Stock Code: 000020 200020 Notice No.: 2007-60
Short Form of the Stock: ST HUAFA-A ST HUAFA-B

SHENZHEN HUAFA ELECTRONICS CO., LTD.
SUMMARY OF SEMI-ANNUAL REPORT 2007

§ 1. Important Notice

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

The summary of Semi-annual Report 2007 is abstracted from the semi-annual report; and full text of the semi-annual report is published on Internet website http://www.cninfo.com.cn in the mean time. The investors are suggested to read the full text of semi-annual report to get more details.

1.2 No director stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Semi-annual Report nor had objection for this report.

1.3

Name of absence	Reason for absence	Trusted
Independent Director Yan Haizhong	Went on business	Independent Director Song Pingping

1.4 The Semi-annual Financial Report 2007 of the Company has not been audited.

1.5 Mr. Li Zhongqiu, Chairman and General Manager of the Company, Mr. Shi Cheng, Person in Charge of Accounting Works, and Mr. Zhang Zhiyong, Person in Charge of Accounting Organ confirm that the Financial Report enclosed in the Semi-annual 2007 is true and complete.

§2. Company Profile

2.1 Basic information

Short form of stock	ST HUAFA-A, ST HUAFA-B	
Stock code	000020, 200020	
Listed stock exchange	Shenzhen Stock Exchange	
	Secretary of the Board	**Securities Affairs Representative**
Name	**Shi Cheng**	**Weng Xiaojue**
Contact address	6th Floor, West Tower of 411 Bldg., Huafa (N) Road, Futian District, Shenzhen	6th Floor, West Tower of 411 Bldg., Huafa (N) Road, Futian District, Shenzhen
Telephone	0755-83352207, 83352206	0755-83352207, 83352206
Fax	0755-83323160, 83352200	0755-83323160, 83352200
E-mail	huafainvestor@163.com	huafainvestor@163.com

2.2 Major financial data and indexes

2.2.1 Major accounting data and financial 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	0.78	0.79	0.79	-1.27%	-1.27%
	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	-1,317.34%	-1,317.34%
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	-1,317.34%	-1,317.34%
Basic earnings per share	-0.00800	0.0020	0.00200	-500.00%	-500.00%
Diluted earnings per share	-0.00800	0.0020	0.00200	-500.00%	-500.00%
Return on equity	-1.03%	0.24%	0.24%	Down 1.27 percentage points	Down 1.27 percentage points
Net cash flow arising from operating activities	-10,834,097.67	15,002,710.46		-172.21%	
Net cash flow arising from per share operating activities	-0.04	0.05		-180.00%	

2.2.2 Item of non-recurring gains and losses

√ Applicable ☐Inapplicable

Unit: RMB

Items of non-recurring gains and losses	Amount
Donated asset reckoned in current gains and losses	3,660,621.21
Other non-recurring gains and losses	438,419.99
Total	4,099,041.20

2.2.3 Differences between CAS and IAS:

☐Applicable √ Inapplicable

§3 Changes in Share Capital and Particulars about Shareholders

3.1 Statement of change in shares

√ Applicable ☐Inapplicable

Unit: Share

	Before the change		Increase/decrease of the change					After the change	
	Amount	Proportion	New issued shares	Bonus shares	Capitalization of shares	Other	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 non-state-owned 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	30,433	0.01%				-4,185	-4,185	26,248	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	100.00%				0	0	283,161,227	100.00%

3.2 Particulars about shares held by the top ten shareholders and the top ten shareholders with unrestricted tradable conditions

Unit: Share

Total shareholders	25,088				
Particulars about shares held by the top ten shareholders					
Names of shareholders	Nature of shareholder	Proportion of share held	Amount of share held	Amount of restricted shares held	Shares pledged or frozen
Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	Domestic non-state-owned legal person	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 unrestricted shareholders		
Name of shareholder	Amount of unrestricted shares held	Type of share
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 of on the above-mentioned associate relationship and accordant action relationship	Among the top ten shareholders, Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd did not have associate relationship with other shareholders, nor belongs to accordant actors regulated by the Management Regulation of Information Disclosure on Change of Share Holding for Listed Companies. The Company was unknown that there existed associate relationship among other tradable shareholders nor belongs to accordant actors regulated by the Management Regulation of Information Disclosure on Change of Share Holding for Listed Companies.	

3.3 Particulars about changes in controlling shareholder and actual controller of the Company

√ Applicable ☐Inapplicable

Name of new controlling shareholder	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.
Date of changing new controlling shareholder	April 12, 2007
Date of disclosure on changing new controlling shareholder	April 13, 2007

Newspapers for disclosure on changing new controlling shareholder	China Securities, Securities Times, Hong Kong Wen Wei Po
Name of new actual controller	
Date of changing new actual controller	
Date of disclosure on changing new actual controller	
Newspapers for disclosure on changing new actual controller	

§4. Particulars about Directors, Supervisors and Senior Executives

4.1 Particulars about changes in shares held by directors, supervisors and senior executives
√ Applicable ☐Inapplicable

Names	Office title	Shares held at period-begin	Increase in shares held in this period	Decrease in shares held in this period	Shares changed in the report period	Reason of change
Ye Daming	Supervisor	30,433	4,565	0	34,998	Acquired bonus shares due to implementation of Share Merger Reform Scheme

Share options of the Company held by the aforesaid persons and their restricted shares granted
☐Applicable √ Inapplicable

§5. Report of Board of Directors

5.1 Statement of main operations classified according to industries and products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from operations	Cost of operations	Gross profit ratio (%)	Increase/decrease in income from operations over the same period of last year (%)	Increase/decrease in cost of operations over the same period of last year (%)	Increase/decrease in gross profit ratio over the same period of last year (%)
Plastic injection hardware	364.46	386.72	-6.11%	-44.33%	-41.88%	Down 4.48 percentage points
Circuit boards	3,044.60	3,277.58	-7.65%	-36.61%	-26.99%	Down 14.19 percentage points
LCD	1,273.50	1,254.35	1.50%	——	——	——

Including: In the report period, the total related transaction amount which the listed Company sold products and provided labor forces to the controlling shareholders and its subsidiaries totaled RMB 0.0.

5.2 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from operations	Increase/decrease in income from operations over last year (%)

South of China	4,682.56	-14.20%

5.3 Explanation on reasons of material changes in main operations and its structure
☐Applicable √ Inapplicable

5.4 Explanation on reasons of material changes in profitability of main operations (gross profit ratio) compared with that of the last year
☐Applicable √ Inapplicable

5.5 Analysis on reasons of material changes in profit structure compared with the previous year
☐Applicable √ Inapplicable

5.6 Application of the raised proceeds

5.6.1 Use of the raised proceeds
☐Applicable √ Inapplicable

5.6.2 Particulars about the projects changed
☐Applicable √ Inapplicable

5.7 The modification plan of Board to the business plan for the second half of the year
☐Applicable √ Inapplicable

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

5.9 Explanation of the Management on “Qualified Opinion” from the Certified Public Accountants in the report period by the Board of Directors
☐Applicable √ Inapplicable

5.10 Explanation of the Management on changes and disposal of the issues involved in “Qualified Opinion” from the Certified Public Accountants in the last year by the Board of Directors
☐Applicable √ Inapplicable

§6. Significant Events

6.1 Purchases and sales of assets and assets restructure
6.1.1 Assets purchased or acquired
☐Applicable √ Inapplicable

6.1.2 Assets sold
☐Applicable √ Inapplicable

6.1.3 Progress of the events and their influence on the Company’s operating results and financial status in the report period after the report on assets restructure or public notice on acquisition and sales of assets being published

√ Applicable ☐Inapplicable

In June 6，2005, Shenzhen SEG Group Co., Ltd. and China Zhenhua Electrics Group Co., Ltd, which were respectively the former first and second largest shareholders of the Company, signed the Agreement for Sale and Purchase of Shares respectively with Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. (hereinafter referred to as “Wuhan Zhongheng”) and transferred the shares of the Company they held to Wuhan Zhongheng. On April 12, 2007, the procedure on transferring the equity was accomplished, Wuhan Zhongheng held 124,925,828 corporate shares taking 44.12% of the total shares, and became the first major shareholder of the Company. In Nov.13, 2006, the Company held A-share Shareholders’ General Meeting, in which examined and approved the share merger reform plan: Wuhan Zhongheng took asset reorganization and made computation to tradable shareholders of the Company and then donated relevant assets such as Baolilong and business on LCD units assembling of machinery to the Company and integrated the business of the Company. On May 18, 2007, the Company accomplished the implementation of computation payment of share price in share merger reform plan. On August, 2007, the assets donated by Wuhan Zhongheng were transferred the ownership wholly.

6.2 Guarantees

☐Applicable √ Inapplicable

6.3 Current non-operating related credits and liabilities

☐Applicable √ Inapplicable

6.4 Material lawsuits and arbitrations

☐Applicable √ Inapplicable

6.5 Other significant events and analysis on their influences and solutions

6.5.1 Particulars about securities investment

☐Applicable √ Inapplicable

6.5.2 Equity of other listed companies held

☐Applicable √ Inapplicable

6.5.3 Equity of non-listed financial enterprises and planned listed companies held

☐Applicable √ Inapplicable

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

In the report period, there were no activities such as receiving research, communication and interview.

§7. Financial Report

7.1 Auditing opinion

Financial Report	√ Un-audited ☐Audited

7.2 Financial statement

7.2.1 Balance Sheet

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

Items	Amount at period-end		Amount at period-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	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	4,974,452.03	4,974,452.03	3,965,810.00	3,965,810.00
Accounts receivable	34,248,517.26	34,072,600.99	88,757,569.38	88,730,872.11
Accounts in advance	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	14,181,311.83	15,913,910.72	11,744,468.19	13,622,750.77
Purchase restituted finance asset				
Inventories	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				
Investment property	46,578,351.12	46,578,351.12	50,874,949.73	50,874,949.73
Fixed assets:	183,816,841.31	183,698,975.36	186,153,999.13	185,998,753.08
Construction in progress	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	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	28,443,877.98	28,334,028.88	74,524,574.49	74,414,725.39
Accounts received in advance	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	1,263,669.03	1,227,248.79	1,922,721.93	1,826,111.71
Interest payable				
Other accounts payable	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 capital)	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00
Capital public reserve	106,032,173.92	106,032,173.92	106,032,173.92	106,032,173.92
Less: Inventory shares				
Surplus public reserve	77,391,593.25	77,391,593.25	77,391,593.25	77,391,593.25
Provision of general risk				
Retained profit	-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

7.2.2 Profit statement

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

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	67,894,925.190	66,887,285.190	74,961,150.990	73,901,709.990
Including: Operating income	67,894,925.190	66,887,285.190	74,961,150.990	73,901,709.990
Interest income				
Insurance gained				
Commission charge and commission income				
II. Total operating cost	74,269,222.460	73,261,582.460	74,437,525.990	73,378,084.990
Including: Operating cost	59,062,394.200	58,482,544.03	61,556,170.350	60,812,311.790
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	980,165.080	927,799.000	1,011,466.470	956,375.530
Sales expenses	1,746,199.800	1,746,199.800	1,639,193.590	1,639,193.590
Administration expenses	10,456,267.740	10,077,194.270	7,746,872.860	7,485,335.380
Financial expenses	2,024,195.640	2,027,845.360	2,483,822.720	2,484,868.700
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 "-")	-6,374,297.270	-6,374,297.270	523,625.000	523,625.000
Add: Non-operating income	4,104,509.600	4,104,509.600	46,457.980	46,457.980
Less: Non-operating expense	5,468.400	5,468.400		
Including: Disposal loss of non-current asset				
IV. Total Profit (Loss is listed with "-")	-2,275,256.070	-2,275,256.070	570,082.980	570,082.980
Less: Income tax				
V. Net profit (Net loss is listed with "-")	-2,275,256.070	-2,275,256.070	570,082.980	570,082.980
Net profit attributable to owner's equity of parent company	-2,275,256.070	-2,275,256.070	570,082.980	570,082.980
Minority shareholders' gains and losses				
VI. Earnings per share				
i. Basic earnings per share	-0.00800	-0.00800	0.00200	0.00200
ii. Diluted earnings per share	-0.00800	-0.00800	0.00200	0.00200

7.2.3 Cash Flow Statement

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

Items	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	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

7.2.4 Consolidated Statement on Changes of Owners' Equity

Prepared by Shenzhen Huafa Electronics Co., Ltd. June 30, 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									0.00									
Error correction of the last period									0.00									
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									0.00									0.00

1. Net changing amount of fair value of financial assets available for sale									0.00									0.00
2. Effect of changes of other owners' equity of invested units under equity method									0.00									0.00
3.Effect of income tax related to owners' equity									0.00									0.00
4. Others									0.00									0.00
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									0.00									0.00
1. Owners' devotion capital									0.00									0.00
2. Amount calculated into owners' equity paid in shares									0.00									0.00
3. Others									0.00									0.00
(IV) Profit distribution									0.00									0.00
1. Withdrawal of surplus reserves									0.00									0.00
2. Withdrawal of general risk provisions									0.00									0.00
3.Distribution for owners									0.00									0.00

(shareholders)																		
4.Others									0.00									0.00
(V) Carrying forward internal owners' equity									0.00									0.00
1.Capital reserves conversed to capital (share capital)									0.00									0.00
2. Surplus reserves conversed to capital (share capital)									0.00									0.00
3.Remedying loss with profit surplus									0.00									0.00
4.Others									0.00									0.00
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

7.3 Notes to financial statement

7.3.1 If there have been any changes to the accounting policy and accounting estimates, or modification of accounting errors, give the relevant contents, reasons and the influenced numbers.

Since Jan.1, 2007, the Company began to implement the regulations on Accounting Standards for Business Enterprises— Basic Standards and other detailed accounting standards(hereinafter referred to be as New Accounting Standards) promulgated by CK [2006]No. 3 from Ministry of Finance. In accordance with the New Accounting Standards, the examination of income tax should adopt balance sheet obligation method, in Jan.1, 2007, for the temporary difference formed by the book value of asset and liabilities and the differences on base of taxation, it should be confirmed deferred income tax asset or deferred income tax liabilities according to relevant conditions and also had influences on the adjusted retained profit. In accordance with the regulations of present accounting standards by the Company ended Dec.31,. 2006, accumulative debts provision of RMB 53,336,328.53 was withdrawn, with RMB 20,626,434.05 of provision for depreciation of inventory, RMB 900,000.00 of provision for devaluation of long-term asset and RMB 973,496.73 of provision for devaluation of fixed asset. The deductible temporary difference of that the book value of asset is lower than base of taxation formed by the aforesaid item amounted to RMB 75,836,259.31, it could occur deferred income tax amounting to RMB 11,375,438.90. Ended the year 2006, the Company did not offset the tax loss amounting to RMB 18,994,042.11. According to present speculation on profit-gaining capability of the Company, recently the Company would not occur enough paid tax amount to offset the deductible temporary difference, thus the Company had no confirmation on the deferred income tax; in future period, when it possibly obtain enough paid tax amount to offset the deductible temporary difference, the Company would confirm the unconfirmed deferred income tax in the report period. In the report period, the Company had no changes to the accounting estimates, or modification of accounting errors.

7.3.2 If there have been any changes to the consolidation scope of the financial statement, give the reasons and the influenced numbers.

☐Applicable √ Inapplicable

7.3.3 If Non-standard Unqualified Opinion was supplied, listed the related notes to the matters revolved.

☐Applicable √ Inapplicable

Board of Directors of

Shenzhen Huafa Electronics Co., Ltd.

August 28, 2007