Shenzhen Zhongheng Huafa Co., Ltd.
The 3rd Quarterly Report for 2007
(Full Text)

§1 Important Notes

1.1 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 hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.
1.2 No directors, supervisors and senior executives stated any objection for the reality, accuracy and completion of the contents of this report.
1.3

Names of absent directors	Reasons for absence	Names of entrustees
Yan Haizhong	Went on business	Song Pingping
Mai Jianguang	Went on business.	Song Pingping

1.4 The Financial Report of the 3rd Quarterly Report is unaudited by the CPAs.
1.5 Principal of the Company Mr. Li Zhongqiu, Person in charge of Accounting Work Mr. Shi Cheng and Person in charge of Accounting Organ Mr. Zhang Zhiyong hereby confirm that the Financial Report of the 3rd Quarterly Report of 2007 is authentic and complete.

§2 Company Profile

2.1 Main accounting highlights and financial indexes:

Unit: RMB

	At the end of the report period	At the end of the last year	Increase/decrease of the end of report period than that of the end of the last year (%)
Total assets	364,476,942.65	376,031,844.21	-3.07
Owners' equity (or Shareholders' equity)	233,750,357.14	223,842,836.53	4.43
Net assets per share	0.826	0.791	4.42
	Year begin to end of report period		Increase/decrease over the same period of the last year (%)
Net cash flow arising from operating activities	10,343,602.72		-41.56
Net cash flow arising from operating activities per share	0.037		-41.56
	In the report period	Year begin to end of report period	Increase/decrease of the report period than that of the same period of the last year (%)
Net profit	12,182,776.68	9,907,520.61	1,439.39
Basic earnings per share	0.0430	0.0350	1,333.33
Basic earnings per share after deducting non-recurring gains and losses	-	-0.036	-

Diluted earnings per share	0.0430	0.0350	1,333.33
Return on equity	5.21%	4.24%	Increase 4.88 percentage points
Return on equity after deducting non-recurring gains and losses	-1.62%	-4.35%	Decrease 1.95 percentage points

Items of non-recurring gains and losses

Unit: RMB

Items of non-recurring gains and losses	Balance from year-begin to end of report period
Donated assets calculated into current gains and losses	19,508,766.89
Other items of non-recurring gains and losses	566,370.26
Total	20,075,137.15

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

Unit: Share

Total number of shareholders	24,556	
Shares held by the top ten shareholders with unrestricted conditions		
Full Name of shareholder	Full Name of shareholder	Full Name of shareholder
SEG (HONGKONG) CO., LTD.	16,569,560	Domestically listed foreign share
GOOD HOPE CORNER INVESTMENTS LTD.	13,900,000	Domestically listed foreign share
CHEN JIA HONG	1,662,892	RMB common share
REN JUN DEVELOPMENT CO., LTD.	1,200,000	Domestically listed foreign share
JIANG YIN POWER DEVELOPMENT CENTER	1,006,664	RMB common share
TANG CHEN ZHI	889,155	RMB common share
BINGHUA LIU	876,213	Domestically listed foreign share
WU HUI CAN	870,500	RMB common share
LUO YA	736,320	Domestically listed foreign share
FENG ZHI E	693,500	RMB common share

§3 Significant events

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

√Applicable ☐Inapplicable

I. Great changes and reasons for the items of balance sheet

Items	Amount of period-end	Amount of period-begin	Scope for increase/decrease	Reason for change
Notes receivable	10,582,797.51	3,965,810.00	166.85%	Increased the strengthen of collecting account receivable

Accounts receivable	33,191,924.54	88,757,569.38	-62.60%	Increased the strengthen of collecting account receivable
Other receivables	15,766,836.19	11,744,468.19	34.25%	Increased of business temporary loans
Inventories	47,677,968.18	14,400,324.64	231.09%	Increased the reserve for raw material
Accounts payable	44,737,647.81	74,524,574.49	-39.97%	Paid for payment of suppliers
Accounts received in advance	8,372,758.46	1,079,361.39	675.71%	Received payment for LCD in advance

II. Great changes and reasons for the items of losses and gains

Items	Jan.-Sep., 2007	Jan.-Sep., 2006	Scope for increase/decrease	Reason for change
Administration expenses	15,457,562.02	10,926,062.86	41.47%	Paid for compensation of allocation of employee and the expense for Share Merger Reform
Operating profit	-10,167,616.54	1,244,502.56	-917.00%	Income decreased and the cost and expense increased
Non-operating income	20,096,419.00	50,367.98	39799.20%	Due to donate assets of controlling shareholders
Total profit	9,907,520.61	1,294,786.80	665.19%	Due to donate assets of controlling shareholders
Net profit	9,907,520.61	1,294,786.80	665.19%	Due to donate assets of controlling shareholders

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

□Applicable √Inapplicable

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

√Applicable □Inapplicable

Commitments made by the Company's controlling shareholder---Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.

1. 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. And the commitment has been finished in August of 2007.

2. 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. This commitment is in progress.

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

√Applicable □Inapplicable

The net profit after deducting non-recurring losses and gains from Jan. to Sep. of 2007 amounted to RMB -10,167,600, and the controlling shareholder of the Company Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd donated the relevant assets of whole machine installment business of Baolilong and flat screen to the Company with the net asset approximately totaling RMB19, 510,000; the accumulative net profit of the Company from Jan. to Sep. of 2007 was about RMB 9,907,500. It is estimated that the operation achievements of the Company would

approximately remain steady in the 4th quarter of 2007. The accumulative net profit from Jan. to Dec. of 2007 was about totaling RMB 10 million.

3.5 Other significant events needed for explanations

3.5.1 Particulars about securities investment
□Applicable √Inapplicable

3.5.2 Equity of other listed companies held
□Applicable √Inapplicable

3.5.3 Equity of non-listed financial enterprises and planned listed companies held
□Applicable √Inapplicable

3.5.4 Registration form for receiving research, communication and interview in the report period.
In the report period, there were no spot research, telephone communication and written enquiry received from investors.

§4 Appendix

4.1 Balance sheet

Prepared by Shenzhen Zhongheng Huafa Co., Ltd Sep.30, 2007 Unit: RMB

Items	Amount of period-end		Amount of period-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	16,068,343.41	14,180,075.08	19,610,336.01	17,579,528.19
Transaction finance asset				
Notes receivable	10,582,797.51	10,582,797.51	3,965,810.00	3,965,810.00
Accounts receivable	33,191,924.54	32,621,296.27	88,757,569.38	88,730,872.11
Accounts in advance	793,363.75	793,363.75	363,575.68	363,575.68
Other receivables	15,766,836.19	16,895,266.51	11,744,468.19	13,622,750.77
Inventories	47,677,968.18	47,677,968.18	14,400,324.64	14,400,324.64
Non-current asset due within one year				
Other current assets				
Total current assets	124,081,233.58	122,750,767.30	138,842,083.90	138,662,861.39
Non-current assets:				
Finance asset available sales				
Held-to-maturity securities				
Long-term account receivable				
Long-term equity investment				

Investment property	44,539,818.34	44,539,818.34	50,874,949.73	50,874,949.73
Fixed assets:	194,443,478.79	194,344,462.89	186,153,999.13	185,998,753.08
Construction in progress	1,412,411.94	1,412,411.94	160,811.45	160,811.45
Engineering material				
Disposal of fixed 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	240,395,709.07	240,296,693.17	237,189,760.31	237,034,514.26
Total assets	364,476,942.65	363,047,460.47	376,031,844.21	375,697,375.65
Current liabilities:				
Short-term loans	61,000,000.00	61,000,000.00	67,300,000.00	67,300,000.00
Notes payable	6,211,458.66	6,211,458.66		
Accounts payable	44,737,647.81	44,507,437.23	74,524,574.49	74,414,725.39
Accounts received in advance	8,372,758.46	8,372,758.46	1,079,361.39	1,079,361.39
Wage payable	325,325.87	272,931.96	988.73	988.73
Taxes payable	1,584,088.39	1,551,744.32	1,922,721.93	1,826,111.71
Other accounts payable	8,495,306.32	7,380,772.70	7,361,361.14	7,233,351.90
Long-term liabilities due within 1 year				
Other current liabilities				
Total current liabilities	130,726,585.51	129,297,103.33	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	130,726,585.51	129,297,103.33	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	-232,834,637.03	-232,834,637.03	-242,742,157.64	-242,742,157.64
Balance difference of foreign currency translation				
Total owner's equity attributable to parent company	233,750,357.14	233,750,357.14	223,842,836.53	223,842,836.53
Minority interests				
Total owner's equity	233,750,357.14	233,750,357.14	223,842,836.53	223,842,836.53
Total liabilities and owner's equity	364,476,942.65	363,047,460.47	376,031,844.21	375,697,375.65

4.2 Profit statement in this report period

Prepared by Shenzhen Zhongheng Huafa Co., Ltd. July-Sep, 2007 Unit: RMB

Items	This period		The same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	39,274,462.78	38,809,000.78	30,719,621.15	30,609,203.38
Including: Operating income	39,274,462.78	38,809,000.78	30,719,621.15	30,609,203.38
II. Total operating cost	42,700,938.62	42,235,476.62	29,895,107.80	29,784,690.03
Including: Operating cost	35,309,933.99	35,135,577.54	24,343,896.10	24,370,360.93
Operating tax and extras	509,010.37	484,988.32	467,840.39	441,375.56
Sales expenses	896,513.85	896,513.85	676,828.85	676,828.85
Administration expenses	5,001,294.28	4,733,581.89	3,179,190.00	3,065,919.84
Financial expenses	984,186.13	984,815.02	1,227,352.46	1,230,204.85
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 "-")	-366,843.43	-366,843.43	-36,936.25	-36,936.25
III. Operating profit (Loss is listed with "-")	-3,793,319.27	-3,793,319.27	787,577.10	787,577.10
Add: Non-operating income	15,991,909.40	15,991,909.40	3,910.00	3,910.00

Less: Non-operating expense	15,813.45	15,813.45	83.74	83.74
Including: Disposal loss of non-current asset				
IV. Total Profit (Total loss is listed with "-")	12,182,776.68	12,182,776.68	791,403.36	791,403.36
Less: Income tax				
V. Net profit (Net loss is listed with "-")	12,182,776.68	12,182,776.68	791,403.36	791,403.36
Net profit attributable to owner's equity of parent company	12,182,776.68	12,182,776.68	791,403.36	791,403.36
Minority shareholders' gains and losses				
VI. Earnings per share				
i. Basic earnings per share	0.0430	0.0430	0.0030	0.0030
ii. Diluted earnings per share	0.0430	0.0430	0.0030	0.0030

4.3 Profit statement from year-begin to end of report period

Prepared by Shenzhen Zhongheng Huafa Co., Ltd. Jan-Sep, 2007 Unit: RMB

Items	This period		The same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	107,169,387.97	105,696,285.97	110,781,604.95	109,213,224.95
Including: Operating income	107,169,387.97	105,696,285.97	110,781,604.95	109,213,224.95
II. Total operating cost	116,749,546.18	115,276,444.18	109,503,752.62	107,935,372.62
Including: Operating cost	94,372,328.19	93,618,121.57	91,000,899.26	89,884,984.30
Operating tax and extras	1,489,175.45	1,412,787.32	1,479,306.86	1,397,751.09
Sales expenses	2,642,713.65	2,642,713.65	2,316,022.44	2,316,022.44
Administration expenses	15,457,562.02	14,810,776.16	10,926,062.86	10,551,255.22
Financial expenses	2,787,766.87	2,792,045.48	3,781,461.20	3,785,359.57
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 "-")	-587,458.33	-587,458.33	-33,349.77	-33,349.77
III. Operating profit (Loss is listed with "-")	-10,167,616.54	-10,167,616.54	1,244,502.56	1,244,502.56

Add: Non-operating income	20,096,419.00	20,096,419.00	50,367.98	50,367.98
Less: Non-operating expense	21,281.85	21,281.85	83.74	83.74
Including: Disposal loss of non-current asset				
IV. Total Profit (Total loss is listed with "-")	9,907,520.61	9,907,520.61	1,294,786.80	1,294,786.80
Less: Income tax				
V. Net profit (Net loss is listed with "-")	9,907,520.61	9,907,520.61	1,294,786.80	1,294,786.80
Net profit attributable to owner's equity of parent company	9,907,520.61	9,907,520.61	1,294,786.80	1,294,786.80
Minority shareholders' gains and losses				
VI. Earnings per share				
i. Basic earnings per share	0.0350	0.0350	0.0050	0.0050
ii. Diluted earnings per share	0.0350	0.0350	0.0050	0.0050

4.4 Cash flow statement from year-begin to end of report period

Prepared by Shenzhen Zhongheng Huafa Co., Ltd. Jan-Sep, 2007 Unit: RMB

Items	This period		The 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	166,961,254.61	166,032,083.61	86,331,505.73	84,822,403.73
Net increase of disposal of transaction financial asset				
Write-back of tax received	126,229.25	126,229.25		
Other cash received concerning operating activities	10,829,926.91	10,361,466.67	11,154,861.66	10,801,217.69
Subtotal of cash inflow arising from operating activities	177,917,410.77	176,519,779.53	97,486,367.39	95,623,621.42
Cash paid for purchasing commodities and receiving labor service	123,982,509.95	123,982,509.95	31,485,940.99	31,485,940.99
Cash paid to/for staff and workers	21,311,772.86	20,822,618.16	20,276,334.00	19,624,310.12
Taxes paid	4,117,997.32	4,012,733.86	6,958,414.82	6,860,081.73
Other cash paid concerning	18,161,527.92	17,216,075.35	21,064,817.85	20,183,762.99

operating activities				
Subtotal of cash outflow arising from operating activities	167,573,808.05	166,033,937.32	79,785,507.66	78,154,095.83
Net cash flows arising from operating activities	10,343,602.72	10,485,842.21	17,700,859.73	17,469,525.59
II. Cash flows arising from investing activities:				
Cash received from recovering investment				
Cash received from investment income				
Net cash received from disposal of fixed, intangible and other long-term assets			3,868,000.00	3,868,000.00
Net cash received from disposal of subsidiaries and other units				
Other cash received concerning investing activities				
Subtotal of cash inflow from investing activities			3,868,000.00	3,868,000.00
Cash paid for purchasing fixed, intangible and other long-term assets	3,516,695.39	3,516,395.39	1,471,726.00	1,467,738.00
Cash paid for investment				
Net cash received from subsidiaries and other units				
Other cash paid concerning investing activities				
Subtotal of cash outflow from investing activities	3,516,695.39	3,516,395.39	1,471,726.00	1,467,738.00
Net cash flows arising from investing activities	-3,516,695.39	-3,516,395.39	2,396,274.00	2,400,262.00
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	71,000,000.00	71,000,000.00	73,830,000.00	73,830,000.00
Cash received from issuing bonds				

Other cash received concerning financing activities				
Subtotal of cash inflow from financing activities	71,000,000.00	71,000,000.00	73,830,000.00	73,830,000.00
Cash paid for settling debts	77,300,000.00	77,300,000.00	92,650,000.00	92,650,000.00
Cash paid for dividend and profit distributing or interest paying	3,481,441.60	3,481,441.60	4,020,022.78	4,020,022.78
Including: Dividend and profit of minority shareholder paid by subsidiaries				
Other cash paid concerning financing activities				
Subtotal of cash outflow from financing activities	80,781,441.60	80,781,441.60	96,670,022.78	96,670,022.78
Net cash flows arising from financing activities	-9,781,441.60	-9,781,441.60	-22,840,022.78	-22,840,022.78
IV. Influence on cash due to fluctuation in exchange rate	-587,458.33	-587,458.33	-33,349.77	-33,349.77
V. Net increase of cash and cash equivalents	-3,541,992.60	-3,399,453.11	-2,776,238.82	-3,003,584.96
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	16,068,343.41	14,180,075.08	14,314,452.38	12,861,381.48

4.5 Auditor’ report

Auditor’s opinions: Un-audited

Chairman of the Board: Li Zhongqiu
Board of Directors of
Shenzhen Zhongheng Huafa Co., Ltd.
October 24, 2007