category of note	6.30 2007	12.31 2006
Bank acceptance bill	4,974,452.03	3,965,810.00

3. accounts receivable

Account receivable age	6.30 2007 sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	24,564,099.07	52.09%			24,564,099.07
1-2 years	4,699,454.89	9.97%	1,232,920.05	26.24%	3,466,534.84
2-3 years	2,228,743.93	4.73%	1,702,352.21	76.38%	526,391.72
Over 3 years	15,666,051.54	33.22%	9,974,559.91	63.67%	5,691,491.63
Total sum	47,158,349.43	100.00%	12,909,832.17		34,248,517.26

Account receivable age	12.31 2006 sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	81,356,231.99	80.02%	744,415.11	0.92%	80,611,816.88
1-2 years	2,696,082.63	2.65%	488,504.94	18.12%	2,207,577.69
2-3 years	5,404,171.10	5.32%	1,702,352.21	31.50%	3,701,818.89
over 3 years	12,210,915.83	12.01%	9,974,559.91	81.69%	2,236,355.92
Total sum	101,667,401.55	100.00%	12,909,832.17		88,757,569.38

No arrearage of the shareholder companies which hold over 5% (include 5%) of the company's voting share is in the balance at the end of the term of the accounts receivable.

The total sum of the arrearage of the top 5 companies in debt in the accounts receivable at the end of the term is RMB 18,367,154.71, accounting for 39.84% of the balance at the end of the term of the accounts receivable.

Compared with the arrearage at the beginning of the term, the arrearage at the end of the term is less for RMB 54,509,052.12, accounting for 53.62%, and the reason is that the company had reinforced collection of debts.

4. Prepaid accounts

Prepaid accounts age	6.30 2007 sum	6.30 2007 proportion	12.31 2006 sum	12.31 2006 proportion
Within 1 year	3,471,826.04	94.18%	224,612.71	61.78%
1-2 years	214,547.49	5.82%	138,962.97	38.22%
Total sum	3,686,373.53	100.00%	363,575.68	100.00%

For the prepaid fund to the shareholder companies which hold over 5% (include 5%) of the company's voting share in the balance at the end of the term of the prepaid accounts, please refer to annotation IX.3. (3)

The total sum of the arrearage of the top 5 companies in debt is RMB 3,244,957.74, accounting for 88.03% of the balance at the end of the term of the prepaid accounts.

5. Other accounts receivable

Accounts receivable age	6.30 2007				
	sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	7,140,629.26	13.08%	----	----	7,140,629.26
1-2 years	3,959,176.09	7.25%	1,728,439.51	43.66%	2,230,736.58
2-3 years	1,379,052.15	2.53%	1,095,074.08	79.41%	283,978.07
Over 3 years	42,128,950.69	77.15%	37,602,982.77	89.26%	4,525,967.92
Total sum	54,607,808.19	100.00%	40,426,496.36		14,181,311.83

Accounts receivable age	12.31 2006				
	sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	5,727,548.27	10.98%	----	----	5,727,548.27
1-2 years	4,471,168.25	8.57%	1,728,439.51	38.66%	2,742,728.74
2-3 years	1,427,397.08	2.74%	1,095,174.08	76.73%	332,223.00
Over 3 years	40,544,850.95	77.71%	37,602,882.77	92.74%	2,941,968.18
Total sum	52,170,964.55	100.00%	40,426,496.36		11,744,468.19

No arrearage of the shareholder companies which hold over 5% (include 5%) of the company's voting share is in the balance at the end of the term.

The total sum of the arrearage of the top 5 companies in debt in other accounts receivable at the end of the term is RMB 48,023,855.15, accounting for 87.94% of other accounts receivable.

6. Stock in trade

Item	6.30 2007		
	sum	Depreciation reserve	Net sum
Raw material	33,748,229.66	6,680,225.71	27,068,003.95
Goods in process	10,745,135.85	6,848,922.54	3,896,213.31
Goods in storage	19,735,359.68	7,097,285.80	12,638,073.88
Total sum	64,228,725.19	20,626,434.05	43,602,291.14

Item	12.31 2006 sum	Depreciation reserve	Net sum
Raw material	11,669,392.23	6,680,225.71	4,989,166.52
Goods in process	10,505,207.42	6,848,922.54	3,656,284.88
Goods in storage	12,852,159.04	7,097,285.80	5,754,873.24
Total sum	35,026,758.69	20,626,434.05	14,400,324.64

Compared with the sum at the beginning of the term, the sum at the end of the term is more for RMB 29,201,966.5, accounting for 53.62%, and the reason is that the company had increased the storage of liquid crystal panels.

7. Long-term equity investment

item	12.31 2006	Increase in current period	Decrease in current period	6.30 2007
Long-term equity investment	900,000.00	----	----	900,000.00
Less: depreciation serve	900,000.00	----	----	900,000.00
Net sum of long-term equity investment	0.00	----	----	0.00

(1) other equity investment

Name of the company invested	Investment time limit	Investment amount Initial investment	Equity adjust ment in the year	Accumu lated equity adjustm ent	Balance by 6.30.2007	Investment proportion	Depreciation reserve
Guizhou Huafa Electrical Appliance Co., Ltd	July 28 1995-July 27 2015	300,000.00	----	----	300,000.00	60%	300,000.00
Wuxi Jingfa Electronoic Co., Ltd	Jan.10 1996-Jan.19 2006	300,000.00	----	----	300,000.00	60%	300,000.00
Guangzhou Shuangshi Electronic Co., Ltd	Not limited from Sept. 17 1996	300,000.00	----	----	300,000.00	60%	300,000.00
Total sum		900,000.00	----	----	900,000.00		900,000.00

Actually, the above 3 companies had been revoked for business license or logged out, please refer to annotation VI.2.

(2) depreciation reserve to long-term equity investment

Name of the	Depreciation reserve

company invested	Balance by12.31.2006	Increase in current period	Decrease in current period	Balance by 6.30.2007	Reason for withdraw
Guizhou Huafa Electrical Appliance Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2003
Wuxi Jingfa Electronoic Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2002
Guangzhou Shuangshi Electronic Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2001
Total sum	900,000.00	----	----	900,000.00	

8. Invested real estate and accumulated amortization

Category of fixed asset	Balance by 12.3.2006	Increase in current period	Decrease in Current period	Balance by 6.30.2007
Initial price of invested real estate				
Huafa building	112,805,095.63	----	----	112,805,095.63
Total sum	112,805,095.63	----	----	112,805,095.63
Accumulated amortization				
Other facilities	61,930,145.90	4,296,598.61	----	66,226,744.51
Total sum	61,930,145.90	4,296,598.61	----	66,226,744.51
Net sum of invested real estate	50,874,949.73			46,578,351.12

The above invested real estate had been mortgaged for bank loan, please refer to annotation XII.

9. fixed assets and accumulated depreciation

Category of fixed assets	Balance by 12.3.2006	Increase in current period	Decrease in current period	Balance by 6.30.2007
Original price of fixed asset				
Houses and buildings	151,991,770.05	----	----	151,991,770.05
Universal equipments	94,373,252.42	2,671,897.00	----	97,045,149.42
Special equipments	23,548,748.36	1,695,443.80	----	25,244,192.16
Transport instruments	3,614,696.00	275,560.00	----	3,890,256.00

Fitment to fixed asset	787,725.10	----	----	787,725.10
Other equipment	31,105,880.67	997,878.10	----	32,103,758.77
Total sum	305,422,072.60	5,640,778.90	----	311,062,851.50
Accumulated depreciation				
Houses and buildings	28,396,932.92	1,882,364.75	----	30,279,297.67
Universal equipments	46,509,617.56	3,363,792.75	----	49,873,410.31
Special equipments	20,117,362.89	774,885.49	----	20,892,248.38
Transportation instrument	2,681,102.00	114,060.55	----	2,795,162.55
Fitment to fixed asset	156,108.29	78,772.84	----	234,881.13
Other equipment	20,433,453.08	1,764,060.34	----	22,197,513.42
Total sum	118,294,576.74	7,977,936.72	----	126,272,513.46
Less: depreciation reserve to fixed asset	973,496.73			973,496.73
Net sum	186,153,999.13			183,816,841.31

Part of the houses and buildings in the above fixed asset had been mortgaged for bank loan, please refer to annotation XII.

Among the newly added fixed assets, there is RMB 50,700.00 for transferred construction in progress without capitalized interest.

10. Construction in progress

Name of construction	Balance by 12.3. 2006	Increased amount in the period	Transferred into fixed asset in current period	Other decrease	Balance by 6.30.2007	Source of capital
building reconstruction for Gongming Electronic Center	----	672,745.50	50,700.00	----	782,856.95	Self-prepare
Prepaid equipment price	160,811.45	610,220.00	105,620.00	----	504,600.00	Self-prepare
Total sum	160,811.45	1,282,965.50	156,320.00	----	1,287,456.95	

The added construction in progress includes no capitalized sum of loan expenses.

11. Short-term loans

Loan requirement and currency	6.30 2007	12.31 2006
Mortgage loan		
RMB	74,800,000.00	67,300,000.00
Total sum	74,800,000.00	67,300,000.00

There is no unpaid due loan in the balance at the end of the term of the short-term loan of the company, and all short-term loans above are obtained with mortgage of houses and buildings, for details please refer to annotation XII.

12. Accounts payable

By June 30 2007, the balance of accounts payable is RMB 28,443,877.98, less than the balance at the beginning of the year RMB 74,524,574.49 for RMB 46,080,696.51 because of payment for LCD raw materials to HONGK HOTWILL INDUSTRAIL LIMITED in the first half of the year.

There is no arrearage to the shareholder companies which hold over 5% (include 5%) voting share of the company in the balance at the end of the term of accounts payable.

13. Accounts advanced from customers

There is no arrearage to the shareholder companies which hold over 5% (include 5%) voting share of the company in the balance at the end of the term of accounts advanced from customers.

14. Taxes payable

Tax category	Tax rate	6.30 2007	12.31 2006
Business tax	5%	955,166.72	1,027,556.07
VAT	17%	-390,086.31	232,052.56
Enterprise income tax	15%	-119,640.50	-119,640.50
Real estate tax	1.2‰	732,278.33	654,894.46
Personal income tax withheld and paid		83,077.25	2,573.68
City construction and maintenance tax	1%	2,179.52	66,227.64
Extra charges for education	3%	694.02	59,058.02
Total sum		1,263,669.03	1,922,721.93

15. Other accounts payable

There is no arrearage to the shareholder companies which hold over 5% (include 5%) voting share of the company in the balance at the end of the term of other accounts payable.

16. Capital stock

	2006.12.31		Increase / decrease in this period（+，-）					2007.6.30	
	Quantity（share）	proportion（%）	New shares issued	Bonus share	Transferred from public reserve	others	subtotal	quantity（share）	proportion（%）
I. finite sale shares	124,956,261	44.13				-8,440,119	-8,440,119	116,516,142	41.15
1. state holding shares									
2. shares held by state-owned legal person									
3. shares held by other domestic entities	124,956,261	44.13				-8,440,119	-8,440,119	116,516,142	41.15
Hereinto:									
Shares held by domestic legal person	124,925,828	44.12				-8,435,934	-8,435,934	116,489,894	41.14
Shares held by domestic nature person（top management share）	30433	0.01				-4185	-4185	26248	0.01
4. shares held by foreign entities									
Hereinto:									
Shares held by overseas legal person									
Shares held by overseas nature person									
II. infinite sale share	158,204,966	55.87				8,440,119	8,440,119	166,645,085	58.85
1. RMB ordinary share	56,209,130	19.85				8,440,119	8,440,119	64,649,249	22.83
2、domestic listed foreign share	101,995,836	36.02				0	0	101,995,836	36.02
3. overseas listed									

foreign share						
4. others						
III. total shares	283,161,227	100	0	0	283,161,227	100

17. Capital reserve

Item	Balance by 12.3. 2006	Increase in current period	Decrease in current period	Balance by 6.30. 2007
Capital stock premium	98,460,750.00	----	----	98,460,750.00
Receive non-cash asset donate reserve	3,033,267.00	----	----	3,033,267.00
Connected transaction difference	4,538,156.92	----	----	4,538,156.92
Total sum	106,032,173.92	----	----	106,032,173.92

18. Surplus reserve

Item	Balance by 12.3.2006	Increase in current period	Decrease in current period	Balance by 6.30.2007
Statutory surplus reserve	21,322,617.25	----	----	21,322,617.25
Discretionary surplus reserve	56,068,976.00	----	----	56,068,976.00
Total sum	77,391,593.25	----	----	77,391,593.25

19. Undistributed profit

	6.30 2007	6.30 2006
Undistributed profit at the beginning of the year	-242,742,157.64	-223,187,908.99
Plus: net profit in current period belongs to parent company owners	-2,275,256.07	570,082.98
Less: extract for statutory surplus reserve	----	----
Extract for discretionary surplus reserve	----	----
Payable ordinary share dividend	----	----
Undistributed profit at the end of the period	-245,017,413.71	-222,617,826.01

20. Operating revenue and cost

Operating items	Jan-Jun 2007 Operating revenue	Jan-Jun 2007 Operating costs	Jan-Jun 2007 Operating gross profit	Jan-Jun 2006 Operating revenue	Jan-Jun 2006 Operating cost	Jan-Jun 2006 Operating gross profit
Injection molding part	3,644,586.98	3,867,190.31	-222,603.33	6,546,227.27	6,653,250.66	-107,023.39
Circuitry board	30,445,990.20	32,775,831.90	-2,329,841.70	48,031,822.28	44,889,381.45	3,142,440.83
LCD	12,734,984.43	12,543,513.56	191,470.87	----	----	----
Selling material	1,544,341.47	1,542,647.90	1,693.57	8,525.44	8,525.44	----
Real estate lease	18,479,337.45	7,713,108.16	10,766,229.29	18,774,410.00	8,720,387.37	10,054,022.63
Real estate management	995,240.00	579,850.17	415,389.83	1,021,241.00	743,858.56	277,382.44
Equipment lease	----	----	----	540,725.00	540,766.87	-41.87
others	50,444.66	40,252.20	10,192.46	38,200.00	----	38,200.00
Total sum	67,894,925.19	59,062,394.20	8,832,530.99	74,961,150.99	61,556,170.35	13,404,980.64

21. Business tax and extra charges

Tax category	Jan-Jun 2007	Jan- Jun 2006
Business tax	968,964.87	999,878.50
City construction tax	9,689.65	9,998.80
Extra charges for education	1,510.56	1,589.17
Total sum	980,165.08	1,011,466.47

22. Financial expenses

Item	Jan-Jun 2007	Jan-Jun 2006
Interest cost	2,381,086.86	2,788,141.82
Less: interest income	45,430.22	122,556.11
Exchange loss	181,626.02	0.00
Less: exchange gains	78,507.98	3,586.48
Others	-414,579.04	-178,176.51
Total sum	2,024,195.64	2,483,822.72

23. Non-operating income

Item	Jan-Jun 2007		Jan-Jun 2006
Income on donated asset	3,660,621.21	*	----
Scrap revenue	437,518.39		7,697.98
Fixed assets inventory surplus	----		16,500.00
Net income on disposal of fixed asset	----		14,160.00
Net forfeit income	6,370.00		8,100.00
Total sum	4,104,509.60		46,457.98

* is the donation income of the related asset to the donation promise of LCD complete appliance from the controlling shareholder WuHan ZhongHeng according to equity division reform plan.

24. Non-operating expenses

Item	Jan-Jun 2007	Jan-Jun 2006
Forfeit expenditure	5,468.40	----
Total sum	5,468.40	----

25. Other cash paid related to operating activities

Other cash paid related to operating activities is RMB 12,431,489.75, mainly for management expenses and operating expenses.

VIII. Notes on main items of financial statement of parent company

1. Accounts receivable

Accounts receivable age	6.30 2007 sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	24,422,929.57	55.24%	----	----	23,678,514.46
1-2 years	4,699,454.89	10.63%	1,232,920.05	26.24%	4,210,949.95
2-3 years	2,190,643.93	4.95%	1,702,352.21	77.71%	488,291.72
Over 3 years	12,901,120.92	29.18%	7,206,276.06	55.86%	5,694,844.86
Total sum	44,214,149.31	100.00%	10,141,548.32		34,072,600.99

Accounts receivable age	12.31 2006 sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	81,355,123.99	82.28%	744,415.11	0.92%	80,610,708.88
1-2 years	2,705,262.13	2.74%	488,963.91	18.07%	2,216,298.22
2-3 years	5,366,049.10	5.43%	1,698,540.01	31.65%	3,667,509.09
Over 3 years	9,445,985.21	9.55%	7,209,629.29	76.32%	2,236,355.92
Total sum	98,872,420.43	100.00%	10,141,548.32		88,730,872.11

There is no arrearage of the shareholder companies which hold over 5% (include 5%) voting share of the company in the balance at the end of the term of accounts receivable.

The total sum of the arrearage of the top 5 companies in debt in the accounts receivable at the end of the term is RMB 18,367,154.71, accounting for 41.54% of the balance at the end of the term of the accounts receivable.

2. other accounts receivable

Accounts receivable age	6.30 2007 sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	6,819,323.36	10.86%	----	----	6,819,323.36
1-2 years	3,959,176.09	6.31%	1,728,439.51	43.66%	2,230,736.58

2-3 years	1,379,052.15	2.20%	1,095,074.08	79.41%	283,978.07
Over 3 years	50,628,236.24	80.63%	44,048,363.53	87.00%	6,579,872.71
Total sum	62,785,787.84	100.00%	46,871,877.12		15,913,910.72

Accounts receivable age	12.31 2006				
	sum	proportion	Provision for bad debt	Withdraw proportion	Net sum
Within 1 year	7,661,774.93	12.66%	----	----	7,661,774.93
1-2 years	4,461,831.46	7.38%	1,728,439.51	38.74%	2,733,391.95
2-3 years	1,430,117.08	2.36%	1,095,074.08	76.57%	335,043.00
Over 3 years	46,940,904.42	77.60%	44,048,363.53	93.84%	2,892,540.89
Total sum	60,494,627.89	100.00%	46,871,877.12		13,622,750.77

No arrearage of the shareholder companies which hold over 5% (include 5%) of the company's voting share is in the balance at the end of the term.

The total sum of the arrearage of the top 5 companies in debt in other accounts receivable at the end of the term is RMB 55,344,924.56, accounting for 88.15% of other accounts receivable.

3. Long-term equity investment

Item	12.31 2006	Increase in current period	Decrease in current period	6.30 2007
Long-term equity investment	900,000.00	----	----	900,000.00
Less: depreciation reserve	900,000.00	----	----	900,000.00
Net sum of long-term equity investment	0.00	----	----	0.00

(1) Other equity investment

Name of the company invested	estment time limit	Investment amount					
		Initial investment	Equity adjustment in the year	Accumulated equity adjustment	alance by 6.30.2007	Investment proportion	epreciation reserve
Guizhou Huafa Electrical Appliance Co., Ltd	July 28 1995-July 27 2015	300,000.00	----	----	300,000.00	60%	300,000.00
Wuxi Jingfa Electronoic Co., Ltd	Jan.10 1996-Jan.19	300,000.00	----	----	300,000.00	60%	300,000.00

	2006						
Guangzhou Shuangshi Electronic Co., Ltd	Not limited from Sept. 17 1996	300,000.00	----	----	300,000.00	60%	300,000.00
Total sum		900,000.00	----	----	900,000.00		900,000.00

Actually, the above 3 companies had been revoked for business license or logged out, please refer to annotation VI.2.

(2) Depreciation reserve to long-term equity investment

Name of the company invested	Balance by12.31.2006	Depreciation reserve Increase in current period	Decrease in current period	Balance by 6.30.2007	Reason for withdraw
Guizhou Huafa Electrical Appliance Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2003
Wuxi Jingfa Electronoic Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2002
Guangzhou Shuangshi Electronic Co., Ltd	300,000.00	----	----	300,000.00	Revoked and unsettled in 2001
Total sum	900,000.00	----	----	900,000.00	

4. Operating revenue and costs

Operating items	Jan-Jun 2007 Operating revenue	Operating costs	Operating gross profit	Jan-Jun 2006 Operating revenue	Operating cost	Operating gross profit
Injection molding part	3,644,586.98	3,867,190.31	-222,603.33	6,546,227.27	6,653,250.66	-107,023.39
Circuitry board	30,445,990.20	32,775,831.90	-2,329,841.70	48,031,822.28	44,889,381.45	3,142,440.83
display	12,734,984.43	12,543,513.56	191,470.87	----	----	----
Selling material	1,544,341.47	1,542,647.90	1,693.57	8,525.44	8,525.44	----
Property lease	18,479,337.45	7,713,108.16	10,766,229.29	18,774,410.00	8,720,387.37	10,054,022.63

Equipment lease	----	----	----	540,725.00	540,766.87	-41.87
others	38,044.66	40,252.20	-2,207.54	----	----	----
Total sum	66,887,285.19	58,482,544.03	8,404,741.16	73,901,709.99	60,812,311.79	13,089,398.20

IX. Related party relationship and transactions

1. Related party relationship

(1) Related parties with controlling relationship

Related parties with controlling relationship to the company include the related parties with controlling relationship listed in annotation VI and the related party without controlling relationship below:

Name of company	Registration place	Main operations	Relationship with the company	Economic nature or type	Legal representative
Wuhan Zhongheng	Zhuankou sub-district Wuhan Economic and Technical Development Zone	Manufacture and sell computer, television, displayer and selling other hardware and PC software	Controlling shareholder	Company of limited liability	Li Zhongqiu

(2) Registered capital and change of the related party with controlling relationship

Sum unit: RMB ten thousand

Name of company	12.31 2006	Increase in current period	Decrease in current period	6.30 2007
Wuhan Zhongheng	13,800	----	----	13,800

(3) Shares (including shares held indirectly) held by related party with controlling relationship and sum changes to shares

Unit: RMB ten thousand

Name of company	12.31 2006		Increase in current period		Decrease in current period		6.30 2007	
	sum	proportion%	sum	proportion%	sum	proportion%	sum	proportion%

Wuhan Zhongheng	----	----	12,492.58	44.12	8,43.59	2.98	11,648.99	41.14

(4) Nature of the related parties without controlling relationship

Name of related party	Relationship with the company
Shenzhen Electronics Group Co., Ltd	Shareholder of the company
Wuhan Hengsheng Optic-electronic Industry Co., Ltd	Subsidiary company of controlling shareholder

2. Related party transactions

(1)Purchase from related party

Name of related party	Jan-Jun 2007		Jan-Jun 2006	
	sum	Proportion account for in the same transaction in same period (%)	sum	Proportion account for in the same transaction in same period (%)
Wuhan Zhongheng	7,530,000.00	7.35%	----	----
Wuhan Hengsheng Optic-electronic Industry Co., Ltd	25,856,350.82	25.24%	----	----
Total sum	33,386,350.82	32.59%		

(2) Donated asset

Wuhan Zhongheng made commitments that they donated asset and liabilities on whole equipment business relevant with LCD to the company in June, 2007 with the net value amounting to RMB 3,660,600.

3. Current balance of related party

(1) Other account payable

Name of related party	6.30 2007		12.31 2006	
	sum	proportion	sum	proportion
Wuhan Zhongheng	----	----	1,388,800.25	18.87%

(2) Account payable

Name of related party	6.30 2007		12.31 2006	
	sum	proportion	sum	proportion
Wuhan Hengsheng Optic-electronic Industry Co., Ltd	1,311,050.82	4.61%	----	----

(3) Prepaid account

Name of related party	6.30 2007		12.31 2006	
	sum	proportion	sum	proportion
Wuhan Zhongheng	2,346,499.50	63.65%	----	----

X. Contingent item

There is no contingent item of the company to be disclosed this year.

XI. Items promised

There is no promised item of the company to be disclosed this year.

XII. Asset mortgage explanation

1. The company has a short-term loan for RMB 13,000,000 from China Merchants Bank Zhenxing Branch with mortgage of the first and fifth floor of self-owned Huafa Building with an area of 11,011.75 ㎡.
2. The company has a short-term loan for RMB 30,400,000 from Shenzhen Industrial and Commercial Bank Shangbu Branch with mortgage of the second floor to the fifth floor of Building One, the first floor to third floor of Building Five, the first floor to the sixth floor of Building Six and Building Seven to Ten of self-owned Huafa Electronic Center in Jiangshi Village Gongming Town Shenzhen City with an area of 54,535 ㎡.
3. The company has a short-term loan for RMB 21,400,000 from Shenzhen Commercial Bank Shennan Branch with mortgage of the second floor to fourth floor of self-owned Huafa Building with an area of 21,222.90 ㎡.
4. The company has a short-term loan for RMB 10 million from Shenzhen Development Bank Zhenhua Branch with mortgage of the self-owned workshop of Huafa Electronic Center in Jiangshi Village Gongming Town Shenzhen City and the sixth floor of Huafa Building with an area of 12,027 ㎡.

XIII. Items after the balance sheet date

In Oct 2007, Wuhan Zhongheng promised to donate the related asset and liability of Poly Foam business with a net value of RMB1, 582.56 to the company according to equity division reform scheme.

XIV. Other important items

There is no other important item of the company to be disclosed this year.

XV. Detail account of asset depreciation reserve

Item	Book balance at the beginning of the year	Withdrawn amount in current period	Decrease in current period		Book balance at the end of the term
			reverse	counteract	
1. Provision for bad debt	53,336,328.53				53,336,328.53
2. Inventory depreciation reserve	20,626,434.05				20,626,434.05
3. Provision for salable financial asset depreciation					
4. Provision for held-to-maturity investment depreciation					
5. Provision for long-term equity investment depreciation	900,000.00				900,000.00
6. Provision for investment property depreciation					
7. Provision for fixed asset depreciation	973,496.73				973,496.73
8. Provision for construction material depreciation					
9. Provision for construction in progress depreciation					
10. Provision for productive biologic asset depreciation					
Hereinto: provision for mature productive biologic asset depreciation					
11. Provision for oil and gas asset depreciation					
12. Provision for intangible asset depreciation					
13. Provision for goodwill depreciation					
14. Others					
Total amount	75,836,259.31	----	----	----	75,836,259.31

XVI. Asset depreciation loss

Unit: (RMB) Yuan

Item	Current period actual	Last period actual
1. bad debt loss	0	0
2. inventory depreciation loss	0	0
3. salable financial asset depreciation loss	0	0
4. held-to-maturity investment depreciation loss	0	0
5. long-term equity investment depreciation loss	0	0
6. investment property depreciation loss	0	0
7. fixed asset depreciation loss	0	0
8. construction material depreciation loss	0	0
9. construction in progress depreciation loss	0	0
10. productive biologic asset depreciation loss	0	0
11. oil and gas asset depreciation loss	0	0
12. intangible asset depreciation loss	0	0
13. goodwill depreciation loss	0	0
14. others	0	0
Total sum	0	0

XVII. Complementary data

1. Non-recurring profit and loss

According to *Regulatory Questions and Answers on Information Disclosure Regarding Companies Publicly Issuing Securities No.1–Non-recurring profit and loss (amended in 2007)* issued by China Securities Regulatory Commission, the non-recurring profit and loss of the company is as follow:

Item	Jan-Jun 2007	Jan-Jun 2006
Donated asset recorded in current profit and loss	3,660,621.21	----
Other non-recurring profit and loss items	438,419.99	46,457.98
Total sum	4,099,041.20	46,457.98

2. Profit ratio of net asset and earnings per share

According to *Editing and Reporting Rules Regarding Information Disclosure for Companies Publicly Issuing Securities No.9–Calculation and Disclosure on Profit Ratio of Net Asset and Earnings per Share (amended in 2007)*, the profit ratio of net asset and earnings per share of the company in report comparative period are as follows:

Jan-Jun 2007	Profit ratio of net asset		Earnings per share (Yuan/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Net profit belongs to ordinary shareholders	-1.03%	-1.02%	-0.008	-0.008

Net profit belongs to ordinary shareholders after deducting non-recurring profit and loss	-2.88%	-2.86%	-0.023	-0.023

Jan-Jun 2006	Profit ratio of net asset		Earnings per share（Yuan/share）	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Net profit belongs to ordinary shareholders	0.24%	0.24%	0.002	0.002
Net profit belongs to ordinary shareholders after deducting non-recurring profit and loss	0.22%	0.22%	0.002	0.002

3. Difference adjustment statement of net profit

Unit: (RMB) Yuan

Item	Sum
net profit in 1.1 2006-6.30.2006（original accounting standards）	570,082.98
Plus: total impact from retrospective adjustment	0
hereinto：operating cost	0
Selling expenses	0
Overhead expenses	0
Fair value changing income	0
Investment income	0
Income tax	0
others	0
Less: impact of retrospective adjustment on minority shareholders' profit and losses	0
1.1.2006—6.30 .2006 net profit belongs to parent company owners（new accounting standards）	570,082.98
Reference data in supposition of full implementation of new accounting standards	0
1. total impact from other items	0
Hereinto: development expenses	0
Profit and losses from debt restructuring	0
Profit and losses from non-currency asset exchange	0
Investment income	0
Income tax	0
others	0

2. plus: impact of retrospective adjustment on minority shareholders' profit and losses	0
3. plus: minority shareholders' profit and losses listed in interim financial statement	0
Imitated net profit in 1.1. 2006—6.30.2006	570,082.98

4. Item adjustment statement of Income statement (1.1 2006-6.30 2006)

Unit: (RMB) Yuan

Item	Before adjustment	After adjustment
Operating cost	61,556,170.35	61,556,170.35
Selling expense	1,639,193.59	1,639,193.59
Overhead expenses	7,746,872.86	7,746,872.86
Fair value changing income	—	—
Investment income	—	—
Net profit	570,082.98	570,082.98

VII. Documents Available for Reference

1. Semi Annual Report with the signature of Chairman of the Board.
2. Accounting statements with the signatures and seals of legal representative, principal of the Company, principal in charge of accounting affairs and director of accounting department.
3. Original of all documents disclosed on China Securities, Securities Times and Hong Kong Wen Wei Po in the report period.
4. Articles of Association of the Company.
5. Other relevant materials.

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.

Chairman of the Board: Li Zhongqiu
Board of the Directors of
Shenzhen Huafa Electronics Co., Ltd.
August 28, 2007