Stock Code: 000020 200020 Public Notice No.:2017-09

Short Form of the Stock: SHEN HUAFA-A, SHEN HUAFA- B

Shenzhen Zhongheng Huafa Co., Ltd.
Summary of Annual Report 2016

I. Important Notice

The summary is abstract from full-text of annual report, for more details of operating results, financial condition and future development plan of the Company; investors should found in the full-text of annual report that published on media appointed by CSRC.

Objection statement of directors, supervisors and senior executives

Name	Position	Content and reason

Statement

Other directors attending the Meeting for annual report deliberation except for the followed

Name of director absent	Title for absent director	Reasons for absent	Attorney
Xu jinwen	Independent director	-	Li Ding'an

Prompt of non-standard audit opinion

□ Applicable √ Not applicable

Profit distribution pre-plan of common stock or capitalizing of common reserves pre-plan deliberated by the Board in the reporting period

□ Applicable √ Not applicable

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

Profit distribution pre-plan of preferred stock deliberated and approved by the Board in the reporting period

□ Applicable √ Not applicable

II. Basic information of the company

1. Company profile

Short form of the stock	Shen Hwafa A, Shen Hwafa B	Stock code	000020, 200020
Stock exchange for listing	Shenzhen Stock Exchange		
Person/Way to contact	Secretary of the Board	Rep. of security affairs	
Name	Yang Bin	Niu Yuxiang	
Office add.	33/F, No. 2 Building of Dachong Business Center, Nanshan District, Shenzhen	33/F, No. 2 Building of Dachong Business Center, Nanshan District, Shenzhen	
Fax.	0755-86360206	0755-86360206	
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E-mail	hwafainvestor@126.com.cn	hwafainvestor@126.com.cn	

2. Main business or product introduction in the reporting period

After years of development, the company has gradually formed two main businesses in industry and property management. Among them, the industrial business mainly includes injection molding, foam pieces (light-weight packaging materials), and complete machine production and sales of liquid crystal display, property management business is mainly the lease of its own property.

The company's industrial business mainly provides auxiliary products and services for the home appliance industry. With the acceleration of new urbanization process in China and upgrading and updating of household appliance consumption, the home appliance industry will continue to maintain a relatively fast growth; the development of home appliances and other downstream industries provides broad markets for the upstream auxiliary products. By virtue of years of industry resources and technology accumulation, the company conforms to the market demand and optimizes the product structure and performance, and the company's products and services have accepted by the downstream manufacturers such as Gree, Haier, TCL, etc. and possess certain competitiveness in the industry. But it also should be noted that the current injection molding, foam pieces and liquid crystal display business are facing fierce market competition and cost pressures, profitability of industry business weaker than expected, the company needs to further enhance the level of research and development, develop new products, expand downstream channels and cultivate its own brand so as to further enhance the profitability in industrial business.

On the other hand, the transformation and upgrading and profitability of industrial business are weaker than expectation in recent years, under this circumstance, the company has actively developed the property management business, liquidized the remnant assets, and carried out the decoration and investment promotion of its own property Huafa Building, the property management business has made good profits for the company and became an important strategic business of the company.

3. Main accounting data and financial indexes

(I) Main accounting data and financial indexes for recently three years

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

□Yes √ No

In RMB

	2016	2015		Changes over last year	2014	
		Pre-adjustment	Post-adjustment	Post-adjustment	Pre-adjustment	Post-adjustment
Operating income	619,167,770.74	499,455,781.11	499,455,781.11	23.97%	694,839,760.10	694,839,760.10
Net profit attributable to shareholders of the listed company	5,457,710.33	-6,731,513.11	-4,200,845.61	-	7,687,620.27	7,687,620.27
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	5,109,926.82	-31,741,774.80	-29,211,107.30	-	2,322,082.33	2,322,082.33
Net cash flow arising from operating activities	-18,693,296.58	173,486,015.99	173,486,015.99	-110.78%	119,492,159.01	119,492,159.01
Basic earnings per share (RMB/Share)	0.0193	-0.0238	-0.0148	-	0.0271	0.0271
Diluted earnings per share (RMB/Share)	0.0193	-0.0238	-0.0148	-	0.0271	0.0271

Weighted average ROE	1.72%	-2.27%	-1.50%	3.22%	2.77%	2.77%
	End of 2016	End of 2015		Changes over end of last year	End of 2014	
		Pre-adjustment	Post-adjustment	Post-adjustment	Pre-adjustment	Post-adjustment
Total assets	632,475,542.40	1,155,089,236.67	1,154,989,593.34	-45.24%	1,162,740,984.93	1,162,740,984.93
Net assets attributable to shareholder of listed company	319,698,568.63	311,406,562.20	313,937,229.70	1.84%	281,351,269.74	281,351,269.74

The reasons for the changes in accounting policies and the correction of accounting errors

1. The company mistakenly disbursed cash deposit from the rent of 2015, which was corrected and adjusted to administration expenses and rental fees, increased the administration expenses of 2015 by RMB 99,643.33, and reduced other receivables by RMB 99,643.33.

2. The company collected the financing income of T2 class trust units in trust plan of 2015 CITIC Qianjing Green Xingcheng investment funds and accrued the business tax and additional tax which were identified not belonging to the business tax scope and were corrected and returned back, reduced taxes and additional of 2015 by RMB 3,473,866.67, and reduced tax payable (business tax, urban maintenance and construction tax, education surcharge, local education surcharge) by RMB 3,473,866.67.

3. The correction of above two items made impacts on the income tax and undistributed profits, increased income tax expenses by RMB 843,555.84, increased tax payable (corporate income tax) by RMB 843,555.84, and increased undistributed profit by RMB 2,530,667.50.

(2) Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	137,699,187.33	171,839,338.23	147,394,897.89	162,234,347.29
Net profit attributable to shareholders of the listed company	469,935.69	6,803,020.53	-2,763,587.66	948,341.77
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	137,244.07	6,045,229.45	-3,187,589.84	2,365,523.69
Net cash flow arising from operating activities	-46,008,442.75	20,584,093.18	-45,645,033.67	52,376,086.66

Whether there are significant differences between the above-mentioned financial index or its total number and the relevant financial index disclosed in the company’s quarterly report and semi-annual report

□Yes √ No

4. Shares and shareholders

(1) Particulars about common stock shareholders, preference shareholders with voting rights recovered and top ten shareholders

In Share

Total common stock shareholders in reporting period-end	27,759	Total common stock shareholders at end of last month before annual report disclosed	23,293	Total preference shareholders with voting rights recovered at end of reporting period	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed	0

Top ten shareholders						
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Amount of shares held	Amount of restricted shares held	Number of shares pledged/frozen	
					State of share	Amount
Wuhan Zhongheng Group	Domestic non-state-owned legal person	41.14%	116,489,894	0	Pledged	116,100,000
					Frozen	116,489,894
SEG (HONG KONG) CO., LTD.	Overseas legal person	5.85%	16,569,560	0	Pledged	0
					Frozen	0
GOOD HOPE CORNER INVESTMENTS LTD	Overseas legal person	4.49%	12,700,000	0	Pledged	0
					Frozen	0
Changjiang Securities Brokerage (Hongkong) Co., Ltd.	Overseas legal person	1.89%	5,355,249	0	Pledged	0
					Frozen	0
Xu Dongdong	Domestic nature person	0.60%	1,690,307	0	Pledged	0
					Frozen	0
Zhong Jiachao	Domestic nature person	0.44%	1,244,440	0	Pledged	0
					Frozen	0
Huang Shuqiang	Domestic nature person	0.41%	1,174,566	0	Pledged	0
					Frozen	0
BINGHUA	Overseas	0.30%	840,113	0	Pledged	0

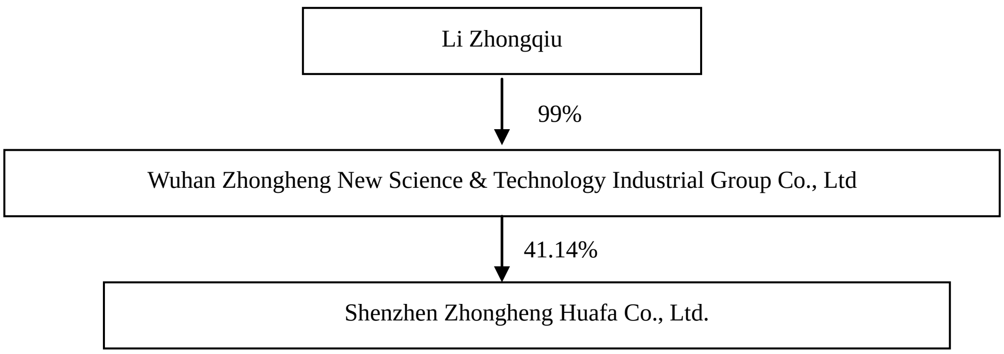
LIU	nature person				Frozen	0
Zhu Xionghui	Domestic nature person	0.23%	661,780	0	Pledged	0
					Frozen	0
Huang Qingpeng	Domestic nature person	0.23%	656,500	0	Pledged	0
					Frozen	0
Explanation on associated relationship among the aforesaid shareholders		Among the top ten shareholders, Wuhan Zhongheng Group neither bears associated relationship with other shareholders, nor belongs to the consistent actor that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies. The Company neither knew whether there exists associated relationship among the other tradable shareholders, nor they belong to consistent actors that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies.				
Explanation on involving margin business (if applicable)		N/A				

(2) Total preferred stock shareholders of the Company and shares held by top ten shareholders with preferred stock held

□ Applicable √ Not applicable

The Company had no shareholders with preferred stock held in the reporting.

(3) Property right and controlling relationships between the actual controllers of the Company and the Company is as follows:



5. Corporate bonds

Whether or not the Company public offering corporation bonds in stock exchange, which undue or without payment in full at maturity on the approval date for annual report disclosed

No

III. Discussion and analysis of business

1. Introduction of operation in the reporting period

Whether the company needs to comply with the disclosure requirements of the particular industry

No

In 2016, China's economy has shown a steady operation trend as a whole, the home-appliance industry has increased, but lacked motivation, as an industrial manufacturing enterprise providing supporting products and services for home appliance industry, the Company actively adapted to the national economic policies and industry changes, solved difficulties and problems, positively responded, and turned the losses into gains. In 2016, the company achieved operating income of 619,167,800 Yuan, an increase of 23.97% compared with the same period of last year; net profit of5,457,700 Yuan, and turned the losses into gains.

● Injection molding business achieved annual operating income of 188,550,900 Yuan, a decrease of 2.24 % compared with the same period of last year. When the overall market had a poor performance, the injection molding division focused on maintaining customer relationships, and enhanced the customer share by strategy adjustment; strengthened the fine management, improved product quality, developed effective quality corrective measures, strictly controlled the quality, and maintained a good quality and reputation; after introducing some advanced production equipment, once again updated some old injection molding machines, further implemented the automation improvement and process optimization progress, reduced human input and waste of production materials, and improved production efficiency; at the same time, strengthened the internal management, introduced the competition mechanism, paid attention to staff training, improved staff quality, practically completed the staff logistics services, and enhanced the company's cohesive force and centripetal force.

● Polystyrene business achieved annual operating income of 68,514,600 Yuan, a decrease of 11.87% compared with the same period of last year. Faced with the rise in raw material prices, increase of human resource costs, decline in sales prices, and fierce competition in the market, the polystyrene business division adhered to taking market demand as the guiding, and continued to expand the market share by adjusting the product structure; while focused on improving the product quality and reducing the raw material loss, and formed its own unique competitive advantages. However, due to the intensifying market competition, rising production costs, and declining product prices, the profit margins reduced. In the future, the company shall take the thought of promoting development by innovation, and further improve the market competitiveness and expand the market shares by technological innovation, market innovation, resource utilization innovation, management innovation and product optimization.

● LCD business achieved annual operating income of 312,991,900 Yuan, an increase of67.52% compared with the same period of last year. During the reporting period, the video division continued to invest more energies in the design and development of new products, newly increased various sizes of LCD new series with more cost advantages and realized mass production, developed from the traditional structure to ultra-thin, ultra-narrow and larger sized curve LCDs. The video division focused on product innovation, developed from the single product sizes to multi-series and multi-sizes product line, and has LIF series, G series, FIM series, C350 curve series products with completely independent designs and tooling; in the second half year of 2016, the company successfully introduced the new customer, Taiwan brand “ACER”, which has developed into four major customers, including the existing customer base (AOC system), American brand Viewsonic ®, Taiwan brand (ACER), and its own brand (HSO); realized the globalization of sales area, and the products produced by our company spread over our country, Asia-Pacific, Europe, North America and other regions; at the same time, increased the e-commerce sales channels, and achieved steady growth in sales revenue.

● Property leasing business has realized an annual operation revenue of 39,501,900 Yuan, a decrease of 18.72% compared with the same period of last year. Most sites of the company’s own property Huafa Building have signed the lease, shops have opened one after another, the sites in idle have substantially reduced, and the average rental price has increased in some extent than the past, but the company's own property Gongming Huafa Electronic City has entered the demolition stage of updating and reconstruction, lessees have continued to remove and the rental income has relatively reduced, therefore, the company’s overall rental income of 2016 is lower that the previous years.

2. Whether the main business had major change in the reporting period

□ Yes √ No

3. About the industries, products, or regions accounting for over 10% of the company’s operating income or operating profit

√Applicable □Not applicable

In RMB

Name	Operating revenue	Operating profit	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating profit y-o-y	Increase/decrease of gross profit ratio y-o-y
Display	312,991,895.11	5,690,315.97	5.22%	67.52%	525.93%	-1.05%
Plastic injection hardware	188,550,863.79	2,254,775.86	11.01%	-2.24%	1,300.01%	2.80%
Foam	68,514,616.64	344,665.28	12.02%	11.87%	5,292.53%	2.20%

4. Whether the characteristics of management seasonal or cyclical need special attention

□ Yes √ No

5. In the reporting period, note of major changes in operating income, operating cost, total net profit attributable to common stock shareholders of listed company or composing the previous reporting period

□ Applicable √ Not applicable

6. Particular about suspended and delisting

□ Applicable √ Not applicable

(1) Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year

√Applicable □ Not applicable

1. Explanation on accounting policy changes

According to the Provisions Concerning the Accounting Treatments on VAT Cai Kuai [2016] No.22 issued by Ministry of Finance on 3 December 2016, relevant business occurred since 1 May 2016 will act by new rules, main influence of the Company for implementation are as:

Content and reasons for changes	Itesm and amount affected
The “business tax and surcharge” listed in consolidate profit statement and parent company’s profit statement will adjusted as “taxes and surcharge”	business tax and surcharge administrative expenses
The follow taxes (house duty, land use tax, stamp tax, vehicle and vessel tax and resource tax etc.) arising from operation activities will listed under “taxes and surcharge”	Tax and surcharge in consolidate profit statement increased 2,664,333.31 Yuan for the Year; Administrative expenses in consolidate profit statement

from" administrative expenses" since 1 May 2016. the taxes occurred before 1 May 2016 will not adjusted and comparative data either	decreased 2,664,333.31 Yuan for the Year; Tax and surcharge in parent company's profit statement increased 1,293,535.18 Yuan for the Year; Administrative expenses in parent company's profit statement decreased 1,293,535.18 Yuan for the Year;

(2) Major accounting errors within reporting period that needs retrospective restatement

√Applicable □ Not applicable

1. Preliminary accounting errors

(1) Retrospective restatement

Contenet	Items of comparison period affected	Cumulative effects
The rental for year of 2015 was mis-listed as cash deposit as collateral, and adjsuted to administrative expenses as rental charge	Administrative expenses	99,643.33
	Other account receivable	-99,643.33
The company collected the financing income of T2 class trust units in trust plan of 2015 CITIC Qianjing Green Xingcheng investment funds and accrued the business tax and additional tax which were identified not belonging to the business tax scope and were corrected and returned back	Business tax and surcharge	-3,473,866.67
	Taxes payable – business tax	-3,101,666.67
	Taxes payable – urban maintenance & construction tax	-217,116.67
	Taxes payable – extra charges of education funds	-93,050.00
	Taxes payable – local education surcharge	-62,033.33
The correction above mentioned have impact on income tax and retained profit of the Company	Income tax expenses	843,555.84
	Taxes payable- enterprise income tax	843,555.84
	Retained profit	2,530,667.50

(3) Compare with last year's financial report; explain changes in consolidation statement's scope

□ Applicable √ Not applicable

No changes in consolidation statement's scope for the Company in the period.