

**SHENZHEN ZHONGHENG HUAFU CO., LTD.**  
**ANNUAL REPORT 2017**

**April 2018**

## **Section I. Important Notice, Contents and Paraphrase**

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

**Li Zhongqiu, Principal of the Company, Yang Bin, person in charger of accounting works and Wu Ai'jie, person in charge of accounting organ (accounting principal) hereby confirm that the Financial Report of 2017 Annual Report is authentic, accurate and complete.**

**All directors are attended the Board Meeting for report deliberation.**

**Concerning the forward-looking statements with future planning involved in the Report, they do not constitute a substantial commitment for investors. Majority investors are advised to exercise caution of investment risks.**

**Risks factors are being well-described in the Report, found more in risks factors and countermeasures disclosed in Prospects for Future Development of the Board of Directors' Report.**

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

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## Paraphrase

Items	Refers to	Contents
Company, Shen HUAFa	Refers to	SHENZHEN ZHONGHENG HUAFa CO., LTD.
Hengfa Technology	Refers to	Wuhan Hengfa Technology Co., Ltd.
HUAFa Property	Refers to	Shenzhen Zhongheng HUAFa Property Co., Ltd
HUAFa Lease	Refers to	Shenzhen HUAFa Property Lease Management Co., Ltd
HUAFa Trade	Refers to	Wuhan Zhongheng HUAFa Trade Co., Ltd.
Wuhan Zhongheng Group	Refers to	Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.
HK Yutian	Refers to	Hong Kong Yutian International Investment Co., Ltd.
Hengsheng Photoelectricity	Refers to	Wuhan Hengsheng Photoelectricity Industry Co., Ltd.
Hengsheng Yutian	Refers to	Wuhan Hengsheng Yutian Industrial Co., Ltd.
Yutian Henghua	Refers to	Shenzhen Yutian Henghua Co., Ltd.
HUAFa Hengtian	Refers to	Shenzhen HUAFa Hengtian Co., Ltd.
HUAFa Hengtai	Refers to	Shenzhen HUAFa Hengtai Co., Ltd.
Shenzhen Vanke	Refers to	Shenzhen Vanke Real Estate Co., Ltd.
Vanke Guangming	Refers to	Shenzhen Vanke Guangming Real Estate Development Co., Ltd

## Section II. Company Profile and Main Financial Indexes

### I. Company profile

Short form of the stock	Shen HUAFA A, Shen HUAFA B	Stock code	000020, 200020
Short form of the stock after changed (if applicable)	N/A		
Stock exchange for listing	Shenzhen Stock Exchange		
Name of the Company (in Chinese)	深圳中恒华发股份有限公司		
Short form of the Company (in Chinese)	深华发		
Foreign name of the Company (if applicable)	SHENZHEN ZHONGHENG HUAFA CO., LTD.		
Abbr. of the foreign name (if applicable)	N/A		
Legal representative	Li Zhongqiu		
Registrations add.	411 Bldg., Huafa (N) Road, Futian District, Shenzhen		
Code for registrations add	518031		
Offices add.	33/F, No. 2 Building of Dachong Business Center, Nanshan District, Shenzhen		
Codes for office add.	518057		
Company's Internet Web Site	<a href="http://www.hwafa.com.cn">http://www.hwafa.com.cn</a>		
E-mail	<a href="mailto:huafainvestor@126.com.cn">huafainvestor@126.com.cn</a>		

### II. Person/Way to contact

	Secretary of the Board	Rep. of security affairs
Name	Yang Bin	Niu Yuxiang
Contact 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
Tel.	0755-86360220	0755-86360201
Fax.	0755-86360206	0755-86360206
E-mail	<a href="mailto:huafainvestor@126.com.cn">huafainvestor@126.com.cn</a>	huafainvestor@126.com.cn

### III. Information disclosure and preparation place

Newspaper appointed for information disclosure	<i>China Securities Journal; Securities Times; Hong Kong Commercial Daily</i>
Website for annual report publish appointed by CSRC	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Preparation place for annual report	Office of the Board of SHENZHEN ZHONGHENG HUAFA CO., LTD.

### IV. Registration changes of the Company

Organization code	Before change: 61883037-2; after changed: 91440300618830372G
Changes of main business since listing (if applicable)	Before the change of controlling shareholders: the main business was production and sales of color TV, printed circuit board and injection molded parts etc. After the change of controlling shareholders: the main business gradually adjusted to production and sales of injection molded parts, foam part (light packaging materials) and LCD whole machine.
Previous changes for controlling shareholders (if applicable)	The Company's predecessor was Shenzhen Huafa Electronic Co., LTD, which was founded in 1981, initiated and established by three legal persons-- Shenzhen Electronics Group Co., LTD, China Zhenhua Electronic Group Co., LTD and Hong Kong Luks Industrial Co., LTD. In June 2005, Wuhan Zhongheng Group transferred the 44.12% equity of company, held by original first and second largest shareholder of the Company Shenzhen Electronics Group Co., LTD and China Zhenhua Electronic Group Co., LTD, and equity transfer formalities completed in April 2007; Wuhan Zhongheng Group became the controlling shareholder of the Company. In September 2007, the company officially changed its name to "Shenzhen Zhongheng HUAFA Co., Ltd".

### V. Other relevant information

CPA engaged by the Company

Name of CPA	DAXIN Certified Public Accountants LLP
Offices add. for CPA	15/F College International Mansion, No.1 Zhi Chun Road, Haidian District, Beijing
Signing Accountants	Li Wei, Fan Zhang

Sponsor engaged by the Company for performing continuous supervision duties in reporting period

Applicable  Not applicable

Financial consultant engaged by the Company for performing continuous supervision duties in reporting period

Applicable  Not applicable

### VI. Main accounting data and financial indexes

Whether it has retroactive adjustment or re-statement on previous accounting data

Yes  No

	2017	2016	Changes over last year	2015
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Operating income (RMB)	858,040,132.74	619,167,770.74	38.58%	499,455,781.11
Net profit attributable to shareholders of the listed company (RMB)	974,409.39	5,457,710.33	-82.15%	-4,200,845.61
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses (RMB)	2,079,588.86	5,109,926.82	-59.30%	-29,211,107.30
Net cash flow arising from operating activities (RMB)	11,723,254.36	-18,693,296.58	162.71%	173,486,015.99
Basic earnings per share (RMB/Share)	0.0034	0.0193	-82.38%	-0.0148
Diluted earnings per share (RMB/Share)	0.0034	0.0193	-82.38%	-0.0148
Weighted average ROE	0.30%	1.72%	-1.42%	-1.50%
	End of 2017	End of 2016	Changes over end of last year	End of 2015
Total assets (RMB)	629,762,731.38	632,475,542.40	-0.43%	1,154,989,593.34
Net assets attributable to shareholder of listed company (RMB)	320,672,978.02	319,698,568.63	0.30%	313,937,229.70

## VII. Difference of the accounting data under accounting rules in and out of China

### 1. Difference of the net profit and net assets disclosed in financial report, under both IAS (International Accounting Standards) and Chinese GAAP (Generally Accepted Accounting Principles)

Applicable  Not applicable

The Company had no difference of the net profit or net assets disclosed in financial report, under either IAS (International Accounting Standards) or Chinese GAAP (Generally Accepted Accounting Principles) in the period.

### 2. Difference of the net profit and net assets disclosed in financial report, under both foreign accounting rules and Chinese GAAP (Generally Accepted Accounting Principles)

Applicable  Not applicable

The Company had no difference of the net profit or net assets disclosed in financial report, under either foreign accounting rules or Chinese GAAP (Generally Accepted Accounting Principles) in the period.

## VIII. Quarterly main financial index

In RMB

	1 <sup>st</sup> Q	2 <sup>nd</sup> Q	3 <sup>rd</sup> Q	4 <sup>th</sup> Q
Operating income	191,829,256.72	247,650,887.45	232,880,839.08	185,679,149.49
Net profit attributable to shareholders of the listed company	421,173.37	1,725,298.63	-1,798,082.55	626,019.94
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	-36,964.59	1,514,165.88	-3,376,198.78	3,978,586.35
Net cash flow arising from operating activities	-18,501,959.59	-16,895,407.33	19,537,585.01	27,583,036.27

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

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

Applicable  Not applicable

In RMB

Item	2017	2016	2015	Note
Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets)	199,069.56	82,132.08	449,051.44	
Governmental subsidy reckoned into current gains/losses (not including the subsidy enjoyed in quota or ration according to national standards, which are closely relevant to enterprise's business)	1,451,189.68	1,419,888.89	1,691,800.00	
Other non-operating income and expenditure except for the aforementioned items	427,054.02	-1,209,982.33	690,149.43	
Other gain/loss items satisfying the definition of nonrecurring gain/loss account		333,974.06	25,247,171.27	
Less: Impact on income tax	-672,860.55	278,229.19	3,067,910.45	
Total	-1,105,179.47	347,783.51	25,010,261.69	--

Concerning the extraordinary profit (gain)/loss defined by *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, and the items defined as recurring profit (gain)/loss according to the lists of extraordinary profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, explain reasons

Applicable  Not applicable

In reporting period, the Company has no particular about items defined as recurring profit (gain)/loss according to the lists of extraordinary profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to*



*the Public --- Extraordinary Profit/loss*

## Section III. Summary of Company Business

### I. Main businesses of the company in the reporting period

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

No

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.

### II. Major changes in main assets

#### 1. Major changes in main assets

Major assets	Note of major changes
Equity assets	No major change
Fixed assets	No major change
Intangible assets	No major change
Construction in progress	No major change

#### 2. Main overseas assets

Applicable  Not applicable

### III. Core competitiveness analysis

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

No

1. All industrial lands of the Company located in Shenzhen were taken into the first batch of plan under 2010 Shenzhen urban upgrade planning. In the future, development and operation of self-owned land resources would become the income source of the Company on a long-term and stable basis.

2. The Company has three plants in Wuhan economic technology park with an area of nearly 90,000 square meters where various famous enterprises are located in this area. Benefiting from radiation radius requirements for processing matching services, the Company enjoys superior and stable customer resources and has established a good long-term cooperative relationship; in particular, its injection molding business and polystyrene businesses have been operated for many years with steady management group and abundant production experiences, which makes the Company enjoying high recognition and annual production capacity and scale in the forefront of Central China.

## Section IV. Discussion and Analysis of Operation

### 1. Introduction

In 2017, the China's economy entered a shifting period of growth, and the traditional industries were undergoing transformation and rebirth while the new economy was growing rapidly. Under the current situation, enterprises have been faced with unprecedented complex challenges and opportunities. From the perspective of the operating status of China's home appliance industry, it has been still moving forward under pressure, after years of rapid development, it has entered the stage of low-speed growth and integration improvement with the main features of improved consumption. As an industrial manufacturing enterprise of supporting products and services in the home appliance industry, under the influence of internal and external factors, the company has always been providing high-quality services and high-quality products to its customers, striving to open up the market, accelerating transformation and upgrading, and adapting to changes in the industry and the trend of development. In 2017, the company achieved operating revenue of 858,040,100 Yuan, an increase of 38.58% on a year-on-year basis, and net profits of 974,400 Yuan, decreased slightly compared with the same period last year.

- Video service business achieved annual operating revenue of 477,934,200 Yuan, an increase of 52.7% over the same period last year. The management team of the video business division strengthened the fine management, and focused on the efficiency promotion and management improvement, fully mobilized resources, and added three series of new products and researches on various new products on the basis of original ones, and deepened the diversified development road of products; in the market, served customer needs, embarked on customer sales model innovation, quickly responded to the customization needs, and formed good market effects, with the product sales covering the domestic, Asia Pacific, Europe, North America and other regions, the multi-channel sales model promoted the steady growth of sales revenue. Under the squeeze of market competition, labor costs and other unfavorable factors, the turnover efficiency has been improved, capital costs have been reduced, and fine management work has been further enhanced.

- Injection molding business achieved annual operating revenue of 252,361,800 Yuan, an increase of 3.84% over the same period last year. Driven by the leading enterprises of white goods, the injection molding business as a whole has grown to some extent. In the face of external pressures such as significant increase in labor costs and rise in material prices, the injection molding business management team timely and decisively took measures to adjust the product structure, greatly reduced the costs by energy saving and consumption reduction and promoting the product automatic production, and ensured product quality and production efficiency through personnel training, institutional guarantee, and error correction mechanism, and other measures; gave full play to geographical advantages, maintained good customer relationships to provide more customer needs, played the upstream and downstream driving effect of the industrial chain, found new business growth points, and fully expanded the scope of business, so that customer satisfaction fed back in the business profits.

- Polystyrene business achieved annual operating revenue of 81,395,500 Yuan, an increase of 18.80% over the same period last year. In the face of intensified market competition, rising production costs and weak pricing

ability, the company continued to implement advanced management concepts, paid attention to environmental protection, ensured up to the standard to reduce the risks environmental protection policy influence, and maintained a good growth trend; promoted development by innovation, seized the opportunities of customer product structure adjustment through continuous process innovation, market innovation and management innovation to continuously expanded market shares.

- The property rental business achieved annual operating revenue of 36,350,800 Yuan, a decrease of 7.98% over the same period last year. The company's own property, Huafa Building, had a renovation, so the tenants had a relatively large change, resulting in a relative decrease in rental income. Gongming Huafa Electronic City was still in the renovation stage, no rental income was generated during the year, therefore, in 2017, the company's overall rental income slightly decreased compared with the previous year.

## II. Main business analysis

### 1. Introduction

See the "I-Introduction" in "Discussion and Analysis of Operation"

### 2. Revenue and cost

#### (1) Constitute of operation revenue

In RMB

	2017		2016		Increase/decrease y-o-y
	Amount	Ratio in operation revenue	Amount	Ratio in operation revenue	
Total operation revenue	858,040,132.74	100%	619,167,770.74	100%	38.58%
According to industries					
Display	477,934,212.10	55.70%	312,991,895.11	50.55%	52.70%
Plastic injection hardware	252,361,777.26	29.41%	188,550,863.79	30.45%	33.84%
Foam	81,395,469.03	9.49%	68,514,616.64	11.07%	18.80%
Property leasing	36,350,826.04	4.24%	39,501,885.54	6.38%	-7.98%
Scrap income	2,695,453.61	0.31%	2,385,455.00	0.39%	13.00%
Utilities and other	7,302,394.70	0.85%	7,223,054.66	1.17%	1.10%
According to products					
Display	477,934,212.10	55.70%	312,991,895.11	50.55%	52.70%
Plastic injection hardware	252,361,777.26	29.41%	188,550,863.79	30.45%	33.84%

Foam	81,395,469.03	9.49%	68,514,616.64	11.07%	18.80%
Property leasing	36,350,826.04	4.24%	39,501,885.54	6.38%	-7.98%
Scrap income	2,695,453.61	0.31%	2,385,455.00	0.39%	13.00%
Utilities and other	7,302,394.70	0.85%	7,223,054.66	1.17%	1.10%
According to region					
Hong Kong	279,854,122.73	32.62%	211,129,139.32	34.10%	32.55%
Central China	535,937,015.83	62.46%	363,057,765.71	58.64%	47.62%
South China	42,248,994.18	4.92%	44,980,865.71	7.26%	-6.07%

**(2) About the industries, products, or regions accounting for over 10% of the company's operating income or operating profit**

√Applicable □ Not applicable

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

No

In RMB

	Operating revenue	Operating cost	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y	Increase/decrease of gross profit ratio y-o-y
According to industries						
Display	477,934,212.10	459,102,321.66	3.94%	52.70%	54.76%	-1.28%
Plastic injection hardware	252,361,777.26	233,283,112.81	7.56%	33.84%	39.03%	-3.45%
Foam	81,395,469.03	75,512,163.41	7.23%	18.80%	25.27%	-4.79%
Property leasing	36,350,826.04	2,341,112.56	93.56%	-7.98%	27.73%	-1.80%
According to products						
Display	477,934,212.10	459,102,321.66	3.94%	52.70%	54.76%	-1.28%
Plastic injection hardware	252,361,777.26	233,283,112.81	7.56%	33.84%	39.03%	-3.45%
Foam	81,395,469.03	75,512,163.41	7.23%	18.80%	25.27%	-4.79%
Property leasing	36,350,826.04	2,341,112.56	93.56%	-7.98%	27.73%	-1.80%
According to region						
Hong Kong	279,854,122.73	270,565,333.69	3.32%	60.71%	59.32%	0.85%
Central China	531,914,907.91	501,765,727.19	5.67%	99.23%	109.59%	-4.62%
South China	36,273,253.79	5,877,729.00	83.80%	-24.98%	-32.94%	1.65%

Under circumstances of adjustment in reporting period for statistic scope of main business data, adjusted main business based on latest one year's scope of period-end

Applicable  Not applicable

### (3) Income from physical sales larger than income from labors

Yes  No

Industries	Item	Unit	2017	2016	Increase/decrease y-o-y
Display	Sales volume	Set	1,130,907	811,394	39.38%
	Output	Set	1,118,816	808,745	38.34%
	Storage	Set	12,530	24,621	-49.11%
Plastic injection hardware	Sales volume	Ton	13,179	11,182	17.86%
	Output	Ton	13,566	11,450	18.48%
	Storage	Ton	1,057	670	57.69%
Foam	Sales volume	Ton	4,487.58	3,918	14.54%
	Output	Ton	4,341.03	4,006	8.36%
	Storage	Ton	225.45	372	-39.40%

Reasons for y-o-y relevant data with over 30% changes

Applicable  Not applicable

Sales volume increased for display mainly due to the sales increased from a year earlier; Output increased for display mainly due to the sales volume increased from a year earlier; Storage for plastic injection hardware increased mainly due to the inventory for year-end; storage for foam decreased mainly due to the decrease of inventory for year-end.

### (4) Fulfillment of the company's signed significant sales contracts up to this reporting period

Applicable  Not applicable

### (5) Constitute of operation cost

Classification of products

Classification of products

In RMB

Industries	Item	2017		2016		Increase/decrease y-o-y
		Amount	Ratio in operation cost	Amount	Ratio in operation cost	
Display	Raw materials	448,842,209.98	97.77%	286,810,241.68	96.68%	1.09%
Display	Labor wages	6,506,927.33	1.42%	4,308,058.58	1.45%	-0.03%
Display	Depreciation	1,255,263.35	0.27%	991,591.74	0.33%	-0.06%
Display	Energy					
Plastic injection	Raw materials	205,433,313.18	85.68%	151,841,264.00	90.49%	-4.81%

hardware						
Plastic injection hardware	Labor wages	16,716,971.22	6.97%	9,626,323.95	5.74%	1.23%
Plastic injection hardware	Depreciation	3,537,615.26	1.48%	4,344,035.13	2.59%	-1.11%
Plastic injection hardware	Energy					
Foam	Raw materials	42,999,667.41	53.47%	33,860,390.08	56.17%	-2.70%
Foam	Labor wages	9,868,282.35	12.27%	9,931,093.00	16.48%	-4.21%
Foam	Depreciation	1,685,290.19	2.10%	1,589,128.86	2.64%	-0.54%
Foam	Energy	10,858,241.16	13.50%	10,391,245.05	17.24%	-3.74%

## Explanation

Cost of main business amounting to 779,289,846.16 Yuan, including 459,102,321.66 Yuan for display, 239,771,854.49 Yuan for plastic injection hardware and 80,415,670.01 Yuan for foam.

**(6) Whether the changes in the scope of consolidation in Reporting Period**

Yes  No

**(7) Major changes or adjustment in business, product or service of the Company in Reporting Period**

Applicable  Not applicable

**(8) Major sales and main suppliers**

## Major sales client of the Company

Total top five clients in sales (RMB)	733,342,661.49
Proportion in total annual sales volume for top five clients	85.47%
Ratio of related parties in annual total sales among the top five clients	24.62%

## Information of top five clients of the Company

Serial	Clients	Sales (RMB)	Proportion in total annual sales
1	No. 1	223,278,364.34	26.02%
2	No. 2	211,214,811.44	24.62%
3	No. 3	150,667,996.59	17.56%
4	No. 4	79,542,177.83	9.27%
5	No. 5	68,639,311.29	8.00%
Total	--	733,342,661.49	85.47%

## Other situation of main clients

Applicable  Not applicable

#### Main suppliers of the Company

Total purchase amount from top five suppliers (RMB)	496,000,099.41
Proportion in total annual purchase amount for top five suppliers	69.99%
Ratio of related parties in annual total sales among the top five suppliers	44.45%

#### Information of top five suppliers of the Company

Serial	Supplier	Purchase (RMB)	Proportion in total purchase
1	No. 1	209,991,225.25	29.63%
2	No. 2	130,565,469.07	18.42%
3	No. 3	105,013,206.11	14.82%
4	No. 4	29,167,805.77	4.12%
5	No. 5	21,262,393.21	3.00%
Total	--	496,000,099.41	69.99%

Other notes of main suppliers

Applicable  Not applicable

### 3. Expenses

In RMB

	2017	2016	Increase/decrease y-o-y	Note of major changes
Sales expense	15,916,493.87	11,415,270.82	39.43%	Sale increased in the period
Administrative expense	42,783,111.53	50,261,495.60	-14.88%	
Financial expense	8,979,085.95	5,012,897.34	79.12%	Exchange losses from change of exchange rate in the period

### 4. R&D investment

Applicable  Not applicable

### 5. Cash flow

In RMB

Item	2017	2016	Y-o-y changes
Subtotal of cash in-flow from operation activity	840,952,371.80	644,747,922.80	30.43%



Subtotal of cash out-flow from operation activity	829,229,117.44	663,441,219.38	24.99%
Net cash flow from operation activity	11,723,254.36	-18,693,296.58	162.71%
Subtotal of cash in-flow from investment activity	291,541,885.91	335,222,336.06	-13.03%
Subtotal of cash out-flow from investment activity	301,268,751.27	341,328,243.65	-11.74%
Net cash flow from investment activity	-9,726,865.36	-6,105,907.59	-59.30%
Subtotal of cash in-flow from financing activity	288,636,279.36	249,042,766.85	15.90%
Subtotal of cash out-flow from financing activity	312,866,866.83	752,494,340.83	-58.42%
Net cash flow from financing activity	-24,230,587.47	-503,451,573.98	95.19%
Net increased amount of cash and cash equivalent	-22,540,338.67	-528,831,643.19	95.74%

Main reasons for y-o-y major changes in aspect of relevant data

Applicable  Not applicable

1. Sales increased in the period and renewing equipment at the same time, purchasing of fixed assets increased;
2. Long-term loans are paid last period

Reasons of major difference between the cash flow of operation activity in report period and net profit of the Company

Applicable  Not applicable

### III. Analysis of the non-main business

Applicable  Not applicable

In RMB

	Amount	Ratio in total profit	Note	Whether be sustainable
Investment income	372,245.91	14.71%	Income from short-term financial products	No
Asset impairment	1,421,786.71	56.17%	Mainly due to current accrued for other account receivable bad debt losses	No
Non-operating income	3,476,152.23	137.34%	Liquidated damages and government grants	No
Non-operating expense	5,902,438.16	233.20%	Loss of transfer of creditor's rights	No

## IV. Assets and liability

### 1. Major changes of assets composition

In RMB

	End of 2017		End of 2016		Ratio changes	Notes of major changes
	Amount	Ratio in total assets	Amount	Ratio in total assets		
Monetary fund	68,812,495.97	10.93%	93,332,709.81	14.76%	-3.83%	
Account receivable	148,795,998.26	23.63%	139,808,058.20	22.10%	1.53%	
Inventory	60,387,021.65	9.59%	46,902,384.80	7.42%	2.17%	
Investment real estate	52,410,958.62	8.32%	54,145,225.02	8.56%	-0.24%	
Long-term equity investment		0.00%		0.00%	0.00%	
Fix assets	83,619,842.39	13.28%	81,544,707.02	12.89%	0.39%	
Construction in process	654,356.00	0.10%	654,356.00	0.10%	0.00%	
Short-term loans	166,620,264.81	26.46%	181,210,467.81	28.65%	-2.19%	
Long-term loans				0.00%	0.00%	

### 2. Assets and liability measured by fair value

Applicable  Not applicable

### 3. Assets right restriction till end of reporting period

Item	Ending book value	Restriction reasons
Monetary Fund	2,571,550.38	Bank acceptance bill
Notes receivable	15,738,970.85	Pledge
Accounts receivable	8,831,928.89	Pledge
Investment real estate	27,583,299.22	Bank loan secured
Fixed assets	74,643,021.02	Bank loan secured
Liquidation of fixed assets	92,857,471.69	Court closure
Intangible assets	43,097,497.43	Bank loan secured
Total	265,323,739.48	

## V. Investment

### 1. Overall situation

Applicable  Not applicable

### 2. The major equity investment obtained in the reporting period

Applicable  Not applicable

### 3. The major non-equity investment doing in the reporting period

Applicable  Not applicable

### 4. Financial assets investment

#### (1) Securities investment

Applicable  Not applicable

The Company has no securities investment in the Period.

#### (2) Derivative investment

Applicable  Not applicable

The Company has no derivatives investment in the Period.

### 5. Application of raised proceeds

Applicable  Not applicable

The Company has no application of raised proceeds in the Period.

## VI. Sales of major assets and equity

### 1. Sales of major assets

Applicable  Not applicable

The Company had no sales of major assets in the reporting period.

### 2. Sales of major equity

Applicable  Not applicable

## VII. Analysis of main holding company and stock-jointly companies

Applicable  Not applicable

Particular about main subsidiaries and stock-jointly companies net profit over 10%

In RMB

Company name	Type	Main business	Register capital	Total assets	Net Assets	Operating revenue	Operating profit	Net profit
Hengfa Technology company	Subsidiary	Production sales	181,643,111.00	465,649,679.80	215,763,646.31	815,791,138.56	3,651,019.75	4,243,458.88
HUAFA Property Company	Subsidiary	Property management	1,000,000.00	217,436.82	-1,807,801.75	1,092,686.41	-922,623.13	-922,623.13
HUAFA Lease Company	Subsidiary	Property management	1,000,000.00	1,900,692.20	-5,026,990.71			
HUAFA Hengtian Company	Subsidiary	Property management	1,000,000.00	997,220.20	997,220.20		-863.66	-863.66
HUAFA Hengtai Company	Subsidiary	Property management	1,000,000.00	997,950.73	997,950.73		-861.28	-861.28

Particular about subsidiaries obtained or disposed in report period

Applicable Not applicable

Explanation of main holding company and stock-jointly companies

Nil

## VIII. Structured vehicle controlled by the Company

Applicable Not applicable

## IX. Future Development Prospects

### (I) Industry development and market analysis

In 2018, the global economic situation is complex and changeable, China is also shifting from the high-speed growth phase to the high-quality development phase, and the home appliance industry will benefit from the background of rising consumption and maintain relatively stable growth. However, we can also see that the era in which made in china relies solely on scale for benefits has gone far away, under the condition of overall worrying gross profit margin, it is futile to get rid of the slow lane of slow development simply by reducing expenditure.

Affected by intensified market competition, rising prices of raw materials, rising labor costs, and exchange rate fluctuations, the pressure faced by home appliances OEMs and supporting enterprises is increasing. Under the pressure of huge market, young customer groups are gradually becoming the main consumer groups of home appliances, and willing to pay for the quality of life has become the younger generation's consumption concept.

The company's industrial production and processing business belongs to a labor-intensive and technology-intensive, and semi-automated production mode, product orders mainly rely on a number of well-known domestic large-scale home appliance manufacturers with brand effect, larger scale, and business stability. As a traditional industry, the core of solving the development dilemma is to improve profitability by upgrading technology and increasing technology added value. Under the background of downstream consumer demand upgrading, we will actively seek transformation and upgrading by increasing R&D efforts on new products, adjusting and improving product mix, improving production processes, increasing production efficiency, expanding downstream channels, and nurturing own brands. In terms of technology upgrading, in addition to inner nurturing, we also take the road of extensional development, allowing innovative technologies to inject new potential energy into business growth.

For a certain period of time, property rental is still an important business for the company's development, making full use of self-owned properties, providing operations, leasing, and service business will bring certain contributions to the company's cash flow. The upgrade of commercial properties will bring long-term and stable sources of income for the company after the gradual implementation of renovation projects.

### **New Annual Business Plan**

#### ◆ Industrial Business Upgrade

On the basis of serving existing customers, we will vigorously expand the market and strive for more market shares; strengthen management, increase production efficiency, enhance product quality, and make full use of the geographical advantages of the company to make the business bigger and stronger. Actively seek out high-quality technical projects for consumer electronics, and gradually realize industrial upgrading through technological optimization and management optimization.

#### ◆ Promote the urban renewal project

Speed up the promotion of renewal unit project of Huafa District, Gongming Street, Guangming New District, Shenzhen and the renewal project renovation progress of Huafa Building, Huaqiang North Street, Futian District, Shenzhen, accelerate the settlement of project procedures, and strive to make stage progress as early as possible.

#### ◆ Continue to focus on strengthening the company's internal control

In 2018, the company will further optimize the corporate governance structure and improve the internal control system and process and strictly implement and improve the executive ability of relevant system in accordance with the governance requirements of listed companies, the company's management and relevant departments will execute the administrative provisions for approval procedures of fund utilizing, management system of related transactions, working system of internal audit, internal reporting system of major information in strict accordance with the requirements of internal control documents.

**X. Reception of research, communication and interview****1. In the report period, reception of research, communication and interview**

√Applicable    □ Not applicable

Time	Way	Type	Basic situation index of investigation
2017-01-01	Telephone communication	Individual	N/A
Reception (times)			10
Number of hospitality			0
Number of individual reception			0
Number of other reception			0
Disclosed, released or let out major undisclosed information	No		

## Section V. Important Events

### I. Profit distribution plan of common stock and capitalizing of common reserves plan

Formulation, Implementation and Adjustment of common stock Profit Distribution Policy Especially Cash Dividend policy during the Reporting Period

Applicable  Not applicable

Profit distribution plan (pre-plan) of common stock and capitalizing of common reserves plan (pre-plan) in latest three years (including the reporting period)

In recent three years the Company accumulated retained net profit is negative and it did not have the conditions for profit distribution, so the Company did not undertake profit allocation in recent years and no capital reserve shall be converted into share capital either.

Cash dividend of common stock in latest three years (including the reporting period)

In RMB

Year for bonus shares	Amount for cash bonus (tax included)	Net profit attributable to common stock shareholders of listed company in consolidation statement for bonus year	Ratio in net profit attributable to common stock shareholders of listed company contained in consolidation statement	Amount for cash bonus by other ways	Proportion for cash bonus by other ways
2017	0.00	974,409.39	0.00%	0.00	
2016	0.00	5,457,710.33	0.00%	0.00	
2015	0.00	-4,200,845.61	0.00%	0.00	

The Company gains profits in reporting period and the retained profit of common stock shareholders provided by parent company is positive but no plan of cash dividend proposed of common stock

Applicable  Not applicable

### II. Profit distribution plan and capitalizing of common reserves plan for the Period

Applicable  Not applicable

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

### III. Implementation of commitment

**1. Commitments that the actual controller, shareholders, related party, offeror and committed party as the Company etc. have fulfilled during the reporting period and have not yet fulfilled by the end of reporting period**

Applicable  Not applicable

Commitments	Promise	Type of commitments	Content of commitments	Commitment date	Commitment term	Implementation
Commitments for share reform	Wuhan Zhongheng Group		The enterprise and its subsidiaries will not participate directly or indirectly in operation of the business with competitive of Shen Huafa and its controlling subsidiary concerned, and not to damage the interest of the Shen Huafa and its controlling subsidiary by making use of the potential controlling-ship of the Shen Huafa either	2007-03-29	Implement since 12 April 2007 throughout the year	In normal implementing
	Wuhan Zhongheng Group		The enterprise and its subordinate enterprise shall avoid a related transaction as far as possible with Shen Huafa and its controlling subsidiary, as for the related dealings occurred inevitable or have reasonable cause, the enterprise promise to follow the principle of fair-ness, justice and open-ness, signed the agreement in line with the laws, perform legal program, fulfill information disclosure obligation and relevant approval procedures according to the relevant laws, regulations and "Listing Rules" of the Shenzhen Stock Exchange, guarantee not to damage the legal interest of Shen Huafa and its shareholders through related transactions	2007-03-29	Implement since 12 April 2007 throughout the year	In normal implementing
	Wuhan Zhongheng Group		After acquisition and assets restructuring, guarantee to have an independent staff, owns independent and completed assets, and independent in aspect of business, financial and institution from Shen Huafa	2007-03-29	Implement since 12 April 2007 throughout the year	In normal implementing
Commitments in report of acquisition or equity change						



Commitments in assets reorganization						
Commitments make in initial public offering or re-financing						
Equity incentive commitment						
Other commitments for medium and small shareholders	Wuhan Zhongheng Group		Regarding the lawsuit with Shenzhen Vanke: 1. If the arbitration judges Shenzhen Vanke to win, the arbitration losses caused by the contract disputes shall be undertaken by Wuhan Zhongheng Group in full; 2. The contingent losses and risks arising from the termination of relevant contracts shall be undertaken by Wuhan Zhongheng Group in advance.	2016-12-20	Implemented since 20 December 2016	In normal implementing
	Wuhan Zhongheng Group		Promise to increasing shares of holding as 2.83 million shares of B-stock of the Company in 6 months since the letter delivery	2017-11-20	In 6 months since the date of notification	Ended as the reporting period, the promises during performance period has not been implemented yet
	Wuhan Zhongheng Group		Promise to increasing shares of holding as 2.8 million shares of A-stock at least in 6 months since the letter delivery	2017-11-28	n 6 months since the date of notification	Ended as the reporting period, the promises during performance period has not been implemented yet
Completed on time(Y/N)	Yes					
If the commitments is not fulfilled on time, shall explain the specify reason and the next work plan	Not applicable					

## 2. Concerning assets or project of the Company, which has profit forecast, and reporting period still in forecasting period, explain reasons of reaching the original profit forecast

Applicable  Not applicable

## IV. Non-operational fund occupation from controlling shareholders and its related party

Applicable  Not applicable

No non-operational fund occupation from controlling shareholders and its related party in period.

## V. Explanation from Board of Directors, Supervisory Committee and Independent Directors (if applicable) for “Qualified Opinion” that issued by CPA

Applicable  Not applicable

## VI. Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year

Applicable  Not applicable

In 2017, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 42 - Non-current Assets for Sale, Disposal Groups, and Termination of Operations”, which has taken effect on May 28, 2017, and it’s required to adopt prospective applications to dispose the non-current assets for sale, disposal groups, and termination of operations existing on the date of implementation. The Company has implemented according to the requirements of the Standards.

The Ministry of Finance revised the “Accounting Standards for Business Enterprises No. 16 - Government Grants” in 2017, the revised Standards has taken effect on June 12, 2017. Government grants existed before January 1, 2017 were required to be disposed by prospective applications; the government grants newly added from January 1, 2017 to the implementation date were also required to be adjusted according to the revised Standards. The Company has implemented according to the requirements of the Standards.

In 2017, the Ministry of Finance issued the “Notice on Revising and Issuing the Financial Statements Format of General Enterprises of the Ministry of Finance” (CK (2017) No. 30). Enterprises implementing the Accounting Standards for Business Enterprises should prepare the financial statements of 2017 and the subsequent periods in accordance with the Accounting Standards for Business Enterprises and the Notice requirements. The Company has implemented according to the requirements of the Notice.

Impact from new rules executed:					
Contents and reasons of the change of accounting policy	Items impacted	Amount impacted	Amount re-stated last period	Amount listed in non-operation revenue last period	Amount listed in non-operation expenditure last period
1. Relevant costs expenses are being written down by parts of the government grants with income	Financial cost	Written down 276,000.00	—	—	—

concerned					
2. Government grants with daily operation activity concerned are reckoned into other income	Other benefits	161,420.00	—	183,500.00	—
3. Adjustment of the listing of gains/losses from assets disposal	Asset disposal income	199,069.56	82,132.08	122,730.30	40,598.22

## VII. Major accounting errors within reporting period that needs retrospective restatement

Applicable  Not applicable

No major accounting errors within reporting period that needs retrospective restatement for the Company in the period.

## VIII. Compare with last year's financial report; explain changes in consolidation statement's scope

Applicable  Not applicable

Compared with last year, the Company sold Yutian Henghua Company in the period.

## IX. Appointment and non-reappointment (dismissal) of CPA

Accounting firm appointed

Name of domestic accounting firm	DAXIN Certified Public Accountants LLP
Remuneration for domestic accounting firm (in 10 thousand Yuan)	50
Continuous life of auditing service for domestic accounting firm	2
Name of domestic CPA	Li Wei, Fan Zhang
Consecutive years for auditing service from domestic CPA	2
Name of foreign accounting firm (if applicable)	N/A
Remuneration for foreign accounting firm (in 10 thousand Yuan) (if applicable)	0
Continuous life of auditing service for foreign accounting firm (if applicable)	0
Name of foreign CPA	N/A
Consecutive years for auditing services from foreign CPA (If applicable)	0

Re-appointed accounting firms in this period

Yes  No

Appointment of internal control auditing accounting firm, financial consultant or sponsor

√Applicable □ Not applicable

In 2017, the Company employed Shine Wing Certified Public Accountants LLC as internal control audit institutions.

## X. Particular about suspended and delisting after annual report disclosed

□ Applicable √ Not applicable

## XI. Bankruptcy reorganization

□ Applicable √ Not applicable

No bankruptcy reorganization for the Company in reporting period

## XII. Significant lawsuits and arbitrations of the Company

√Applicable □Not applicable

The basic situation of litigation (Arbitration)	Amount of money involved (in 10 thousand Yuan)	Predicted liabilities (Y/N)	Advances in litigation (Arbitration)	The results and effects of litigation (Arbitration)	Execution of the litigation (Arbitration)	Disclosure date	Disclosure index
In September 2016, Wuhan Zhongheng Group Co., Ltd. and the Company and Shenzhen Vanke were applied for arbitration due to the dispute case of "Contract for the Cooperative Operation of the Old Projects at Huafa Industrial Park, Gongming Street, Guangming New District".	46,460	N	Ruling on 16 August 2017; put forward the application for dismantling by the Company and controlling shareholder	Found more in notice of the Company	Court accepted	2018-02-09	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1204406606?announceTime=2018-02-09">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1204406606?announceTime=2018-02-09</a>
In March 2016, HUAFA Property suit against the Shenzhen Jifang Investment Co., Ltd. for site occupation, without rental, and utilities paid for a long-time	1,416.67	N	In November 2016, the Company win in the ruling judged by Shenzhen Arbitration Commission	Court decision as Jifang Company has to paid 27.9023 million Yuan (including rental, administrative fee, compensation, penalty, lawyer's fee and arbitration fees) in	Implementing	2016-11-08	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202817664?announceTime=2016-11-08">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202817664?announceTime=2016-11-08</a>

			n	total for the Company			
In March 2016, the Company and HUAFAScience & Technology suit against the follow companies, including Shenzhen Huayongxing Environmental Technology Co., Ltd., Shenzhen Guangyong Breadboard Co., Ltd., Shenzhen Mingyi Electronic Co., Ltd., Shenzhen Ouruilai Technology Co., Ltd and Shenzhen Kangzhengxin Technology Co., Ltd., for arrears of rent. and refuse to move the site, forcibly occupied switch board room and other power unit under the name of the Company	1,964.92	N	First trail has completed and 2 <sup>nd</sup> trial in processing	2 <sup>nd</sup> trial has not been judged	Not applicable	2016-09-14	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41</a>
The Company and HUAFAProperty suit against Shenzhen Jifang investment Co., Ltd. and Shenzhen Jianianhua Foreign Trade Clothing City Co., Ltd. for refusing to paid the rents and administrative fee without justified reasons	73.38	N	2018.3.15-The Company wins in 2 <sup>nd</sup> judgment; 2018.3.26-application for enforcement	Enter a judgment	Implementing	2016-09-14	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41</a>
In March 2016, the Company and HUAFAProperty suit against Shenzhen Huayongxing Environmental Technology Co., Ltd., and Shenzhen Yidaxin Technology Co., Ltd. for contract violation and refuse to move the site	947.26	N	2018-3-15: The Company wins in 2 <sup>nd</sup> judgment; the Company wins in 2 <sup>nd</sup> judgment and ready for enforcement	Enter a judgment	Applying in April	2016-09-14	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202702423?announceTime=2016-09-14 07:41</a>

In December 2015, the Company and HUAF Property suit against Dai Qiangbo for arrears of rent and occupied the leased premises, and refuse to move out; Dai Zhijun, Xie Lihua and Dai Tianyi bear joint liability for debts of Dai Qiangbo	68	N	The Company win in the ruling judged by People's Court of Futian District, Shenzhen Municipal on 13 Feb.2017	Act under coercion	Case closed	
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### XIII. Penalty and rectification

√Applicable □Not applicable

Name	Type	Reason	Type of investigation and punishment	Conclusion (if applicable)	Date of disclosure	Index of disclosure
Shen HUAF	The Company	i. Failing to disclose related transactions with the subsidiary of controlling shareholder in accordance with regulations; ii. Failing to disclose significant financial transactions; iii. Failing to disclosed the related transactions out of amount limit	Condemned by Stock Exchange publicly	Denounced	2017-01-06	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202994856?announceTime=2017-01-06">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202994856?announceTime=2017-01-06</a>
Li Zhongqiu	Actual controller	i. Failing to disclose related transactions with the subsidiary of controlling shareholder in accordance with regulations; ii. Failing to disclose significant financial transactions; iii. Failing to disclosed the related transactions out of amount limit	Condemned by Stock Exchange publicly	Denounced	2017-01-06	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202994856?announceTime=2017-01-06">http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202994856?announceTime=2017-01-06</a>

Note of rectification

√Applicable □Not applicable

Completed

**XIV. Integrity of the company and its controlling shareholders and actual controllers**

√Applicable □Not applicable

During the reporting period, the Company and the controlling shareholders and the actual controllers have no large amount due unliquidated debt sentenced by the court.

**XV. Implementation of the company's stock incentive plan, employee stock ownership plan or other employee incentives**

□ Applicable √ Not applicable

The Company had no stock incentive plan, employee stock ownership plan or other employee incentive in the reporting period.

**XVI. Major related transaction****1. Related transaction with routine operation concerned**

√Applicable □Not applicable

Related party	Relationship	Type of related transaction	Content of related transaction	Pricing principle	Related transaction price	Related transaction amount (in 10 thousand Yuan)	Proportion in similar transactions	Trading limit approved (in 10 thousand Yuan)	Whether approved or not (Y/N)	Clearing form for related transaction	Available similar market price	Date of disclosure	Index of disclosure
HK Yutian	Sharing the same controlling shareholder	Purchase	Purchasing LCD monitors	Synchronized with the market	20,999	20,999	47.10%	26,137	No	Telegraphic transfer	—	2017-04-30	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/zse_main/bulletin_detail/true/1202284604?announceTime=2017-04-30">http://www.cninfo.com.cn/cninfo-new/disclosure/zse_main/bulletin_detail/true/1202284604?announceTime=2017-04-30</a>
Hengshen	Sharing	Purchase	Purchasing	Confirm	8,512	8,512	19.09%	10,781	No	Telegraphic	The	2017-04	Same

g Photoelec tricity	the same controll ing shareho lder		ng LCD monitors	ed with 1% of current market average price in principl e, and refer to both their bargaini ng power						phic transfer	average market price refers to the price of same specific ations which is searche d from through the world famous professi onal market survey compan y website <a href="http://www.witsview.com">http://w ww.wits view.co m</a> recogni zed authorit y in the industry and LCD professi onal market survey compan y website <a href="http://www.witsview.co">http://w ww.wits view.co</a>	-30	as above
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Hengsheng Photoelectricity	Sharing the same controlling shareholder	Purchasing LCD monitors	Purchasing LCD monitors	According to the order price, deducted 1 Yuan each for operation charge	1,990	1,990	4.46%	6,861	No	Telegraphic transfer	—	2017-04-30	Same as above
HK Yutian	Sharing the same controlling shareholder	Sales overall monitor machine set	Sales LCD overall monitor machine set	According to the customer order price sure	21,121	21,121	44.19%	36,592	No	Telegraphic transfer	—	2017-04-30	Same as above
Total					--	--	52,622	--	80,371	--	--	--	--
Detail of sales return with major amount involved				N/A									
Report the actual implementation of the daily related transactions which were projected about their total amount by types during the reporting period(if applicable)				In the reporting, Hengfa Technology purchased LCD from HK Yutian with \$ 30.99 million approximately, 77.49% of the annual amount predicted at the beginning of the year; purchased LCD from Hengsheng Photo electricity with \$ 13.02 million approximately, 78.95% of the annual amount predicted at the beginning of the year; purchasing LCD from Hengsheng Photo electricity with about \$ 3.04 million, 29% of the annual amount predicted at the beginning of the year; sold LCD whole machine to HK Yutian with \$ 31.25 million approximately, 55.81% of the annual amount predicted at the beginning of the year.									
Reasons for major differences between trading price and market reference price				N/A									

## 2. Related transactions by assets acquisition and sold

Applicable    Not applicable

No above mentioned transactions occurred

## 3. Main related transactions of mutual investment outside

Applicable    Not applicable

No main related transactions of mutual investment outside for the Company in reporting period.

**4. Contact of related credit and debt**

Applicable     Not applicable

The company had no contact of related credit or debt in reporting period.

**5. Other related transactions**

Applicable     Not applicable

The company had no other significant related transactions in reporting period.

**XVII. Significant contract and implementations****1. Trusteeship, contract and leasing****(1) Trusteeship**

Applicable     Not applicable

No trusteeship for the Company in reporting period.

**(2) Contract**

Applicable     Not applicable

No contract for the Company in reporting period.

**(3) Leasing**

Applicable     Not applicable

No leasing for the Company in reporting period.

**2. Major guarantees**

Applicable     Not applicable

**(1) Guarantees**

In 10 thousand Yuan

Particulars about the external guarantee of the Company (Barring the guarantee for subsidiaries)								
Name of the Company guaranteed	Related Announcement disclosure date	Guarantee limit	Actual date of happening (Date of signing agreement)	Actual guarantee limit	Guarantee type	Guarantee term	Implemented (Y/N)	Guarantee for related party (Y/N)
N/A								

Guarantee of the Company and the subsidiaries								
Name of the Company guaranteed	Related Announcement disclosure date	Guarantee limit	Actual date of happening (Date of signing agreement)	Actual guarantee limit	Guarantee type	Guarantee term	Implemented (Y/N)	Guarantee for related party (Y/N)
Wuhan Hengfa Technology Co., Ltd.	2017-04-30	30,000		14,089.39	Joint liability guarantee	1 year	No	No
Total amount of approving guarantee for subsidiaries in report period (B1)			30,000	Total amount of actual occurred guarantee for subsidiaries in report period (B2)				14,089.39
Total amount of approved guarantee for subsidiaries at the end of reporting period (B3)			30,000	Total balance of actual guarantee for subsidiaries at the end of reporting period (B4)				3,812.03
Guarantee of the subsidiaries for the subsidiaries								
Name of the Company guaranteed	Related Announcement disclosure date	Guarantee limit	Actual date of happening (Date of signing agreement)	Actual guarantee limit	Guarantee type	Guarantee term	Complete implementation or not	Guarantee for related party
N/A								
Total amount of guarantee of the Company( total of three abovementioned guarantee)								
Total amount of approving guarantee in report period (A1+B1+C1)			30,000	Total amount of actual occurred guarantee in report period (A2+B2+C3)				14,089.39
Total amount of approved guarantee at the end of report period (A3+B3+C2)			30,000	Total balance of actual guarantee at the end of report period (A4+B4+C4)				3,812.03
The proportion of the total amount of actually guarantee in the net assets of the Company (that is A4+ B4+C4)								11.89%
Including:								
Amount of guarantee for shareholders, actual controller and its related parties (D)								0
The debts guarantee amount provided for the guaranteed parties whose assets-liability ratio exceed 70% directly or indirectly (E)								0
Proportion of total amount of guarantee in net assets of the Company exceed 50% (F)								0
Total amount of the aforesaid three guarantees (D+E+F)								0
Explanations on possibly bearing joint and several liquidating responsibilities for undue guarantees (if applicable)				N/A				

Explanations on external guarantee against regulated procedures (if applicable)	N/A
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Explanation on compound guarantee

## (2) Guarantee outside against the regulation

Applicable Not applicable

No guarantee outside against the regulation in Period.

## 3. Entrust others to cash asset management

### (1) Trust financing

Applicable Not applicable

No entrust others to cash asset management

### (2) Entrusted loans

Applicable Not applicable

The company had no entrusted loans in the reporting period.

## 4. Other material contracts

Applicable Not applicable

No other material contracts for the Company in reporting period.

## XVIII. Social responsibility

### 1. Performance of social responsibility

Not applicable

### 2. Execution of social responsibility of targeted poverty alleviation

#### (1) Targeted poverty alleviation scheme

Not applicable

#### (2) Summary of targeted poverty alleviation

Not applicable

**(3) Targeted poverty alleviation effect**

Index	Unit of measure	Quantity /implementation
I. Overall condition	——	——
II. Poverty alleviation by items	——	——
1. Industry development	——	——
2. Shift employment	——	——
3. Relocating in other places	——	——
4. Education	——	——
5. Health	——	——
6. Ecological protection	——	——
7. Reveal all the details	——	——
8. Society	——	——
9. Other	——	——
III. Award received (content and grade)	——	——

**(4) Follow-up targeted poverty alleviation scheme**

Not applicable

**3. Environmental protection**

The listed Company and its subsidiary whether belongs to the key sewage units released from environmental protection department

No

The listed Company and its subsidiary don't belongs to the key sewage units released from environmental protection department

**XIX. Explanation on other significant events**

Applicable Not applicable

(I) The Company signed Asset Exchange Contract with Wuhan Zhongheng Group on 29 April 2009 (details were referred to in the announcement dated 30 April 2009), and pursuant to the contract, since part of the assets of the Company (namely two parcel of industrial lands located at Huafa road, Gongming town, Guangming new district, Shenzhen (the property certificate No. were SFDZ No.7226760 and SFDZ No.7226763, No. of parcels were A627-005 and A627-007, and the aggregate area was 48,200 sq.m) were the lands listed in the first batch of plan for 2010 Shenzhen urbanization unit planning preparation plan. For promotion of such urbanization project and joint cooperation, the Company has not completed the transfer procedures in respect of the aforesaid land.

The Company convoked the first extraordinary meeting of the Board in 2015 on February 16, 2015 and the first extraordinary general meeting of the Board in 2015 on March 4, 2015, which considered and approved the

“Motion on promoting and implementing the urban renewal project for the renewal units of Huafa area at Gongming street, Guangming new district, Shenzhen”, specified that the Company and Wuhan Zhongheng Group shall obtain the corresponding compensatory consideration for removal from the respectively owned project plots and the respectively contributed and constructed above-ground buildings before the land development, it is estimated that the compensatory consideration obtained by the Company accounts for 50.5% of the total consideration and Wuhan Zhongheng Group accounts for 49.5% by calculation.

The sixth extraordinary meeting of the board of directors in 2015 and the third extraordinary general meeting held on September 11, 2015 have considered and adopted the “Proposal on the project promotion and implementation of urban renewal and the progress of related transactions of ‘the updated units at Huafa Area, Gong Ming Street, Guangming New District, Shenzhen’”, the company has signed the “Agreement on the cooperation of urban renewal project of the updated units at Huafa Area, Gong Ming Street, Guangming New District, Shenzhen”, “Contract for the cooperative venture of reconstruction project for Huafa Industrial Park, Gong Ming Street, Guangming New District” and “Agreement on housing acquisition and removal compensation and resettlement” with Wuhan Zhongheng New Technology Industry Group Co., Ltd. (hereinafter referred to as “Wuhan Zhongheng Group”), Shenzhen Vanke Real Estate Co., Ltd. (hereinafter referred to as “Shenzhen Vanke”), and Shenzhen Vanke Guangming Real Estate Development Co., Ltd. (hereinafter referred to as “Vanke Guangming”).

On 12 September 2016, the Company received a “Notice of Arbitration No.: SHEN DP20160334” from SCIA, Shenzhen Vanke applied for arbitration in respect of “Agreement on the cooperation of urban renewal project of the updated units at Huafa Area, Gong Ming Street, Guangming New District, Shenzhen” against the Company and Wuhan Zhongheng Group. The arbitration court holds hearings on 12 November 2016 and 13 May 2017. Shenzhen Court of International Arbitration (SCIA) has given a ruling in August 2017, although most of the arbitration claims proposed by Shenzhen Vanke are rejected by arbitration court, the arbitration procedures and so-called cognizance of fact of contract breach still has problems in arbitration. The results have damaged the legitimate rights and interest of the Company, and we have putting forward the application for dismantling in February 2018 to the Shenzhen Intermediate People’s Court. The Court has accepted the case formally. Progress of the case found more in the Notices released on Juchao website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) dated 14 Sept. 2016, 1 Nov. 2016, 16 Nov. 2016, on 18 Feb. 2017, 24 March 2017, 25 April 2017, 1 July 2017, 18 August 2017 and 9 Feb. 2018 respectively.

(II) On 31 December 2015, the 88,750,047 shares held by Wuhan Zhongheng Group, are pledge to China Merchants Securities Assets Co., Ltd. with due date of 31 December 2016. Wuhan Zhongheng Group deferred the repurchase business day to 30 June 2017. on 1 Feb. 2016, Wuhan Zhongheng Group pledge the 27,349,953 shares held to China Merchants Securities Assets Co., Ltd. with due date of 31 December 2016. The above mentioned shares are deferred for repurchase of stock pledge by Wuhan Zhongheng Group; pledge expired on 31 December 2017. The trading day for repurchase put off to the date when pledge actually removed. Till end of this period released, controlling shareholder still not removed the pledge and the Company has apply by letter, relevant Notice of Presentment on Stock Pledge from Controlling Shareholder was released. Found more in notice released

on Juchao website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) date 2 Feb. 2018.

(III) Our controlling shareholder Wuhan Zhongheng Group holds 116,489,894 shares of the Company, accounting for 41.14% of total share capital. The above shares were judicially sealed on 27 September 2016, shares freeze from 27 September 2016 to 26 September 2018. Details are set out in the announcement published at Juchao information website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) on 27 October 2016.

(IV) The company received the notice about registering and investigating from China Securities Regulatory Commission on January 18, 2016, who decided to register and investigate the company on suspicion of illegal information disclosure. On January 5, 2017, the company received the "Notice on Giving Public Censure and Punishment to Shenzhen Zhongheng HUAFA Co., Ltd. and the Relevant Parties" from the Shenzhen Stock Exchange, see details on the notice published at [www.cninfo.com.cn](http://www.cninfo.com.cn) on January 6, 2017.

(V) On March 21, 2014, Huafa Property and Shenzhen Jifang Investment Co., Ltd. (hereinafter referred to as "Jifang Investment") signed the "Shenzhen Housing Leasing Contract" and the "Supplemental Agreement on Leasing Contract", which were canceled on February 5, 2016. As Jifang Investment occupied the site, and defaulted rent, management fee and water and electricity bills in the long term, in order to safeguard the legitimate rights and interests, Huafa Property submitted a request for arbitration to Shenzhen Arbitration Commission on March 8, 2016, and received the (2016) SZCZ No. 346 ruling paper from Shenzhen Arbitration Commission in November 2016 which ruled Huafa Property won the lawsuit. See details on the notice published at [www.cninfo.com.cn](http://www.cninfo.com.cn) by the company on November 8, 2016. The Case still in act under coercion stage presently

(VI) Mr. Li Yongping, the director and vice-president of the company, has applied for resigning the director, vice-president and the committee member of the special committee under the board of directors of the company due to the mandatory retirement age (60 years old), recommended by the company's second largest shareholder, SEG (Hong Kong) Co., Ltd., the company's first extraordinary general meeting of shareholders in 2017 considered and approved Mr. Zhang Guangliu to be the director of the company, and elected Mr. Zhang Guangliu as the vice-president of the company's 9<sup>th</sup> Board of Directors by the 3<sup>rd</sup> extraordinary meeting of the board of directors of the company in 2017, see details on the relevant announcement the company issued at [www.cninfo.com.cn](http://www.cninfo.com.cn) on July 19, 2017.

(VII) The company's planning for major assets restructuring

The company was planning for major asset reorganization which involved the sale of the stock right of the wholly-owned subsidiary - Wuhan Hengfa Technology Co., Ltd. and the small land and plant located at Wuhan plant under the name of the Company, due to the uncertainties in relevant matters, the company's stock was suspended since the opening on May 31, 2017 in order to maintain the investor interests and avoid significant impact on the company's share price. Later, after careful research for current market environment changed, the Company terminated the major asset reorganization, stock of the Company resumption of trading on 25 August 2017. See details on the relevant announcement the company issued at [www.cninfo.com.cn](http://www.cninfo.com.cn) on August 25, 2017.

(VIII) Changes in the ownership structure of controlling shareholders

Li Zhongqiu, the original shareholder of the controlling shareholder - Wuhan Zhongheng Group, transferred part of shares he held in Wuhan Zhongheng Group to Li Li, and Wuhan Henghui Investment and Consulting Co., Ltd. transferred all shares it held in Wuhan Zhongheng Group to Li Li, after the transfer, Li Zhongqiu held 51% equity stake of Wuhan Zhongheng Group, and Li Li held 49% equity stake of Wuhan Zhongheng Group, in the above natural person shareholders, Li Zhongqiu and Li Li have parent-child relationship and belong to concerted action person.

(IX) Commitments of Major shareholder to Increase Shareholding

On November 20, and November 28, 2017, the controlling shareholders respectively made commitments to increase the shareholding of 2.83 million shares of the company's B Shares and no less than 2.8 million shares of the company's A Shares, with a commitment period of 6 months. As of the disclosure date of this report, it's still in the commitment fulfillment period, and the commitment has not been fulfilled.

**XX. Significant event of subsidiary of the Company**

Applicable  Not applicable



## Section VI. Changes in Shares and Particulars about Shareholders

### I. Changes in Share Capital

#### 1. Changes in Share Capital

In Share

	Before the Change		Increase/Decrease in the Change (+, -)					After the Change	
	Amount	Proportion	New shares issued	Bonus shares	Capitalization of public reserve	Others	Subtotal	Amount	Proportion
I. Restricted shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Unrestricted shares	283,161,227	100.00%	0	0	0	0	0	283,161,227	100.00%
1. RMB Ordinary shares	181,165,391	63.98%	0	0	0	0	0	181,165,391	63.98%
2. Domestically listed foreign shares	101,995,836	36.02%	0	0	0	0	0	101,995,836	36.02%
III. Total shares	283,161,227	100.00%	0	0	0	0	0	283,161,227	100.00%

Reasons for share changed

 Applicable  Not applicable

Approval of share changed

 Applicable  Not applicable

Ownership transfer of share changed

 Applicable  Not applicable

Influence on the basic EPS and diluted EPS as well as other financial indexes of net assets per share attributable to common shareholders of Company in latest year and period

 Applicable  Not applicable

Other information necessary to disclose or need to disclosed under requirement from security regulators

 Applicable  Not applicable

#### 2. Changes of restricted shares

 Applicable  Not applicable

## II. Securities issuance and listing

### 1. Security offering (without preferred stock) in Reporting Period

Applicable  Not applicable

### 2. Changes of total shares and shareholders structure as well as explanation on changes of assets and liability structure

Applicable  Not applicable

### 3. Existing internal staff shares

Applicable  Not applicable

## III. Particulars about shareholder and actual controller of the Company

### 1. Amount of shareholders of the Company and particulars about shares holding

In Share

Total common stock shareholders in reporting period-end	27,633	Total common stock shareholders at end of last month before annual report disclosed	28,974	Total preference shareholders with voting rights recovered at end of reporting period (if applicable) (found in note8)	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed (if applicable) (found in note8)	0	
Particulars about shares held above 5% by shareholders or top ten shareholders								
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Total shareholders at the end of report period	Changes in report period	Amount of restricted shares held	Amount of un-restricted shares held	Number of share pledged/frozen	
							State of share	Amount
Wuhan Zhongheng Group	Domestic non-state-owned legal person	41.14%	116,489,894	0	0	116,489,894	Pledged	116,489,894
							Frozen	116,489,894
SEG (HONG KONG) CO., LTD.	Overseas legal person	5.85%	16,569,560	0	0	16,569,560	Pledged	0
							Frozen	0

GOOD HOPE CORNER INVESTMENTS LTD	Overseas legal person	4.49%	12,700,000	0	0	12,700,000	Pledged	0
							Frozen	0
Changjiang Securities Brokerage (Hongkong) Co., Ltd.	Overseas legal person	1.89%	5,355,249	0	0	5,355,249	Pledged	0
							Frozen	0
Jiangsu Shenghe Investment Co., Ltd.	Domestic non-state-owned legal person	0.64%	1,793,900			1,793,900	Pledged	0
							Frozen	0
Xu Dongdong	Domestic nature person	0.44%	1,231,700			1,231,700	Pledged	0
							Frozen	0
Zhou Hongbing	Domestic nature person	0.43%	1,221,800			1,221,800	Pledged	0
							Frozen	0
Zhong Jiachao	Domestic nature person	0.39%	1,112,200			1,112,200	Pledged	0
							Frozen	0
LI SHERYN ZHAN MING	Overseas nature person	0.36%	1,022,800			1,022,800	Pledged	0
							Frozen	0
Li Senzhuang	Domestic nature person	0.32%	900,000			900,000	Pledged	0
							Frozen	0
Strategy investors or general corporation comes top 10 shareholders due to rights issue (if applicable) (see note 3)	N/A							
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.							
Particular about top ten shareholders with un-restrict shares held								
Shareholders' name	Amount of un-restrict shares held at Period-end	Type of shares						
		Type	Amount					
Wuhan Zhongheng Group	116,489,894	RMB common share	116,489,894					

SEG (HONG KONG) CO., LTD.	16,569,560	Domestically listed foreign shares	16,569,560
GOOD HOPE CORNER INVESTMENTS LTD	12,700,000	Domestically listed foreign shares	12,700,000
Changjiang Securities Brokerage (Hongkong) Co., Ltd.	5,355,249	Domestically listed foreign shares	5,355,249
Jiangsu Shenghe Investment Co., Ltd.	1,793,900	RMB common share	1,793,900
Xu Dongdong	1,231,700	RMB common share	1,231,700
Zhou Hongbing	1,221,800	RMB common share	1,221,800
Zhong Jiachao	1,112,200	RMB common share	1,112,200
LI SHERYN ZHAN MING	1,022,800	Domestically listed foreign shares	1,022,800
Li Senzhuang	900,000	Domestically listed foreign shares	900,000
Expiation on associated relationship or consistent actors within the top 10 un-restrict shareholders and between top 10 un-restrict shareholders and top 10 shareholders	Among the top ten unrestricted shareholders, the Company neither knew whether there exists associated relationship among the other tradable shareholders, nor they belong to consistent actors that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies. Among the top ten shareholders, Wuhan Zhongheng Group neither bears associated relationship with other shareholders, nor belongs to the consistent actor that are prescribed in Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies.		
Explanation on top 10 shareholders involving margin business (if applicable) (see note 4)	N/A		

Whether top ten common stock shareholders or top ten common stock shareholders with un-restrict shares held have a buy-back agreement dealing in reporting period

Yes  No

The top ten common stock shareholders or top ten common stock shareholders with un-restrict shares held of the Company have no buy-back agreement dealing in reporting period.

## 2. Controlling shareholder of the Company

Nature of controlling shareholders: natural person holding

Type of controlling shareholders: legal person

Controlling shareholders	Legal person/person in charge of the unit	Date of foundation	Organization code	Main operation business
Wuhan Zhongheng Group	Li Zhongqiu	1996-03-21	91420114 71195460 1W	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; 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 (not including goods and technologies that import and export are national restricted or prohibited ); dry clean and steam iron service; copy & print; business information consulting; house tenancy; property management; wholesale and retails of the hardware metal products, plastic products, audio electronic products, electronic equipment, textile, toys, clothing & shoes, luggage, bedding article, general merchandise, curtain, household appliances and building materials; development of real-estate and sales of commercial housings (projects with special provision of the state can be operation after approval)
Equity of other domestic/oversea listed company control by controlling shareholder as well as stock-joint in report period	Not applicable			

Changes of controlling shareholders in reporting period

Applicable  Not applicable

The Company had no changes of controlling shareholders in reporting period

## 3. Actual controller of the Company

Nature of actual controller: domestic natural person

Type of actual controller: natural person

Actual controller's name	Nationality	Enjoy the residence rights in the other country or area (Y/N)
Li Zhongqiu	Hong Kong	Y
Main occupation in position	He serves as the Chairman for Wuhan Zhongheng Group since 1996 and serves as	

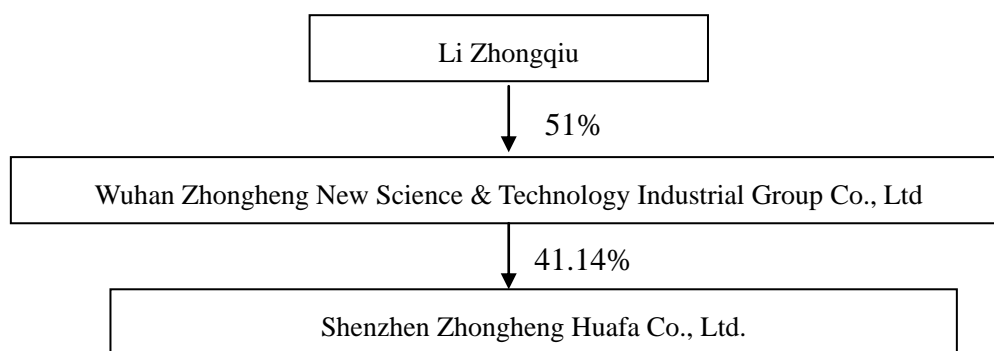
	Chairman and GM of the Company since 2007.
Listed companies in and out of China that controlled in last 10 years	N/A

Changes of actual controller in reporting period

Applicable  Not applicable

No changes of actual controllers for the Company in reporting period.

Property right and controlling relationship between the actual controller and the Company is as follow:



Actual controller controlling the Company by entrust or other assets management

Applicable  Not applicable

#### 4. Particulars about other legal person shareholders with over 10% shares held

Applicable  Not applicable

#### 5. Limitation and reducing the holdings of shares of controlling shareholders, actual controllers, restructuring side and other commitment subjects

Applicable  Not applicable

## Section VII. Preferred Stock

Applicable     Not applicable

The Company had no preferred stock in the Period.

## Section VIII. Particulars about Directors, Supervisors, Senior

### Executives and Employees

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

Name	Title	Working status	Sex	Age	Start dated of office term	End date of office term	Shares held at period-begin (Share)	Amount of shares increased in this period (Share)	Amount of shares decreased in this period (Share)	Other changes (share)	Shares held at period-end (Share)
Li Zhongqiu	Chairman	Currently in office	M	53	2007-07-08	2019-09-18	0	0	0	0	0
Li Yongping	Vice Chairman	Leave the office	M	60	2013-08-23	2017-07-17	0	0	0	0	0
Zhang Guangliu	Vice Chairman	Currently in office	M		2017-07-18	2019-09-18	0	0	0	0	0
Yang Bin	Director, secretary of the Board, CFO	Currently in office	M	45	2015-11-06	2019-09-18	0	0	0	0	0
Li Ding'an	Independent director	Currently in office	M	72	2016-09-19	2019-09-18	0	0	0	0	0
Xu Jingwen	Independent director	Currently in office	M	52	2016-09-19	2019-09-18	0	0	0	0	0
Zhang Zhaoguo	Independent director	Currently in office	M	61	2014-05-23	2019-09-18	0	0	0	0	0
Huang Yanbo	Supervisor	Currently in office	F	55	2012-01-16	2019-09-18	0	0	0	0	0
Geng Qu	Supervisor	Currently in office	F	48	2012-04-09	2019-09-18	0	0	0	0	0
Chen Qin	Supervisor	Currently in office	F	31	2015-11-06	2019-09-18	0	0	0	0	0



Tang Ganyu	Deputy GM	Currently in office	F	40	2013-08-23	2019-09-18	0	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0	0

## II. Changes of directors, supervisors and senior executives

√ Applicable    □ Not applicable

Name	Title	Type	Date	Reasons
Li Yongping	Vice Chairman	Leave the office	2017-07-17	Mandatory age for retirement (60-year-old)

## III. Post-holding

Professional background, major working experience and present main responsibilities in Company of directors, supervisors and senior executive

Li Zhongqiu: Male, was born in 1962 with Master of Engineering, members of the Hubei Political Consultative Conference. May the first of labor medalist of Wuhan. He serves as Chairman of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. since 1996. And he serves as Chairman and the General Manager of the Company since July 2007.

Zhang Guangliu, male, born in 1962, a master of management, currently serves as a director of Shenzhen SEG Co., Ltd., the deputy general manager, a member of the party committee, and the secretary of the board of Shenzhen Electronics Group Co., Ltd., the president of Shenzhen SEG Kangle Enterprise Development Co., Ltd., and the chairman of the board of supervisors of Shenzhen SI Semiconductors Co., Ltd. He once served as the deputy section chief, deputy general manager and a member of party committee of Jiangxi Pingxiang Department Store, the deputy manager of Jiangxi Pingxiang Industrial Products Trade Center, the deputy manager of Zhenhua Subbranch of Shenzhen Rainbow Shopping Mall, and the first class director of Shenzhen Rainbow Shopping Mall Co., Ltd., a director and the chief financial officer of Shenzhen Hua Sheng Enterprise Group Company Limited, Shenzhen Pharmaceutical Production and Supply Corporation and Shenzhen Building Material Group Co., Ltd., the chairman of the board of supervisors of Shenzhen Huakong SEG Co., Ltd., and the chairman of SEG (Hong Kong) Co., Ltd.

Yang Bin, male, born in April 1972, a master degree holder graduated from Xi'an Jiaotong University. He once worked at the high-tech development zone branch of Xi'an Branch of Industrial and Commercial Bank of China, the business department of Xi'an Branch of China Minsheng Banking Corporation, and the international sales department of Shenzhen Mindray Bio-Medical Electronics Co., Ltd.; he once served as the deputy general manager and secretary of the board of Shenzhen China Agricultural University Technology Co., Ltd., an independent director of Livzon Group, and an independent director of CTL Testing. Since November 2015, he has been serving as a director, the secretary of the board and the chief financial officer of the Company.

Li Ding'an: male, born in Dec. 1945, professor, doctoral tutor, the first batch of Chinese certified public accountants. In 1982, he obtained the master degree of economics of Zhongnan University of Finance and Economics and stayed at the university as a teacher; in June 1996, he was transferred to South China University of Technology, served as the professor and deputy director of the Department of Applied Mathematics; from 1998 to 2012, he served successively as the 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> standing committee member of CPPCC Guangdong Provincial Committee; he serves as the professor at School of Business Administration from May, 2002, and served as executive vice president of the School of Economics and Trade from July 2005 to January 2009. He has been serving as the professor at School of Business Administration South China University of Technology since 2009, he is also the director of Guangdong Provincial Tax Institute, the director of Guangdong Provincial Local Tax Institute, the vice chairman of the enterprise development research specialist working committee of Guangdong Manufacturers Association, the director of CPPCC Guangdong Provincial Committee Fellowship Council, the independent director of Guangdong Kangmei Pharmaceutical Co., Ltd., the independent director of PCI-Suntek Tech Co., Ltd., and the independent director of Wuhan Liyuan Information Technology Co., Ltd.. He has been serving as the independent director of the company since September 2016.

Zhang Zhaoguo, Ph. D. in Management, former director of accounting dept. in School of Management of Huazhong University of Science & Technology, a professor (secondary) and doctoral supervisor. He enjoys the special allowance of the State Council. Successively study in Finance & Economics University of Jiangxi, Zhongnan University of Economics and Law and HUST, and serve as a teacher in Wuhan University and HUST. He served as chief editor in Communication of Finance & Accounting. Now served as the president of Accounting Institute of China, vice president of Accounting Association of Hubei Province, vice president of Hubei Central Enterprise Accounting Association, dean of Wuhan Yangtze Business University, and served as independent directors of Hubei Radio & Television Information Network Co., Ltd., Shenzhen Zhongheng Huafa, Kaidi Ecological and Mailyard. And in 2016, he selected in top 50 of the Academic Influence of College Accountancy (Ranked 17th), the only one selected in Hubei.

Xu Jinwen, male, born in 1965, is a doctor of management science and engineering of Huazhong University of Science and Technology. He worked at China Construction Bank Wuhan Sub-branch from July 1984 to September 1985; served as the credit section chief at China Construction Bank Hubei Branch from September 1985 to December 1990; served as the deputy general manager of Hubei Province Trust and Investment Corporation of China Construction Bank; served as the executive deputy general manager of Guotai Junan Securities Hubei Branch from October 1995 to August 2000; served as the general manager of Guotai Junan Securities Jiangxi Headquarters from August 2000 to November 2002; served as the president of Golden Sun Securities Co., Ltd. from November 2002 to April 2006; served as the chairman of Changjiang Bali Baifuqin Securities Co., Ltd. from April 2006 to May 2007; served as the vice president and secretary of the board of Changjiang Securities Co., Ltd. from May 2007 to March 2016; he has been serving as the chairman and CEO of Changjiang Securities Holding (Hong Kong) Co., Ltd. since December 2011. He has been serving as an independent director of the company since September 2016.

Huang Yanbo: female, born in 1962, a university background and a senior accountant. She served as financial director of Wuhan Zhongda Shopping Mall since 1985 to 1998; and worked as financial manager of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. from 1998 to 2007 and GM assistant in charge of auditing supervise from 2007 to 2011; she serves as CFO of the Company from 2012 to 2016; she serves as deputy GM of Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd. since October 2016, and the supervisor of the Company since January 2012 and she is the chairman of supervisory committee of the Company since August 2013.

Geng Qu: female, born in 1969, is graduated from Beihang University, the first quality engineer, a real estate economist, a human resources economist and an engineer. She worked for the Company since 1990 and successively served as director of quality standard, director of comprehensive management department and deputy chief of office of the Company. She serves as employee supervisory of the Company since April 2012.

Chen Qin: Female, born in 1986, bachelor degree, human resources professional. Worked on administrative work in Merida Bicycle (China) Co., Ltd. from July 2002 to July 2003, engaged in purchasing work in Hui Pu Electronics (Shenzhen) Co., Ltd. from August 2003 to September 2004, and served as the administration manager in Huake United Technology (Shenzhen) Co., Ltd. from September 2004 to 2005 October; works in the Company since October 2005 and serves as supervisor of the Company since 2015

Tang Ganyu: Female, born in 1977, college degree. Served as assistant of factory director in Wuhan Hengsheng Optoelectronics Industry Co., Ltd. from August 2003 to July 2005, engineering manager from August 2005 to July 2006, project manager and production manager from August 2006 to December 2011; served as the supervisor of the Company from July 2007 to January 2012 and general manager assistant of the Company from January 2012 to August 2013, and serves as deputy general manager of the Company since August 2013, and in charge of the operation management in three division of the industry.

Post-holding in shareholder's unit

√ Applicable    □ Not applicable

Name	Name of shareholder's unit	Position in shareholder's unit n	Start dated of office term	End date of office term	Received remuneration from shareholder's unit (Y/N)
Li Zhongqiu	Wuhan Zhongheng Group	Chairman	1996-03-21		Y
Zhang Guangliu	Shenzhen Electronics Group Co., Ltd. and its subsidiaries	Deputy GM, party committee and secretary of the Board			N
Huang Yanbo	Wuhan Zhongheng Group	Deputy GM	2016-10-12		N

## Post-holding in other unit

√ Applicable □ Not applicable

Name	Name of other units	Position in other unit n	Start dated of office term	End date of office term	Received remuneration from other unit (Y/N)
Li Ding'an	South China University of Technology	Professor			
Li Ding'an	Guangdong Provincial International Tax Institute	Director			
Li Ding'an	Guangdong Provincial Local Taxation Institute	Director			
Li Ding'an	Working Committee of Experts on Enterprise Development of Guangdong Manufacturing Association	Vice president			
Li Ding'an	Guangdong Provincial Committee of CPPCC	Director			
Li Ding'an	Guangdong Kangmei Pharmaceutical Co., Ltd.	Independent director			
Li Ding'an	Jiadu Xintai Technology Co., Ltd.	Independent director			
Li Ding'an	Wuhan LiYuan Information Technology Co., Ltd.	Independent director			
Xu Jingwen	Changjiang Securities Holding (Hong Kong) Co., Ltd.	Chairman and CEO			
Zhang Zhaoguo	Chinese Accounting Association Branch of High Engineering College and University	President of the Board			
Zhang Zhaoguo	Accounting Association of Hubei Province	Vice president			
Zhang Zhaoguo	Hubei Central Enterprise Accounting Association	Vice president			
Zhang Zhaoguo	Wuhan Yangtze Business University	Dean			
Zhang Zhaoguo	HRTN	Independent director			
Zhang Zhaoguo	Katie Ecological Environment POLytron Technology Inc	Independent director			
Zhang Zhaoguo	Eastern Jin Yu Co., Ltd.	Independent director			

Punishment of securities regulatory authority in recent three years to the company's current and outgoing directors, supervisors and senior management during the reporting period

√ Applicable □ Not applicable

1. On December 22, 2016, the company received the “Written Decision of Administrative Penalty” ([2006] No. 7) from CSRC Shenzhen Securities Regulatory Bureau which gave following penalties to the company and related parties: (a) order Shen HUAFA to correct errors, give a warning, and impose a fine of 400,000 Yuan; (b) give a warning to Li Zhongqiu and impose a fine of 250,000 Yuan; (c) give a warning to Chen Zhigang, and impose a fine of 80,000 Yuan; (d) give a warning to Tang Ganyu, and impose a fine of 80,000 Yuan; (e) give a warning to Weng Xiaoyu and Cai Li, and impose a fine of 30,000 Yuan. See details on the “Notice on Receiving Written Decision of Administrative Penalty from CSRC” (Notice No.: 2016-68) at <http://www.cninfo.com.cn>.

2. On January 5, 2017, the company received the “Announcement on Public Condemnation to Shenzhen Zhongheng Huafa Co., Ltd. and Related Parties” of the Shenzhen Stock Exchange (hereinafter referred to as the “SZSE”): 1. Give a public condemnation to Shenzhen Huafa; 2. Give a public condemnation to Li Zhongqiu, the actual controller, chairman and general manager of Shenzhen Huafa; for the illegal behavior of Shenzhen Huafa and related parties and the punishment given by SZSE, SZSE will record in the credit archive of listed companies and publish to the public. See details at <http://www.cninfo.com.cn> about the Announcement on Receipt of Public Condemnation of Shenzhen Stock Exchange to the Company and Related Parties” (Announcement No.: 2017-01).

#### IV. Remuneration for directors, supervisors and senior executives

Decision-making procedures, recognition basis and payment for directors, supervisors and senior executives

Remuneration of directors and supervisors are determined by general meeting, and the allowance standard for each independent director is RMB 60, 000 per year (tax included).

Remuneration of senior management is determined by the board based on the unified remuneration management system and actual completion of operational targets, and the “Proposal of Basic Remuneration for High-ranking Managers of the Company” was deliberated and approved in 2<sup>nd</sup> extraordinary meeting of the Board for year of 2012.

Remuneration for directors, supervisors and senior executives in reporting period

In 10 thousand Yuan

Name	Title	Sex	Age	Post-holding status	Total remuneration obtained from the Company (before taxes)	Whether remuneration obtained from related party of the Company
Li Zhongqiu	Chairman, GM	M	53	Currently in office	48	No
Li Yongping	Vice Chairman	M	60	Leave the office	0	Yes
Zhang Guangliu	Vice Chairman	M	55	Currently in office	0	Yes
Yang Bin	Director, secretary of the Board, CFO	M	45	Currently in office	30	No
Li Ding'an	Independent director	M	72	Currently in office	6	No

Xu Jingwen	Independent director	M	52	Currently in office	6	No
Zhang Zhaoguo	Independent director	M	61	Currently in office	6	No
Huang Yanbo	Supervisor	F	55	Currently in office	0	Yes
Geng Qu	Supervisor	F	48	Currently in office	9.3	No
Chen Qin	Supervisor	F	31	Currently in office	9	No
Tang Ganyu	Deputy GM	F	40	Currently in office	36	No
Total	--	--	--	--	150.3	--

Delegated equity incentive for directors, supervisors and senior executives in reporting period

Applicable  Not applicable

## V. Particulars of workforce

### 1. Number of Employees, Professional composition, Education background

Employee in-post of the parent Company (people)	30
Employee in-post of main Subsidiaries (people)	963
The total number of current employees (people)	993
The total number of current employees to receive pay (people)	993
Retired employee' s expenses borne by the parent Company and main Subsidiaries (people)	0
Professional composition	
Category of professional composition	Numbers of professional composition (people)
Production personnel	835
Sales personnel	21
Technical personnel	33
Financial personnel	12
Administrative personnel	92
Total	993
Education background	
Category of education background	Numbers (people)
Master and on-the-job graduate students	6
Undergraduate	37

Junior college	98
Other	852
Total	993

## 2. Remuneration Policy

The company's directors (excluding independent directors), supervisors and senior management personnel are monthly paid by basic pay and performance pay, and the annual remunerations are paid after annual assessment; the company's independent directors are paid 60,000 Yuan per person per year as allowances (including tax), the travel expenses for attending the board meeting and stockholders' meeting and the necessary expenses generated by exercising their powers in accordance with relevant laws and regulations can be applied for reimbursement according to the company's regulations; the remuneration ordinary employees are decided by the positions, including probationary period salary regular employee salary, and the company pays social security and public accumulated funds for them in accordance with the national regulations.

## 3. Training programs

- (1) The directors, supervisors and senior management personnel actively participate in the relevant training and assessment organized by the regulatory agencies, such as Shenzhen Stock Exchange, Shenzhen Securities Regulatory Bureau, etc.
- (2) The company regularly or irregularly organizes professional trainings for employees according to the departments and division of labor, including internal trainings and external trainings, thereinto, internal trainings are provided by specialized personnel in the company; external trainings are provided by organizing employees to participate in the trade associations and the training organized by supervision department.
- (3) Organize staff in all positions to actively participate in the learning and assessment of technical professional qualifications required by different positions.

## 4. Labor outsourcing

Applicable  Not applicable

## Section IX. Corporate Governance

### I. Corporate governance of the Company

During the reporting period, in accordance with the laws and regulations of the "Company Law", "Securities Law", and "Governance Norms of Listed Companies", and the relevant rules and requirements promulgated by the China Securities Regulatory Commission, the company has constantly improved the corporate governance structure, established a sound internal control system, enhanced the level of standard operation, strictly followed the provisions of the production and management control and the financial management and control and the information disclosure and control, carried out the work on the basis of the "Articles of Association", "Rules of Procedure of the Board of Directors", "Rules of Procedure of the Board of Supervisors", "Working System of the Independent Directors", and "Working Rules of the General Manager", and ensured that the shareholders' meeting, the board of directors and the board of supervisors can perform their duties and responsibilities normally. The company's governance meets the requirements on the documents of governance norms of listed companies issued by China Securities Regulatory Commission.

During the reporting period, in order to safeguard the legitimate rights and interests of the company, the shareholders and the creditors and regulate the organization and behavior of the company, the company has revised the "Constitution of Shenzhen Zhongheng Huafa Co., Ltd." according to the "Company Law of the People's Republic of China", "Securities Law of the People's Republic of China" and the "Guidelines for the Articles of Association of Listed Companies (2014 Revision)" issued by China Securities Regulatory Commission

Is there any difference between the actual condition of corporate governance and relevant regulations about corporate governance for listed company from CSRC?

Yes  No

There are no differences between the actual condition of corporate governance and relevant regulations about corporate governance for listed company from CSRC.

### II. Independency of the Company relative to controlling shareholders' in aspect of businesses, personnel, assets, organization and finance

During the reporting period, the company's controlling shareholder - Wuhan Zhongheng Group has separated the business, personnel, assets, organization and finance from the controlling shareholders in accordance with the laws and regulations of the "Company Law" and "Articles of Association", and had the independent and complete business system and the capabilities of independent management.

1. Personnel: The company fully and independently operates in the labor, personnel and salary management systems and has established the independent management system, all of the company's senior executives are



working in the Company and receive the salaries, no senior executive has held a post in both the Company and the controlling shareholder's company, and no financial staff has held a post in two or more of the related companies.

2. Assets: The company has the clear property rights with the controlling shareholders and the capabilities of independent management, possesses the full rights to control the production system, supporting facilities and land use rights, no major shareholder has occupied or dominated the assets.

3. Finance: The company has established the independent, complete, standardized financial accounting system and financial management system, and the corresponding internal control system and internal audit system in accordance with the requirements of the "Accounting Standards for Business Enterprises" to make the independent financial decisions.

4. Organization: the board of directors, the board of supervisors, and other internal organizations are sound and operate independently, the organization is completely separated from the controlling shareholders, all organizations of the company are set up based on the norms and requirements of the listed company and the company's actual business features which have the independent office addresses and there is no mixed operation or co-working, and the controlling shareholders legally exercise the investors' rights and undertake the corresponding obligations.

5. Business: the company has the completely independent business operation system, the capabilities of independent management, the independent purchasing system, production system and marketing system, doesn't depend on the controlling shareholders to gain profits or have the horizontal competition relationship with the controlling shareholders or the subsidiaries.

### III. Horizontal competition

Applicable  Not applicable

## IV. In the report period, the Company held annual shareholders' general meeting and extraordinary shareholders' general meeting

### 1. Annual Shareholders' General Meeting in the report period

Session of meeting	Type	Ratio of investor participation	Date	Date of disclosure	Index of disclosure
2016 AGM	AGM	47.02%	2017-05-16	2017-05-17	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1203526132?announceTime=2017-05-17">http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1203526132?announceTime=2017-05-17</a>
2017 First Extraordinary shareholders' general meeting	Extraordinary shareholders' general meeting	47.01%	2017-07-18	2017-07-19	<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulle">http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulle</a>

meeting						tin_detail/true/1203712866?announceTime=2017-07-19
2017 Second Extraordinary shareholders' general meeting	Extraordinary shareholders' general meeting					Cancel the Meeting <a href="http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1203864961?announceTime=2017-08-25">http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1203864961?announceTime=2017-08-25</a>
2017 Third Extraordinary shareholders' general meeting	Extraordinary shareholders' general meeting	47.11%	2017-11-16	2017-11-17		<a href="http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1204145314?announceTime=2017-11-17">http://www.cninfo.com.cn/cninfo-new/disclosure/fulltext/bulletin_detail/true/1204145314?announceTime=2017-11-17</a>

## 2. Request for extraordinary general meeting by preferred stockholders whose voting rights restore

Applicable  Not applicable

## V. Responsibility performance of independent directors

### 1. The attending of independent directors to Board meetings and general meeting

The attending of independent directors and BOD							
Independent Director	Times of Board meeting supposed to attend in the report period	Times of present in person	Times of attending by communication	Times of entrusted presence	Times of Absence	Absent the Meeting for the second time in a row (Y/N)	Times presented in shareholders' general meeting
Zhang Zhaoguo	10	3	6	1	0	N	3
Li Ding'an	10	4	6	0	0	N	3
Xu Jingwen	10	2	6	2	0	N	3

Explanation of absent the Board Meeting for the second time in a row

Nil

### 2. Objection for relevant events from independent directors

Independent directors come up with objection about Company's relevant matters

Yes  No

Independent directors has no objections for relevant events in reporting period

### 3. Other explanation about responsibility performance of independent directors

The opinions from independent directors have been adopted

Yes  No

Explanation on advice that accepted/not accepted from independent directors

Advices about the Company from independent directors are all accepted in the reporting period.

## VI. Duty performance of the special committees under the board during the reporting period

### 1. Duty performance of the audit committee

During the reporting period, the work carried out by the audit committee mainly included: listening to the company's annual operating, financial and internal audit work, continuing to concern and guide the company's financial affairs and internal audit supervision, carrying forward the audit work to the company's annual financial report, sending a letter to urge the audit report to be submitted on time, communicating with the certified public accountants time after time during the annual audit, objectively evaluating the annual audit work of the accounting firm, and making the resolution to agree to re-appoint the accounting firm.

### 2. Remuneration & appraisal committee

During the reporting period, the remuneration & appraisal committee has audited 2013 annual remuneration of the company's directors, supervisors and senior management which was considered to be consistent with the actual situation and in line with the provisions of relevant laws and the regulations of remuneration and appraisal system.

### 3. The nominations committee

During the reporting period, the nominations committee has investigated the proposal for the supplement of independent directors, and made the decision to agree to submit to the board of directors for consideration.

### 4. The Strategic Committee

In the reporting period, the Strategic Committee

## VII. Works from Supervisory Committee

The Company has risks in reporting period that found in supervisory activity from supervisory committee

Yes  No

Supervisory committee has no objection about supervision events in reporting period

## VIII. Examination and incentives of senior management

During the reporting period, in order to enable the senior management to better perform their duties and maintain the interests of the company and its shareholders, the company has floatingly paid the remuneration to urge the company's management to work more diligently and ensure the realization of the company's development strategy and operation target accordingly to the "Staff rank and basic salary system" and the performance assessment and combining with the company's actual operating conditions.

## IX. Internal Control

### 1. Details of major defects in IC appraisal report that found in reporting period

Yes  No

### 2. Appraisal Report of Internal Control

Disclosure date of full internal control evaluation report	2018-04-24	
Disclosure index of full internal control evaluation report	Juchao Website <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>	
The ratio of the total assets of units included in the scope of evaluation accounting for the total assets on the company's consolidated financial statements	100.00%	
The ratio of the operating income of units included in the scope of evaluation accounting for the operating income on the company's consolidated financial statements	100.00%	
Defects Evaluation Standards		
Category	Financial Reports	Non-financial Reports
Qualitative criteria	<p>1. General deficiencies: the amount of direct property loss is between 50,000 and 150,000 Yuan, penalized by the district-level (including district-level) government sector but not having a negative impact on the company's regular disclosure; 2. Important deficiencies: the amount of direct property loss is between 150,000 and 450,000 Yuan, penalized by the provincial level (including provincial level) government sector but not having a negative impact on the company's regular disclosure; 3. Major deficiencies: the amount of direct property loss is more than 450,000 Yuan, penalized by the government sector and having a negative impact on the company's regular disclosure;</p>	<p>1. General deficiencies: when facing low-risk matters in the process of business operation, the unit being inspected didn't take corresponding internal control measures and respond effectively;</p> <p>2. Important deficiencies: when facing matters at a moderate risk level in the process of business operation, the unit being inspected didn't take corresponding internal control measures and respond effectively;</p> <p>3. Major deficiencies: when facing high-risk matters in the process of business operation, the unit being inspected didn't take corresponding internal control measures and respond effectively.</p>

Quantitative standard	<p>1. It belongs to important deficiency if the misstatement of the company's cash on hand, bank deposits, notes receivable, and notes payable caused by internal control deficiencies is less than RMB 1000 Yuan; it belongs to major deficiency if the misstatement caused by internal control deficiencies is greater than or equal to RMB 1000 Yuan.</p> <p>2. Other deficiencies in internal controls: general deficiencies: misstatement index <math>1 \geq 0.5\%</math>, and misstatement index <math>2 &lt; 0.5\%</math>; important deficiencies: <math>0.5\% \leq</math> misstatement index <math>2 &lt; 1\%</math>; major deficiencies: misstatement index <math>2 \geq 1\%</math></p>	<p>General deficiencies: misstatement index <math>1 \geq 0.5\%</math>, and misstatement index <math>2 &lt; 0.5\%</math>;</p> <p>Important deficiencies: <math>0.5\% \leq</math> misstatement index <math>2 &lt; 1\%</math>;</p> <p>Major deficiencies: misstatement index <math>2 \geq 1\%</math></p>
Amount of significant defects in financial reports		0
Amount of significant defects in non-financial reports		0
Amount of important defects in financial reports		0
Amount of important defects in non-financial reports		0

## X. Auditing report of internal control

Applicable  Not applicable

Deliberations in Internal Control Audit Report	
We believe the Company was in accordance with the "basic norms of internal control" and the relevant provisions and maintained effective internal control of financial reporting in all material respects on 31 Dec. 2017.	
Disclosure details of audit report of internal control	Disclosed
Disclosure date of audit report of internal control (full-text)	2018-04-24
Index of audit report of internal control (full-text)	The designated website: Juchao Website
Opinion type of auditing report of IC	Standard unqualified
Whether the non-financial report had major defects	No

Carried out modified opinion for internal control audit report from CPA

Yes  No

The internal control audit report, issued by CPA, has concerted opinion with self-evaluation report, issued from the Board

Yes  No

## Section X. Corporate Bond

Whether the Company has a corporation bonds that issuance publicly and listed on stock exchange and without due on the date when annual report approved for released or fail to cash in full on due

Yes No

## Section XI. Financial Report

### I. Audit report

Type of audit opinion	Standard unqualified opinion
Signing date of audit report	2018-04-20
Name of audit institute	DAXIN Certified Public Accountants LLP
Document serial of audit report	Da Xin Shen Zi [2018] No.: 5-00108
Name of CPA	Li Wei, Fan Zhang

#### Auditor's Report

#### I. Auditing opinions

We have audited the financial statement under the name of SHENZHEN ZHONGHENG HUAFU CO., LTD. (hereinafter referred to as the Company), including the consolidated and parent Company's balance sheet of 31 December 2017 and profit statement, and cash flow statement, and statement on changes of shareholders' equity for the year ended, and notes to the financial statements for the year ended.

In our opinion, the Company's financial statements have been prepared in accordance with the Enterprises Accounting Standards and Enterprises Accounting System, and they fairly present the financial status of the Company and of its parent company as of 31 December 2017 and its operation results and cash flows for the year ended.

#### II. Basis of opinion

We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report. We are independent of the Company in accordance with the Certified Public Accountants of China's Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### III. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(I) The transfer of creditor's rights to Jifang Company.

##### 1. Description of the matter

Refer to Notes V (28) and V (38) of the consolidated statements that the company's subsidiary Huafa Property and Shenzhen Jifang Investment Co., Ltd. signed a house lease contract to rent out the first to third floors of the



company's own property Huafa Building to Jifang Company. However, Jifang Company has not paid the rent and management fees since December 2015, Huafa Property submitted arbitration to Shenzhen Arbitration Commission in March 2016 and received the Award No. 346 from Shenzhen Arbitration Commission in November 2016, according to the arbitration, Jifang Company needed to pay the rent and management fees of 2017 of RMB 23,020,800 to the company, the company confirmed the income of RMB 21,717,000 according to the lease contract, this income accounted for 53% of the company's property income for this year. The company handed out its shingle to transfer this claim at the cost of RMB 17,265,600 via Shenzhen United Property and Share Rights Exchange, Shenzhen Jufan Investment Industry Co., Ltd. successfully picked the shingle and paid RMB 17,265,600 in December 2017, the company confirmed the loss of RMB 5,755,000 in transfer, this matter had the risks of creditor's rights confirmed by the management and the authenticity of credit assignment. Therefore, we regarded this matter as a key audit matter.

## 2. Audit response

We have implemented procedures for this matter:

- (1) Understand and evaluate the effectiveness of the internal control design and operation related to the formation of management revenue recognition claims, and understand the procedures for the collection and payment of credit assignment.
- (2) Check the lease contract, award, and recognize whether the assessment to the formation of revenue recognition clauses claims meet the accounting standards, and confirm whether the accounting treatment for the creditor's right is correct.
- (3) Check the credit assignment commission contract, the transaction certificate of Shenzhen United Property and Share Rights Exchange, and bank slip, verify the amount of funds received from this credit assignment, and recheck the loss of this credit assignment and whether its accounting treatment is correct.
- (4) Inquire the industrial and commercial information whether Shenzhen Jufan Investment Industrial Co., Ltd. is a related party and implement visit procedures to evaluate the authenticity of the transfer.

## (II) Arbitration with Vanke

### 1. Description of the matter

In accordance with Notes XI (2) of the consolidated statements, in August 2015, Shenzhen Huafa and Wuhan Zhongheng New Technology Industry Group Co., Ltd. (hereinafter referred to as "Wuhan Zhongheng") signed the "Cooperation Agreement on Urban Renewal Project of Updated Units at Huafa Industrial Park, Gongming Street, Guangming New District, Shenzhen". In September 2016, Shenzhen Vanke went to arbitration to South China International Economic and Trade Arbitration Commission (hereinafter referred to as "South China International Arbitration") on the ground that Shenzhen Huafa and Wuhan Zhongheng violated the "Cooperation Contract" and exceeded the time limit and handled the "Confirmation of Reforming Implementation Subject", and required Shenzhen Huafa and Wuhan Zhongheng to pay the payment of liquidated damages and the attorneys' fees of RMB 464,600,000 in total. On August 16, 2017, South China International Economic and Trade Arbitration Commission made the "Arbitral Award" SCIA [2017] D376, ruling Shenzhen Huafa and Wuhan Zhongheng to

pay the payment of liquidated damages and other expenses of 234 million Yuan in total. The company considered that the verdict of this case had problems with the arbitration procedures and the assertions of the so-called breach of contract facts, its verdict has damaged the company's legitimate rights and interests, and the company has filed a withdrawal application to the Shenzhen Intermediate People's Court, and the Shenzhen Intermediate People's Court has already formally accepted the case on February 7, 2018, the case number was (2018) Yue 03 MT 113. Whether the company's management had breach of contract and whether the defaulting party's internal fault liability allocation was correct, and the judgment risks that the finding did not confirm the estimated liability or the current profit and loss, therefore, we regarded the arbitration matters with Vanke as key audit matters.

## 2. Audit response

(1) Understand the company's policies or procedures for determining contingencies by performing inspections, consulting with the company's legal advisor, etc.

(2) Check the company's assets replacement contract related to this matter, the asset replacement and related transaction announcement, the renovation contract, the cooperation agreement between the company and Wuhan Zhongheng Group, the award of the case, and whether the reasons and facts and the company's affirmation for the company to revoke the arbitration application and verify the formation of this matter are reasonable.

(3) Communicate with the company's legal advisor and obtain special legal opinion from the legal advisor, and understand the professional advice with legislative confirmation on this matter.

## (III) Arbitration on lawyers' fee with V&T Law Firm

### 1. Description of the matter

Refer to Note V (5) and XI (2) of the consolidated statements, on October 8, 2016, Wuhan Zhongheng New Technology Industry Group and the Company entrusted V&T Law Firm to agent for the arbitration case with Vanke and signed the "Entrusted Agency Contract" and "Supplementary Agreement". According to the supplementary agreement, if the seized objects could be successfully applied for replacement with other assets, RMB 2 million would be paid within 3 days after receiving the adjudication. In view of the fact that V&T Law Firm promised to replace the seized objects, the company has paid 2 million Yuan as a prepayment in advance. However, V&T Law Firm failed to replace the seized objects and eventually lost the case. The company has applied to Shenzhen Intermediate People's Court for the revocation of the arbitral award on February 8, 2018, and the Intermediate People's Court has accepted the case. However, V&T Law Firm still asked for a huge amount of legal fees after losing the case and filed an arbitration with the arbitration commission, the company received the application for arbitration that V&T Law Firm applied to Wuhan Zhongheng and the Company for paying the legal fees of RMB 19,402,000 for Vanke arbitration case from Shenzhen International Arbitration Commission on March 12, 2018, in view of the fact that V&T Law Firm did not complete the agreement on the replacement of seized objects and did not satisfy the payment condition of RMB 2 million, the company has already filed an arbitration on refunding the lawyer fees. The company transferred the pre-expenditure of RMB 2 million to other receivables and bad debts were accrued based on the aging of the account, as the amount of lawyer fees had a greater impact on profit or loss and there was risk of management judgment, therefore, we regarded this matter as

a key audit matter.

## 2. Audit response

(1) Understand and evaluate the effectiveness of the internal control design and operation related to the management payment and bad debts provisions

(2) Examine the agency contract, bank slip, and the arbitration application for lawyer fees, and implement the authenticity of law firm's external confirmations procedures to evaluate the creditor's right.

(3) Understand the company's procedures for determining contingencies by performing inspections, consulting with the company's legal advisor, etc.

(4) Check the agency contracts, awards, identification of payment, analysis of aging, check whether the bad debt accruals assessment conforms to accounting standards, a , and whether the accounting treatment is correct.

We have fulfilled the responsibilities described in the "CPA's Responsibility for the Audit of Financial Statements" in this report, including those responsibilities related to these key audit matters. The results of our audit procedures, including the procedures performed in response to the above key audit matters, provided the basis for the overall release of the audit opinion in the financial statements.

## IV. Other information

The management of the Company (the "Management") is responsible for other information which includes the information covered in the Company's 2017 annual report excluding the financial statement and our audit report.

The audit opinion issued by us for the financial statement has not covered other information, for which we do not issue any form of assurance opinions.

Considering our audit on financial statements, we are liable to read other information, during which, we shall consider whether other information differs materially from the financial statements or that we understand during our audit, or whether there is any material misstatement.

Based on the works executed by us, we should report the fact if we find any material misstatement in other information. In t his regards, we have nothing to report.

## V. Responsibilities of management and those charged with governance for the financial statements

The management is responsible for the preparation of the financial statements in accordance with the Accounting Standards for Enterprise to secure a fair presentation, and for the design, establishment and maintenance of the internal control necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern assumption unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### VI. Responsibilities of the auditor for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the CAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the CAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by the CAS to draw users' attention in audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify audit opinion. Our conclusions are based on the information obtained up to the date of audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguard measures.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## II. Financial statement

Currency used in note of financial statement is RMB (Yuan)

### 1. Consolidated Balance Sheet

Prepared by SHENZHEN ZHONGHENG HUAFA CO., LTD

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	68,812,495.97	93,332,709.81
Settlement provisions		
Capital lent		
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable	64,778,266.65	52,663,100.89
Accounts receivable	148,795,998.26	139,808,058.20
Accounts paid in advance	943,328.01	13,075,721.93
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Interest receivable		
Dividend receivable		
Other receivables	4,335,729.72	3,934,376.89
Purchase restituted finance asset		

Inventories	60,387,021.65	46,902,384.80
Assets held for sale		
Non-current asset due within one year		12,191.49
Other current assets	52,310.51	
Total current assets	348,105,150.77	349,728,544.01
Non-current assets:		
Loans and payments on behalf		
Finance asset available for sales		
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment real estate	52,410,958.62	54,145,225.02
Fix assets	83,619,842.39	81,544,707.02
Construction in progress	654,356.00	654,356.00
Engineering material		
Disposal of fixed asset	92,857,471.69	92,857,471.69
Productive biological asset		
Oil and gas asset		
Intangible assets	43,307,316.37	44,878,095.77
Expense on Research and Development		
Goodwill		
Long-term expenses to be apportioned	141,666.55	191,666.59
Deferred income tax asset	6,731,168.99	8,475,476.30
Other non-current asset	1,934,800.00	
Total non-current asset	281,657,580.61	282,746,998.39
Total assets	629,762,731.38	632,475,542.40
Current liabilities:		
Short-term loans	166,620,264.81	181,210,467.81
Loan from central bank		
Absorbing deposit and interbank deposit		
Capital borrowed		
Financial liability measured by fair value and with variation reckoned into current gains/losses		

Derivative financial liability		
Notes payable	17,810,270.28	16,714,584.01
Accounts payable	84,004,870.73	73,714,424.77
Accounts received in advance	278,128.18	48,846.60
Selling financial asset of repurchase		
Commission charge and commission payable		
Wage payable	5,083,357.93	4,542,531.22
Taxes payable	15,136,277.68	16,768,030.70
Interest payable	164,895.80	123,641.69
Dividend payable		
Other accounts payable	19,927,276.95	17,050,035.16
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Liability held for sale		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	309,025,342.36	310,172,561.96
Non-current liabilities:		
Long-term loans		
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable		
Long-term wages payable		
Special accounts payable		
Projected liabilities	64,411.00	2,604,411.81
Deferred income		
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	64,411.00	2,604,411.81
Total liabilities	309,089,753.36	312,776,973.77

Owner's equity:		
Share capital	283,161,227.00	283,161,227.00
Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	146,587,271.50	146,587,271.50
Less: Inventory shares		
Other comprehensive income		
Reasonable reserve		
Surplus public reserve	77,391,593.25	77,391,593.25
Provision of general risk		
Retained profit	-186,467,113.73	-187,441,523.12
Total owner's equity attributable to parent company	320,672,978.02	319,698,568.63
Minority interests		
Total owner's equity	320,672,978.02	319,698,568.63
Total liabilities and owner's equity	629,762,731.38	632,475,542.40

Legal representative: Li Zhongqiu

Person in charge of accounting works: Yang Bin

Person in charge of accounting institution: Wu Aijie

## 2. Balance Sheet of Parent Company

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	25,181,764.87	10,375,152.87
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable		
Accounts receivable		
Account paid in advance		2,500,000.00
Interest receivable		
Dividends receivable		



Other receivables	99,922,143.84	114,067,051.57
Inventories	14,806.50	14,806.50
Assets held for sale		
Non-current assets maturing within one year		
Other current assets		
Total current assets	125,118,715.21	126,957,010.94
Non-current assets:		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investment	186,608,900.00	186,608,900.00
Investment real estate	27,583,299.22	28,796,525.38
Fix assets	6,821,367.58	6,491,983.71
Construction in progress	654,356.00	654,356.00
Project materials		
Disposal of fixed assets	92,857,471.69	92,857,471.69
Productive biological assets		
Oil and natural gas assets		
Intangible assets	4,843,600.68	4,988,546.40
Research and development costs		
Goodwill		
Long-term deferred expenses	141,666.55	191,666.59
Deferred income tax assets	7,519,546.71	9,217,543.32
Other non-current assets		
Total non-current assets	327,030,208.43	329,806,993.09
Total assets	452,148,923.64	456,764,004.03
Current liabilities:		
Short-term borrowings	120,000,000.00	120,000,000.00
Financial liability measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes payable		
Accounts payable	10,745,840.16	10,745,840.16

Accounts received in advance	67,210.00	44,162.00
Wage payable	1,039,196.20	857,735.20
Taxes payable	9,305,468.70	10,094,737.11
Interest payable		
Dividend payable		
Other accounts payable	14,339,551.78	13,383,939.40
Liability held for sale		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	155,497,266.84	155,126,413.87
Non-current liabilities:		
Long-term loans		
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable		
Long-term wages payable		
Special accounts payable		
Projected liabilities	64,411.00	2,604,411.81
Deferred income		
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	64,411.00	2,604,411.81
Total liabilities	155,561,677.84	157,730,825.68
Owners' equity:		
Share capita	283,161,227.00	283,161,227.00
Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	146,587,271.50	146,587,271.50
Less: Inventory shares		
Other comprehensive income		

Reasonable reserve		
Surplus reserve	77,391,593.25	77,391,593.25
Retained profit	-210,552,845.95	-208,106,913.40
Total owner's equity	296,587,245.80	299,033,178.35
Total liabilities and owner's equity	452,148,923.64	456,764,004.03

### 3. Consolidated Profit Statement

In RMB

Item	Current Period	Last Period
I. Total operating income	858,040,132.74	619,167,770.74
Including: Operating income	858,040,132.74	619,167,770.74
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	853,455,010.07	611,110,771.22
Including: Operating cost	777,906,611.12	534,736,613.02
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		
Taxes and surcharge	6,447,920.89	6,137,557.58
Sales expenses	15,916,493.87	11,415,270.82
Administration expenses	42,783,111.53	50,261,495.60
Financial expenses	8,979,085.95	5,012,897.34
Losses of devaluation of asset	1,421,786.71	3,546,936.86
Add: Changing income of fair value(Loss is listed with "-")		
Investment income (Loss is listed	372,245.91	333,974.06

with “-”)		
Including: Investment income on affiliated company and joint venture		
Exchange income (Loss is listed with “-”)		
Income from assets disposal (Loss is listed with “-”)	199,069.56	82,132.08
Other income	161,420.00	
III. Operating profit (Loss is listed with “-”)	5,317,858.14	8,473,105.66
Add: Non-operating income	2,971,956.07	5,410,701.48
Less: Non-operating expense	5,758,731.56	5,200,794.92
IV. Total Profit (Loss is listed with “-”)	2,531,082.65	8,683,012.22
Less: Income tax expense	1,556,673.26	3,225,301.89
V. Net profit (Net loss is listed with “-”)	974,409.39	5,457,710.33
(i) net profit from continuous operation (Net loss is listed with “-”)		
(ii) net profit from discontinued operation (Net loss is listed with “-”)		
Net profit attributable to owner’s of parent company	974,409.39	5,457,710.33
Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income		
Net after-tax of other comprehensive income attributable to owners of parent company		
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss		
1. Changes as a result of re-measurement of net defined benefit plan liability or asset		
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		

(II) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets		
3. Gains or losses arising from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	974,409.39	5,457,710.33
Total comprehensive income attributable to owners of parent Company	974,409.39	5,457,710.33
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	0.0034	0.0193
(ii) Diluted earnings per share	0.0034	0.0193

Enterprise combine under the same control in the Period, the combined party realized net profit of 0 Yuan before combination, and realized 0 Yuan at last period for combined party

Legal representative: Li Zhongqiu

Person in charge of accounting works: Yang Bin

Person in charge of accounting institution: Wu Aijie

## 4. Profit Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Operating income	41,156,307.77	43,547,414.64
Less: Operating cost	5,877,729.00	6,585,571.92
Taxes and surcharge	2,665,603.29	2,909,400.85
Sales expenses		
Administration expenses	21,974,153.89	24,443,614.03
Financial expenses	8,006,852.33	5,510,413.62
Losses of devaluation of asset	502,503.49	3,296,102.05
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		
Income from assets disposal (Loss is listed with “-”)		-18,924.00
Other income		
II. Operating profit (Loss is listed with “-”)	2,129,465.77	783,388.17
Add: Non-operating income	1,689,721.90	3,569,624.89
Less: Non-operating expense	5,755,745.88	5,154,489.08
III. Total Profit (Loss is listed with “-”)	-1,936,558.21	-801,476.02
Less: Income tax expense	509,374.34	415,372.60
IV. Net profit (Net loss is listed with “-”)	-2,445,932.55	-1,216,848.62
(i) net profit from continuous operation (Net loss is listed with “-”)		
(ii) net profit from discontinued operation (Net loss is listed with “-”)		
V. Net after-tax of other comprehensive income		
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss		

1. Changes as a result of re-measurement of net defined benefit plan liability or asset		
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets		
3. Gains or losses arising from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
VI. Total comprehensive income	-2,445,932.55	-1,216,848.62
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

## 5. Consolidated Cash Flow Statement

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		

Cash received from selling commodities and providing labor services	827,133,048.96	576,271,328.32
Net increase of customer deposit and interbank deposit		
Net increase of loan from central bank		
Net increase of capital borrowed from other financial institution		
Cash received from original insurance contract fee		
Net cash received from reinsurance business		
Net increase of insured savings and investment		
Net increase of amount from disposal financial assets that measured by fair value and with variation reckoned into current gains/losses		
Cash received from interest, commission charge and commission		
Net increase of capital borrowed		
Net increase of returned business capital		
Write-back of tax received	11,937.37	
Other cash received concerning operating activities	13,807,385.47	68,476,594.48
Subtotal of cash inflow arising from operating activities	840,952,371.80	644,747,922.80
Cash paid for purchasing commodities and receiving labor service	700,632,478.96	469,147,356.40
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	74,059,833.16	61,583,984.43
Taxes paid	12,201,020.91	21,225,973.55
Other cash paid concerning operating activities	42,335,784.41	111,483,905.00
Subtotal of cash outflow arising from operating activities	829,229,117.44	663,441,219.38
Net cash flows arising from operating activities	11,723,254.36	-18,693,296.58
II. Cash flows arising from investing activities:		
Cash received from recovering investment	291,000,000.00	334,700,000.00
Cash received from investment income	372,245.91	333,974.06
Net cash received from disposal of fixed, intangible and other long-term assets	169,640.00	188,362.00
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	291,541,885.91	335,222,336.06
Cash paid for purchasing fixed, intangible and other long-term assets	10,268,751.27	6,628,243.65
Cash paid for investment	291,000,000.00	334,700,000.00
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained		
Other cash paid concerning investing activities		
Subtotal of cash outflow from investing activities	301,268,751.27	341,328,243.65
Net cash flows arising from investing activities	-9,726,865.36	-6,105,907.59

III. Cash flows arising from financing activities		
Cash received from absorbing investment		303,628.60
Including: Cash received from absorbing minority shareholders' investment by subsidiaries		
Cash received from loans	288,636,279.36	248,739,138.25
Cash received from issuing bonds		
Other cash received concerning financing activities		
Subtotal of cash inflow from financing activities	288,636,279.36	249,042,766.85
Cash paid for settling debts	302,262,347.00	743,361,629.35
Cash paid for dividend and profit distributing or interest paying	10,604,519.83	9,132,711.48
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities		
Subtotal of cash outflow from financing activities	312,866,866.83	752,494,340.83
Net cash flows arising from financing activities	-24,230,587.47	-503,451,573.98
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-306,140.20	-580,865.04
V. Net increase of cash and cash equivalents	-22,540,338.67	-528,831,643.19
Add: Balance of cash and cash equivalents at the period-begin	104,015,312.97	632,846,956.16
VI. Balance of cash and cash equivalents at the period-end	81,474,974.30	104,015,312.97

## 6. Cash Flow Statement of Parent Company

In RMB

Item	Current Period	Last Period
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I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	39,724,764.06	21,453,165.00
Write-back of tax received		
Other cash received concerning operating activities	58,292,413.82	76,073,111.02
Subtotal of cash inflow arising from operating activities	98,017,177.88	97,526,276.02
Cash paid for purchasing commodities and receiving labor service	5,040,091.56	5,792,314.81
Cash paid to/for staff and workers	4,211,674.37	3,166,849.75
Taxes paid	4,009,011.87	11,555,523.30
Other cash paid concerning operating activities	60,441,124.86	127,611,991.39
Subtotal of cash outflow arising from operating activities	73,701,902.66	148,126,679.25
Net cash flows arising from operating activities	24,315,275.22	-50,600,403.23
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		576.00
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities		576.00
Cash paid for purchasing fixed, intangible and other long-term assets	1,449,992.31	2,763,012.20

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	1,449,992.31	2,763,012.20
Net cash flows arising from investing activities	-1,449,992.31	-2,762,436.20
III. Cash flows arising from financing activities		
Cash received from absorbing investment		303,628.60
Cash received from loans	120,000,000.00	120,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities		
Subtotal of cash inflow from financing activities	120,000,000.00	120,303,628.60
Cash paid for settling debts	120,000,000.00	574,300,000.00
Cash paid for dividend and profit distributing or interest paying	8,058,841.68	7,203,237.97
Other cash paid concerning financing activities		
Subtotal of cash outflow from financing activities	128,058,841.68	581,503,237.97
Net cash flows arising from financing activities	-8,058,841.68	-461,199,609.37
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	170.77	-132.65
V. Net increase of cash and cash equivalents	14,806,612.00	-514,562,581.45
Add: Balance of cash and cash equivalents at the period -begin	10,375,152.87	524,937,734.32
VI. Balance of cash and cash equivalents at the period -end	25,181,764.87	10,375,152.87

## 7. Statement of Changes in Owners' Equity (Consolidated)

This Period

In RMB

Item	This Period													
	Owners' equity attributable to parent company											Minority interests	Total owners' equity	
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit			
		Preferred stock	Perpetual capital securities	Other										
I. Balance at the end of the last year	283,161,227.00				146,587,271.50					77,391,593.25		-187,441,523.12		319,698,568.63
Add: Changes of accounting policy														
Error correction of the last period														
Enterprise combine under the same control														
Other														
II. Balance at the beginning of this year	283,161,227.00				146,587,271.50					77,391,593.25		-187,441,523.12		319,698,568.63
III. Increase/Decrease in this year (Decrease is listed with "-")												974,409.39		974,409.39
(i) Total comprehensive income												974,409.39		974,409.39
(ii) Owners' devoted and decreased capital														
1.Common shares invested by shareholders														
2. Capital invested by holders of other equity instruments														

3. Amount reckoned into owners equity with share-based payment													
4. Other													
(III) Profit distribution													
1. Withdrawal of surplus reserves													
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)													
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves converted to capital (share capital)													
2. Surplus reserves converted to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI) Others													
IV. Balance at the end of the report period	283,161,227.00				146,587,271.50				77,391,593.25		-186,467,113.73		320,672,978.02

Last Period

In RMB

Item	Last Period												
	Owners' equity attributable to the parent Company											Minority interests	Total owners' equity
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit		
Preferred stock		Perpetual capital securities	Other										
I. Balance at the end of the last year	283,161,227.00				146,283,642.90				77,391,593.25		-195,429,900.95		311,406,562.20
Add: Changes of accounting policy													
Error correction of the last period											2,530,667.50		2,530,667.50
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	283,161,227.00				146,283,642.90				77,391,593.25		-192,899,233.45		313,937,229.70
III. Increase/Decrease in this year (Decrease is listed with "-")					303,628.60						5,457,710.33		5,761,338.93
(i) Total comprehensive income											5,457,710.33		5,457,710.33
(ii) Owners' devoted and decreased capital					303,628.60								303,628.60
1. Common shares invested by shareholders													
2. Capital invested by holders of other equity instruments													
3. Amount reckoned into owners equity with share-based payment													

4 Other					303,628 .60							303,628 .60
(III) Profit distribution												
1. Withdrawal of surplus reserves												
2. Withdrawal of general risk provisions												
3. Distribution for owners (or shareholders)												
4. Other												
(IV) Carrying forward internal owners' equity												
1. Capital reserves converted to capital (share capital)												
2. Surplus reserves converted to capital (share capital)												
3. Remedying loss with surplus reserve												
4. Other												
(V) Reasonable reserve												
1. Withdrawal in the report period												
2. Usage in the report period												
(VI) Others												
IV. Balance at the end of the report period	283,16 1,227. 00				146,587 ,271.50			77,391, 593.25		-187,44 1,523.1 2		319,698 ,568.63

## 8. Statement of Changes in Owners' Equity (Parent Company)

This Period

In RMB

Item	This Period									
	Share	Other	Capital	Less:	Other	Reasonab	Surplus	Retaine	Total	



	capital	equity instrument			reserve	Inventory shares	comprehensive income	le reserve	reserve	d profit	owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the end of the last year	283,161,227.00				146,587,271.50				77,391,593.25	-208,106,913.40	299,033,178.35
Add: Changes of accounting policy											
Error correction of the last period											
Other											
II. Balance at the beginning of this year	283,161,227.00				146,587,271.50				77,391,593.25	-208,106,913.40	299,033,178.35
III. Increase/Decrease in this year (Decrease is listed with "-")										-2,445,932.55	-2,445,932.55
(i) Total comprehensive income										-2,445,932.55	-2,445,932.55
(ii) Owners' devoted and decreased capital											
1.Common shares invested by shareholders											
2. Capital invested by holders of other equity instruments											
3. Amount reckoned into owners equity with share-based payment											
4. Other											
(III) Profit distribution											
1. Withdrawal of surplus reserves											
2. Distribution for owners (or											

shareholders)											
3. Other											
(IV) Carrying forward internal owners' equity											
1. Capital reserves converted to capital (share capital)											
2. Surplus reserves converted to capital (share capital)											
3. Remedying loss with surplus reserve											
4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI)Others											
IV. Balance at the end of the report period	283,161,227.00				146,587,271.50				77,391,593.25	-210,552,845.95	296,587,245.80

Last period

In RMB

Item	Last period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the end of the last year	283,161,227.00				146,283,642.90				77,391,593.25	-209,420,732.28	297,415,730.87
Add: Changes of accounting policy											
Error correction of the										2,530,667.50	2,530,667.50

last period											
Other											
II. Balance at the beginning of this year	283,161,227.00				146,283,642.90				77,391,593.25	-206,890,064.78	299,946,398.37
III. Increase/Decrease in this year (Decrease is listed with “-”)					303,628.60					-1,216,848.62	-913,220.02
(i) Total comprehensive income										-1,216,848.62	-1,216,848.62
(ii) Owners’ devoted and decreased capital					303,628.60						303,628.60
1.Common shares invested by shareholders											
2. Capital invested by holders of other equity instruments											
3. Amount reckoned into owners equity with share-based payment											
4. Other					303,628.60						303,628.60
(III) Profit distribution											
1. Withdrawal of surplus reserves											
2. Distribution for owners (or shareholders)											
3. Other											
(IV) 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 surplus											

reserve											
4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI)Others											
IV. Balance at the end of the report period	283,161,227.00				146,587,271.50				77,391,593.25	-208,106,913.40	299,033,178.35

### III. Company profile

1. The registration place of the enterprise, the form of organization and the headquarters address

Shenzhen Zhongheng HUAFA Company Limited (hereinafter referred to as Company or the Company), established on 8 December 1981. Uniform social credit code 91440300618830372G.

Registered place and head office of the Company: 411 Bldg., Huafa (N) Road, Futian District, Shenzhen

Legal representative: Li Zhongqiu

Registered capital: RMB 283,161,227

2. The nature of the business and the main business activities

The Company belongs to the computer, telecommunication and manufacturing of other electronic equipment. Business scope: producing and sales of vary color TV set, liquid crystal display, LCD (operates in branch), radio-recorder, sound equipment, electronic watch, electronic game and computers, the printed wiring board, precision injection parts, light packaging material (operates in Wuhan) and hardware (including tool and mould) for various electronic products and supporting parts, plating and surface treatment and tin wire, development and operation of real estate (Shen Fang Di Zi No.: 7226760) and property management. Funded affiliated companies in Wuhan and Jilin. Setting up branches in capital of the province (Lhasa City excluded) in China and municipality directly under the central government.

3. Relevant party offering approval reporting of financial statements and date thereof

The financial statement has been deliberated and approved by BOD on 23 April 2018. According to Article of Association, the statement shall be submitted for deliberation in shareholders general meeting.

4. Scope of consolidate financial statement

Consolidate scope in the Period including: parent company – Shenzhen Zhongheng HUAFA Company Limited, subsidiary including Shenzhen HUAFA Property Leasing Management Co., Ltd. (no annual inspection in 2011, and business license revoke on 1 April 2014), Shenzhen Zhongheng HUAFA property Co., Ltd., Wuhan Hengfa Technology Co., Ltd., Shenzhen HUAFA Hengtian Co., Ltd. and Shenzhen HUAFA Hengtai Co., Ltd. more of subsidiaries found in “Note VII. Equity in other subjects”.

## **IV. Preparation basis of Financial Statements**

### **1. Preparation basis**

Base on the running continuously and actual transactions and events, in line with the Accounting Standards for Business Enterprise – Basic Standards and specific principle of accounting standards issued by the Ministry of Finance, the Company prepared and formulate the financial statement lies on the followed important accounting policy and estimation.

### **2. Going concern**

The Company estimated that the production and sales of the Company, in 12 months since end of the period, will in a virtuous cycle. We have good management and continuous operation ability, and there is no risk of continuing operations.

## **V. Important accounting policy and estimation**

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

No

Notes on specific accounting policies and accounting estimation:

According to actual operation characteristic, the Group formulate specific accounting policy and accounting estimation, including trade cycle, reorganization and measurement on account bad debt provision of receivables, inventory measurement, classification and depreciation method of fixed assets, intangible assets amortization and reorganization and measurement of revenue etc.

### **1. Declaration of obedience to Accounting Standards for Business Enterprise**

The Financial Statements of the Company are up to requirements of Accounting Standards for Business Enterprise and also a true and thorough reflection to the relevant information as the Company's financial position dated 30<sup>th</sup> June 2017 and the operation results as well as cash flow for the year of 2017.

### **2. Accounting period**

The Company's accounting year is Gregorian calendar year, namely from 1<sup>st</sup> January to 31<sup>st</sup> December of every year.

### **3. Business cycle**

The Company's business cycle is one year (12 months) as a normal cycle, and the business cycle is the determining criterion for the liquidity of assets and liabilities of the Company.

### **4. Bookkeeping standard currency**

The Renminbi (RMB) is taken as the book-keeping standard currency.

## 5. Accounting methods for consolidation of enterprises under the same control or otherwise

### 1. Consolidation of enterprises under the same control

Where the Company for long term equity investment arising from business combination under common control satisfies the combination consideration by payment of cash, transfer of non-cash assets or assumption of debt, the carrying value of the net assets of the acquire in combined financial statement of the ultimate controller shared by the Company as at the combination date shall be deemed as the initial investment cost of such long term equity investment. If the equity instrument issued by combining party are consider as the combination consideration, than the total value of the issuing shares are consider as the share capital. The difference between the initial cost of long-term equity investment and book value of consideration (or total face value of the shares issued) paid, capital surplus adjusted; if the capital surplus not enough to written down, than retained earning adjusted.

### 2. Business combination not under common control

As for business combination not under common control, combination costs refer to the sum of the fair value of the assets paid, liabilities occurred or assumed as well as equity securities issued by the acquirer to obtain control over the acquire as at the acquisition date. As for acquiree that obtained by consolidation not under the same control, the qualified confirmation of identified assets, liability and contingency liabilities should calculated by fair value on day of purchased. If the consolidation cost larger than the fair value amount of indentified net assets from acquiree's, the differences should be recognized as goodwill. If the consolidation cost less than the fair value amount of indentified net assets from acquiree's, the differences should reckoned into current gains/losses after re-examination.

## 6. Preparation methods for consolidated financial statements

### 1. Consolidation financial statement range

The Company includes all the subsidiaries (including the separate entities controlled by the Company) into consolidated financial statement, including companies controlled by the Company, non-integral part of the investees and structural main body.

### 2. Centralize accounting policies, balance sheet dates and accounting periods of parent and subsidiaries.

As for the inconsistency between the subsidiaries and the Company in the accounting policies and periods, the necessary adjustment is made on the subsidiaries' financial statements in the preparation of the consolidated financial statements according to the Company's accounting policies and periods.

### 3. Setoff of consolidated financial statement

The consolidated financial statements shall be prepared on the basis of the balance sheet of the parent company and subsidiaries, which offset the internal transactions incurred between the parent company and subsidiaries and within subsidiaries. The owner's equity of the subsidiaries not attributable to the parent company shall be presented as minority equity under the owner's equity item in the consolidated balance sheet. The long term equity investment of the parent company held by the subsidiaries, deemed as treasury stock of the corporate group as well as the reduction of owners' equity, shall be presented as "Less: treasury stock" under the owners' equity item in the consolidated balance sheet.

#### 4. Accounting for acquisition of subsidiary through combination

For subsidiaries acquired under enterprise merger involving enterprises under common control, the assets, liabilities, operating results and cash flows of the subsidiaries are included in the consolidated financial statements from the beginning of the financial year in which the combination took place. When preparing the consolidated financial statements, for the subsidiaries acquired from business combination not involving entities under common control, the identifiable net assets of the subsidiaries are adjusted on the basis of their fair values on the date of acquisition.

### 7. Classification of joint arrangements and accounting treatment of joint operation

#### 1. Classification of joint arrangements

Joint arrangements are divided into joint operations and joint ventures. Joint arrangements achieved not through separate entities are classified as joint operations. Separate entities refer to the entities with separate identifiable financial architecture including separate legal entities and legally recognized entities without the qualification of legal entity. Joint arrangements achieved through separate entities are generally classified as joint ventures. In case of changes in rights entitled to and obligations undertaken by the parties of joint venture under a joint arrangement due to the changes in relevant facts and circumstances, the parties of joint venture will re-assess the classification of joint arrangements.

#### 2. Accounting treatment for joint operations

The parties of joint operation should recognize the following items in relation to their share of interest in joint operation, and proceed with accounting in accordance with the relevant provisions under the Accounting Standards for Business Enterprises: to recognize their separate assets or liabilities held, and recognize the assets or liabilities jointly held according to their respective shares; to recognize the income from the disposal of their output share under joint operation; to recognize the income from the disposal of output under joint operation according to their respective shares; to recognize the expenses incurred separately, and recognize the expenses incurred under joint operation according to their respective shares.

For the parties of a joint operation not under common control, if they are entitled to relevant assets and undertake relevant liabilities of the joint operation, accounting will be carried out with reference to the provisions of the parties of joint operation; otherwise, it should be subject to relevant Accounting Standards for Business Enterprises.

#### 3. Accounting treatment for joint ventures

The parties of a joint venture should perform accounting for investments by the joint venture in accordance with the Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments. The parties not under common control should carry out accounting depending on their influence on the joint venture.

### 8. Determination criteria of cash and cash equivalent

The cash recognized in the preparation of the cash flow statements, is the Company's storage cash and deposits available for payment anytime. The cash equivalents recognized in the preparation of the cash flow statements

refers to the investment held by the Company with characteristic of short-term, strong mobility, easy transfer to known sum cash and has slim risk from value changes.

## 9. Foreign currency exchange and the conversion of foreign currency statements

### 1. Foreign currency exchange

The approximate exchange rate of the spot exchange rate on transaction occurred should be used for standard money conversion while foreign currency exchange occurred. On the balance sheet day, the monetary items are converted on the current rate on the balance sheet day, concerning the exchange differences between the spot exchange rate on that date and initial confirmation or the sport exchange rate on previously balance sheet date, should reckoned in to current gains/losses except the capitalizing on exchange differences for foreign specific loans, which was reckoned into cost for capitalizing. The non-monetary items measured on the historic cost are still measured by the original bookkeeping rate with the sum of the bookkeeping standard currency unchanged. Items of non-monetary foreign currency which was calculated by fair value, should converted by spot exchange rate on the confirmation day of fair value, difference between the converted amount of bookkeeping currency and original amount of bookkeeping currency, was treated as changes of fair value (including exchange rate changed) reckoned into current gains/losses or recognized as other consolidated income.

### 2. Conversion of foreign currency financial statements

Upon the conversion of the foreign currency financial statements of the controlling subsidiaries, joint enterprises, and the affiliated enterprises on the bookkeeping standard currency different from the Company's, the accounting check and preparation of the consolidated financial statements are made. Assets and liabilities items in the balance sheet are converted on the current rate on the balance sheet day; owners' equity items besides the "retained profit" item, the other items are converted on the actual rate. Items of revenue and expenses in profit statement, should converted by the approximate exchange rate of spot exchange rate on occurring date. The conversion difference of the foreign currency financial statements is listed specifically in the owners' equity in the balance sheet. If the foreign cash flow determined by rational system method, the approximate exchange rate of spot exchange rate on occurring date should prevail. The cash influenced by the rate fluctuation is listed specifically in the cash flow statement. As for the foreign operation, the conversion difference of the foreign currency statement related to the foreign operation is transferred in proportion into the disposal of the current loss/gain.

## 10. Account receivable

### (1) Account receivables with single major amount and withdrawal bad debt provision independently

Criterion or amount standards of major single amount	Book balance of the account receivable with over 0.5 million Yuan
Withdrawal method for individual bad debt provision accrual with major single amount concerned	Recognized on the difference between the book value and the current value of the estimative future cash flow



**(2) Account receivable with bad debt provision accrual by portfolio**

Portfolio	Accrued method for bad debts
Age portfolio	Aging of accounts

Withdrawing bad bed provision by aging method in portfolio:

Applicable     Not applicable

Account ages	Accrued proportion of accounts receivable	Accrued proportion of other accounts receivable
Within one year (one year included)	0.00%	0.00%
1—2 years	5.00%	5.00%
2—3 years	10.00%	10.00%
Over three years	30.00%	30.00%

Withdrawing bad bed provision by percentage of total accounts receivable outstanding in portfolio:

Applicable     Not applicable

Withdrawing bad bed provision by other methods in portfolio:

Applicable     Not applicable

**(3) Account receivable with minor single amount but has individual bad debt provision accrual**

Reasons for individual bad debt prevision accrual	Receivable has minor amount and cannot reflect the risk characteristic by withdrawing bad debt provision by group
Accrued method for bad debt provision	Recognized on the difference between the book value and the current value of the estimative future cash flow

**11. Inventory**

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

No

**1. Categories of inventory**

The inventory is goods or manufactured products held for sale, products in process, and materials and matters utilized in the production or supply of labor. Mainly including raw material, revolving materials, outside processing materials, wrappage, low-value consumption goods, goods in process, semi-finished goods, stocks and so on.

**2. Accounting method for inventory delivery**

When inventories are issued, the actual cost is determined by the first in first out method.

**3. Accrual method inventory falling price reserves**

On the balance sheet day, the inventory is measured on the lower one between the cost and the net realizable value, and the provision for the falling price reserves is accrued on each inventory item; however, as for the inventory of large quantity and low price, the provision is accrued on the inventory category.

#### 4. Inventory system

Inventory system of the Company is perpetual inventory system

#### 5. Amortization method for the low-value consumables and wrap page

Low-value consumables and packages are amortized by one-point method

### 12. Long term equity investment

#### 1. Recognition of initial investment cost

Initial investment cost of long term equity investment obtained by corporate consolidation: in the case of the consolidation of enterprises under the same control, recognized as the initial cost is the book value of the owners' equity obtained from the consolidated party; in the case of the consolidation of enterprises not under the same control, recognized as the initial cost is the recognized consolidation cost on the purchase day. As for the long term equity investment obtained by cash payment, the initial investment cost is the actual purchase payment. As for the long term equity investment obtained by the equity securities offering, the initial investment cost is the fair value of the equity securities. As for the long-term equity investment obtained by debt reorganization, initial investment cost of such investment should determine by relevant regulation of the "Accounting Standards for Business Enterprise No.12- Debt Reorganization"; As for the long term equity investment obtained by the exchange of the non-monetary assets and the debts restructuring, the initial investment cost is recognized on the relevant rules in the Principles.

#### 2. Subsequent measurement and profit or loss recognition

Where the investor has a control over the investee, long-term equity investments are measured using cost method. Long-term equity investments in associates and joint ventures are measured using equity method. Where part of the equity investments of an investor in its associates are held indirectly through venture investment institutions, common fund, trust companies or other similar entities including investment linked insurance funds, such part of equity investments indirectly held by the investor shall be measured at fair value through profit or loss according to according to relevant requirements of Accounting Standards for Business Enterprises No.22—Recognition and measurement of Financial Instruments regardless whether the above entities have significant influence on such part of equity investments, while the remaining part shall be measured using equity method.

#### 3. Basis of conclusion for common control and significant influence over the investee

Joint control over an investee refers to where the activities which have a significant influence on return on certain arrangement could be decided only by mutual consent of the investing parties sharing the control, which includes the sales and purchase of goods or services, management of financial assets, acquisition and disposal of assets, research and development activities and financing activities, etc.; Significant influence on the investee refers to that: significant influence over the investee exists when holding more than 20% but less than 50% of the shares with voting rights or even if the holding is below 20%, there is still significant influence if any of the following conditions is met: there is representative in the board of directors or similar governing body of the investee; participation in the investee's policy setting process; assign key management to the investee; the investee relies on the technology or technical information of the investing company; or major transactions with the investee.

### 13. Investment real estate

Measurement for investment real estate

Cost method

Depreciation or amortization method

The leased buildings in the Company's investment property adopts straight-line depreciation to calculate and distill depreciation, specific accounting policy are same as part of the fixed assets. The leased land use rights in the investment property and the land use rights to be transferred after appreciation adopt straight-line amortization, specific accounting policy are same as part of the intangible assets.

## 14. Fixed assets

### (1) Recognition

Fixed assets refers to the tangible assets holding for purpose of producing goods, providing labor services, leasing or operation management, which has one accounting fiscal year of using life. Meanwhile as up to the following conditions, they are recognized: the economic interest related to the fixed assets probably flow into the Company; the cost of the fixed assets can be measured reliably.

### (2) Depreciation method

Category	Depreciation method	Depreciation life (year)	Salvage rate	Annual depreciation rate
House building	Straight-line depreciation	20-50	10.00	1.80-4.50
Machine equipment	Straight-line depreciation	10	10.00	9.00
Mold equipment	Straight-line depreciation	3	10.00	30.00
Transportation equipment	Straight-line depreciation	5	10.00	18.00
Instrument equipment	Straight-line depreciation	5	10.00	18.00
Tool equipment	Straight-line depreciation	5	10.00	18.00
Office equipment	Straight-line depreciation	5	10.00	18.00

The fixed assets of the Company mainly include buildings, machinery equipment, electronic equipment, transportation equipment, etc.; the method of depreciation is based on the straight-line method. Determine the useful life and estimated net residual value of fixed assets according to the nature and use of various types of fixed assets. At the end of the year, review the useful life, estimated net residual value, and depreciation method of fixed assets, if there is a difference from the original estimate, make corresponding adjustments. Except for the fixed assets that have been fully depreciated and continue to be used and the land that is separately accounted for, the Company calculates and depreciates all fixed assets.

## 15. Project in progress

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

No

Project in progress of the Company divided as self-run construction and out-bag construction. The project in progress of the Company carried forward as fixed assets while the construction is ready for the intended use. Criteria of the expected condition for use should apply one of the follow conditions: The substance construction (installation included) of the fixed assets has completed all or basically; As the projects have been in test

production or operation, and the results show that the assets can operate properly and produce the qualified products stably, or the test operation result shows the assets can operate or open properly. The expenditure of the fixed assets on the construction is a little or little. The fixed assets of the project constructed have been up to the requirements of the design or contract, or basically up to.

## 16. Borrowing expenses

### 1. Recognition principle on capitalization of borrowing expenses

As for the Company's actual borrowing expenses directly attributable to the assets construction or production, it is capitalized and reckoned into the relevant assets cost; as for other borrowing expenses, it is recognized on the actual sum and reckoned into the current loss/gain. The assets up to the capitalization are assets as the capital assets, investment real estate, and inventory reaching the expectant availability or sale ability.

### 2. Calculation of the capitalization

Capitalization term: the period from the time starts to capitalization to the time the capitalization ends. The period of capitalization suspended is not included. The capitalization of borrowing expenses should be suspended while the abnormal interrupt, which surpass three months continuously, in the middle of acquisition or construction or production.

As for the borrowing of the specific borrowing, the capitalization sum is recognized on the current actual interest expenses less the interest income of the borrowing capital not utilized but deposited in the bank or the return of the temporary investment; As for the appropriation of the general borrowing, the capitalization sum is recognized on the weighted average of, the accumulative assets expenditure above the specific borrowing, and times the capitalization rate of the appropriation; As for the discount or premium of the borrowing, the discount or premium to be diluted in every accounting period is recognized in the actual rate method.

The effective interest method is the method for the measurement of the diluted discount or premium or interest expenses on the actual interest rate; and the actual interest rate is the interest rate used in the discount of the future cash flow in the expectant duration period as the current book value of the borrowing.

## 17. Intangible assets

### (1) Accounting method, service life and impairment test

#### 1. Accounting method of intangible assets

The Company's intangible assets are measured initially on cost. The intangible assets purchased in are taken as the actual cost on the actual payment and relevant expenditure. As for the intangible assets invested in by the investors, the actual cost is recognized on the value stipulated in the contract or agreement; however, if what is stipulated in the contract or agreement is not fair value, the actual cost is recognized on fair value. As for the self-developed intangible assets, their cost is the actual total expenditure before reaching the expectant purpose.

The follow-up measurements of the Company's intangible assets respectively are: the line amortization method is taken on the intangible assets of finite service life, and at the year-end, the check is taken on the service life and dilution of the intangible assets, and the corresponding adjustment is made if there is inconsistency with the

previous estimative ones. As for the intangible assets of uncertain service life, it is not diluted, however, the service life is checked at year-end; If there is solid evidence to its finite service life, its service life is estimated and diluted in straight line method.

## 2. Judgment basis for uncertain service life

The Company will not be able to foresee the time limit within which the asset brings economic benefits to the company, or the intangible assets with uncertain useful life identified as intangible assets with uncertain useful life. The basis for judging the uncertainty of useful life is from the contractual rights or other legal rights, but the contract stipulates or the law rules there is no definite useful life; combining the same industry case and or the relevant expert argumentation, it is still incapable of judging the time limit within which the intangible assets bring economic benefits to the company.

At the end of each year, review the useful life of intangible assets with indefinite useful life by mainly adopting the bottom-up method, the relevant departments of intangible assets take the basic review and evaluate whether there is any change in the judgment basis for indefinite useful life.

## (2) Accounting policies for internal research and development expenditure

Expenditures for internal research and development projects at the research phase shall be included in the current profit or loss when incurred; expenditures incurred at the development phase and recognized as intangible assets shall be transferred to intangible assets accounting.

## 18. Long-term investment impairment

Long-term equity investments, investment properties measured at cost and long-term assets such as fixed assets, construction in progress, productive biological assets at cost method, oil and gas assets, intangible assets and goodwill are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill arising from a business combination is tested for impairment at least at each year end, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis to each of the related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related set of asset groups. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss first reduced by the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, pro rata based on the carrying amount of each asset.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

## **19. Long-term deferred expenditure**

The Company's long-term deferred expenditure are expenses paid out and with one year above (1-year included) benefit period. The long-term unamortized expenses are diluted by periods according to the benefit period. As the long-term unamortized expenses cannot enable the accounting period's beneficiary, all dilution values of the project undiluted yet, are transferred into the current loss/gain.

## **22. Employees benefits**

### **(1) Accounting for short-term benefits**

In the period of employee services, short-term benefits are actually recognized as liabilities and charged to profit or loss, or if otherwise required or allowed by other accounting standards, to the related costs of assets for the current period. At the time of actual occurrence, The Company's employee benefits are recorded into the profits and losses of the current year or assets associated costs according to the actual amount. The non-monetary employee benefits are measured at fair value. Regarding to the medical and health insurance, industrial injury insurance, maternity insurance and other social insurances, housing fund and labor union expenditure and personnel education that the Company paid for employees, the Company should recognize corresponding employees benefits payable according to the appropriation basis and proportion as stipulated by relevant requirements and recognize the corresponding liabilities and include these expenses in the profits or losses of the current period or recognized as respective assets costs.

### **(2) Accounting for post-employment benefits**

During the accounting period in which an employee provides service, the amount payable calculated under defined contribution scheme shall be recognized as a liability and recorded in profit and loss of the current period or in assets. In respect of the defined benefit scheme, the Company shall use the projected unit credit method and attribute the welfare obligations calculated using the formula stipulated by the defined benefit scheme to the service period of the employee, and record the obligation in the current profit and loss or related assets cost.

### **(3) Accounting for termination benefits**

The Company recognizes a liability and expenses in the current profit or loss for termination benefits at the earlier of the following dates: when the Company can no longer withdraw the offer of those benefits; and when the Company recognizes costs for restructuring involving the payment of termination costs.

### **(4) Accounting for other long-term employee benefits**

The Company provides other long-term employee benefits to its employees. For those falling within the scope of defined contribution scheme, the Company shall account for them according to relevant requirements of the defined contribution scheme. In addition, the Company recognizes and measures the net liabilities or net assets of the other long-term employee benefits according to relevant requirements of the defined contribution scheme.

## 21. Accrual liability

The obligation related to contingencies is the current obligation assumed by the company, and performing this obligation may result in an outflow of economic benefits, and this obligation can be determined as the estimated liabilities when the amount can be reliably measured. The Company makes initial measurement in accordance with the best estimate for performing the related current obligation, if the expenditure as needed has a continuous range, and the likelihood of occurrence of various results in this range is the same, the best estimate is determined by the median value within the range; if a number of items are involved, the best estimate is determined by the calculation of various possible outcomes and related probabilities.

At the balance sheet date, the book value of estimated liabilities should be rechecked, if there is conclusive evidence indicates that this book value cannot truly reflect the current best estimate, and then the book value should be adjusted in accordance with the current best estimate.

## 22. Revenue

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

No

### 1. Sales of goods

The Company shall ascertain the revenue incurred by selling goods in accordance with the received or receivable price stipulated in the contract or agreement signed between the enterprise and the buyer unless the following conditions are met simultaneously: ① the significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise; ② the enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; ③ the relevant amount of revenue can be measured in a reliable way; ④ relevant economic benefits may flow into the enterprise and ⑤ the relevant costs incurred or to be incurred can be measured in a reliable way.

Money collection for the contract or agreement use the mode of deferred, actually has the financing features. The revenue of commodity sales is recognized by the fair value of the money receivable on contract or agreement.

### 2. Labor service providing

If an enterprise can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method. The enterprise can ascertain the schedule of completion (percentage-of-completion) under the transaction concerning the providing of labor services based on calculation of completed works.

If an enterprise cannot, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor service in a reliable way, it shall be conducted in accordance with the following circumstances, respectively: ① if the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; ② if the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

### 3. Transition of asset use right

When economic benefits relating to transition of asset use right is likely to inflow into the Company and the relevant income can be measured reliably, the Company shall recognize such income from transition of asset use right.

The Company's specific income recognition method: it is recognized as income when the product has been sent out and signed for receipt by the other party for domestic sales; it is recognized as income when the product has been shipped and its customs procedures have been completed with the relevant declaration documents for export sales. Income from house leases and property management is recognized according to the lease contract agreement, receipt of relevant payments, or relevant collection proof.

## 23. Government subsidy

### (1) Determination basis and accounting treatment for government grants related to assets

Government grant obtained by the Company for the purpose of constructing or otherwise forming long term assets is recognized as government grant related to assets. The specific projects for which the government documents have specified the subsidies should be divided according to the relative proportion of the amount paid for forming assets and the amount paid included in costs in the budgeting of the specific project, and the dividing ratio needs to be rechecked on each balance sheet date, and be changed if necessary. Government grants related to assets that were received before January 1, 2017 are recognized as deferred income, the useful life of underlying assets is included in the current profit or loss by reasonable and systematic methods, and those received on and after January 1, 2017 are recognized as deferred income. The amount recognized as deferred income shall be included in the current profit and loss in a reasonable and systematic way within the useful life of the relevant assets. Those related to the daily activities of the Company are included in other income, and those not related to the daily activities of the Company are included in non-operating income.

Government grants measured on the basis of nominal amounts are directly included in the current profit or loss.

### (2) Determination basis and accounting treatment for government grants related to income

The government documents only make general statements on the use, and those not specified as special items are regarded as government grants related to income.

Government grants related to income are treated in the following situations respectively: those used to compensate the related expenses or losses of the enterprise in the subsequent period shall be recognized as deferred income and shall be included in the current profit or loss during the period of confirming related expenses. Those used to compensate the occurred related expenses or losses of the enterprise shall be directly included in the current profit and loss. When being included in the current profits and losses, the government grants related to the Company's daily activities are included in other income; government grants that are not related to the Company's daily activities are included in non-operating income.



## 24. Deferred income tax asset / deferred income tax liability

1. Where there is difference between the carrying amount of the assets or liabilities and its tax base, (as for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the tax base shall be recognized as the difference) the deferred income tax and deferred income tax liabilities shall be determined according to the applicable tax rate in period of assets expected to recover or liability expected to pay off.
2. The deferred income tax assets shall be recognized to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. On balance sheet date, if there have concrete evidence of obtaining, in future period, enough taxable amounts to deduct the deductible temporary difference, the un-confirmed deferred income tax assets in previous accounting period shall be recognized. If there has no enough taxable amounts, obtained in future period, to deduct the deferred income tax assets, book value of the deferred income tax assets shall be kept in decreased.
3. The taxable temporary differences related to the investments of subsidiary companies and associated enterprises shall be recognized as deferred income tax liability, unless the Company can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the expected future. As for the deductible temporary difference related to the investment of the subsidiary companies and associated enterprises, deferred income tax assets shall be recognized while the temporary differences are likely to be reversed in the expected future and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

## 25. Leasing

### (1) Accounting treatment for operating lease

Accounting treatment for operating lease: Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period.

### (2) Accounting treatment for finance lease

Accounting treatment for finance lease: At the commencement of the lease term, the Group records the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognized finance charge, using the effective interest method amortization during the lease term. Minimum lease payments deducting unrecognized financing charges are listed as long-term payables.

## 26. Other important accounting policy and estimation

The company does not disclose other important accounting policies and accounting estimates.

## 27. Changes in important accounting policies and estimates

### (1) Changes in important accounting policies

√ Applicable    □ Not applicable

Content and reason of changes in accounting policies	Approval procedure	Note

### (2) Changes in important accounting estimates

√ Applicable    □ Not applicable

Contents and reasons of changes in accounting estimates	Approval procedure	Time for application	Notes

## VI. Taxes

### 1. Major tax and tax rate

Taxes	Taxation basis	Tax rate
VAT	Domestic sales revenue	17%, 6%, 5%, 3%
Urban maintenance and construction tax	Transfer tax payable	7%
Corporate income tax	Taxable income	15, 25%
Business tax	Taxable income	5%
Educational surtax	Transfer tax payable	3%
Local educational surtax	Transfer tax payable	2%, 1.5%
Property tax	70% of original value of the property	1.2%

Explain the different taxation entity of the enterprise income tax

Taxation entity	Income tax rate
Shenzhen Zhongheng Huafa Co., Ltd.	25%
Wuhan Hengfa Technology Co. Ltd.	15%

### 2. Tax preferences

According to the “Measures for the Determination of High-tech Enterprises”, and through the enterprise application, expert review, and public announcement and other procedures, the Company’s wholly-owned subsidiary, Wuhan Hengfa Technology Co., Ltd., has been identified as a high-tech enterprise, and obtained the “High-tech Enterprise Certificate” jointly issued by the Science and Technology Department of Hubei Province, Hubei Provincial Finance Department, Hubei Provincial Office, SAT, and Local Taxation Bureau of Hubei Province on November 28, 2017, the certificate number is GR201742001840, which is valid for 3 years. The

applicable corporate income tax rate of the subsidiary Wuhan Hengfa Technology Co., Ltd. for 2017 was 15%.

## VII. Notes to main items in consolidated financial statement

### 1. Monetary fund

In RMB

Item	Closing balance	Opening balance
Cash on hand	170,053.77	235,039.12
Bank deposit	66,070,891.82	91,075,765.36
Other monetary fund	2,571,550.38	2,021,905.33
Total	68,812,495.97	93,332,709.81

Other explanation

Other monetary funds are bank acceptance deposits.

### 2. Note receivable

#### (1) Category

In RMB

Item	Closing balance	Opening balance
Bank acceptance bill	37,676,025.26	30,321,803.17
Commercial acceptance bill	27,102,241.39	22,341,297.72
Total	64,778,266.65	52,663,100.89

#### (2) Note receivable pledged at period-end

In RMB

Item	Amount pledged
Bank acceptance bill	15,738,970.85
Total	15,738,970.85

#### (3) Note receivable which have endorsed and discount at period-end and has not expired on balance sheet date

In RMB

Item	De-recognition amount at period-end	Un de-recognition amount at period-end
Bank acceptance bill	43,511,682.25	
Commercial acceptance bill	36,173,534.80	

Total	79,685,217.05
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### 3. Account receivable

#### (1) Category of account receivable

In RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Accrual ratio		Amount	Proportion	Amount	Accrual ratio	
Account receivable with single significant amount and withdrawal bad debt provision separately	7,556,363.72	4.67%	7,556,363.72	100.00%		7,649,789.11	5.00%	7,649,789.11	100.00%	
Account receivable with bad debt provision accrual by portfolio	148,804,350.34	91.88%	8,352.08	0.01%	148,795,998.26	139,832,638.85	91.36%	24,580.65	0.02%	139,808,058.20
Accounts with single significant amount and bad debts provision accrued individually	5,592,838.19	3.45%	5,592,838.19	100.00%		5,576,978.19	3.64%	5,576,978.19	100.00%	
Total	161,953,552.25	100.00%	13,157,553.99		148,795,998.26	153,059,406.15	100.00%	13,251,347.95		139,808,058.20

Account receivable with major single amount and withdrawal bad debt provision single at period-end:

√ Applicable    □ Not applicable

In RMB

Account receivable (by units)	Closing balance			
	Account receivable	Bad debt reserve	Accrual ratio	Reasons
TCL ACE ELECTRIC APPLIANCE (HUIZHOU) CO., LTD.	1,870,887.18	1,870,887.18	100.00%	Un-recyclable
SKYWORTH Multimedia (Shenzhen) Co., Ltd.	1,325,431.75	1,325,431.75	100.00%	Un-recyclable
Hongkong Haowei	1,225,326.15	1,225,326.15	100.00%	Un-recyclable

Industry Co. Ltd.				
Qingdao Haier Parts Procurement Co., Ltd.	579,343.89	579,343.89	100.00%	Un-recyclable
Shenzhen Portman Bowling Club Co., Ltd.	2,555,374.75	2,555,374.75	100.00%	Un-recyclable
Total	7,556,363.72	7,556,363.72	--	--

Account receivable with bad debt provision withdrawal by method of account age in portfolio:

Applicable  Not applicable

In RMB

Account age	Closing balance		
	Account receivable	Bad debt provision	Accrual ratio
Sub-item of within one year			
Subtotal of within one year	148,639,591.75		
1-2 year	162,475.62	8,123.78	5.00%
2-3 year	2,282.97	228.30	10.00%
Total	148,804,350.34	8,352.08	

Explanation on portfolio basis:

Withdrawing bad bed provision by percentage of total accounts receivable outstanding in portfolio:

Applicable  Not applicable

Withdrawing bad bed provision by other methods in portfolio:

Accounts with single significant amount and bad debts provision accrued individually at period-end

Debtor	Book balance	Bad debt	Accrual ratio (%)	Reasons
Shenzhen Huixin Video Technology Co., Ltd.	381,168.96	381,168.96	100	Uncollectible
Shenzhen Wandelai Digital Technology Co., Ltd.	351,813.70	351,813.70	100	Uncollectible
Shenzhen Dalong Electronic Co., Ltd.	344,700.00	344,700.00	100	Uncollectible
Shenzhen Keya Electronic Co., Ltd.	332,337.76	332,337.76	100	Uncollectible
Shenzhen Qunping Electronic Co., Ltd.	304,542.95	304,542.95	100	Uncollectible
China Galaxy Electronics (Hong Kong) Co., Ltd.	288,261.17	288,261.17	100	Uncollectible
Dongguan Weite Electronic Co., Ltd.	274,399.80	274,399.80	100	Uncollectible
Chuangjing	247,811.87	247,811.87	100	Uncollectible
Hong Kong New Century Electronics Co., Ltd.	207,409.40	207,409.40	100	Uncollectible
Shenyang Beitai Electronic Co., Ltd.	203,304.02	203,304.02	100	Uncollectible
Beijing Xinfang Weiye Technology Co.,	193,000.00	193,000.00	100	Uncollectible

Ltd.				
TCL Electronics (Hong Kong) Co., Ltd.	145,087.14	145,087.14	100	Uncollectible
Huizhou TCL Xinte Electronics Co., Ltd.	142,707.14	142,707.14	100	Uncollectible
SkyWorth – RGB Electronic Co., Ltd.	133,485.83	133,485.83	100	Uncollectible
Other	2,042,808.45	2,042,808.45	100	Uncollectible
Total	5,318,438.39	5,592,838.19		

## (2) Bad debt provision accrual, switch-back or taken back in the period

Bad debt provision accrual was 15,860.00 Yuan; the amount collected or switches back amounting to 109,653.96 Yuan.

Including major amount of bad debt provision that switch-back or taken back in the Period:

In RMB

Company	Amount switch back or taken back	Way
SKYWORTH Multimedia (Shenzhen) Co., Ltd.	93,425.39	Bank deposit
Total	93,425.39	--

## (3) Top five receivables collected by arrears party at ending balance

Name	Closing balance	Proportion of total accounts receivable (%)	Reserve balance of bad debts
Qingdao Haier Spare Parts Purchasing Co., Ltd.	57,011,599.00	35.20	1,225,326.15
Hongkong Yutian International Investment Co., Ltd.	44,436,775.47	27.44	
Wuhan Aidemeng Technology Co., Ltd.	10,068,618.43	6.22	
TCL Air-Conditioner Wuhan Co., Ltd.	10,006,057.60	6.18	
TopVictoryInvestmentsLtd	9,876,423.70	6.10	
Total	131,399,474.20	81.13	1,225,326.15

## 4. Prepayments

### (1) Prepayments listed by account age

In RMB

Account age	Closing balance		Opening balance	
	Amount	Proportion	Amount	Proportion
Within one year	937,895.64	90.47%	12,760,284.18	97.59%

1-2 year	3,732.52	9.47%	17,494.85	0.13%
2-3 year	1,699.85	0.06%	297,942.90	2.28%
Total	943,328.01	--	13,075,721.93	--

Explanation on prepayments with over one year in age and reasons of un-settle:

None

Other explanation:

None

## 5. Other account receivable

### (1) Category of other account receivable

In RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Accrual ratio		Amount	Proportion	Amount	Accrual ratio	
Other account receivable with single significant amount and withdrawal bad debt provision separately	6,722,602.71	34.28%	6,722,602.71	91.29%	641,266.64	7,572,254.02	41.36%	6,042,827.38	79.80%	1,529,426.64
Other account receivable with bad debt provision accrual by portfolio	4,528,823.44	23.09%	193,093.72	5.07%	3,615,664.68	2,384,045.02	13.02%	57,893.17	2.43%	2,326,151.85
Other account receivable with single minor amount but withdrawal single item bad debt provision	8,359,643.58	42.63%	8,359,643.58	99.07%	78,798.40	8,351,898.56	45.62%	8,273,100.16	99.06%	78,798.40
Total	19,611,069.73	100.00%	15,275,340.01		4,335,729.72	18,308,197.60	100.00%	14,373,820.71		3,934,376.89

Other account receivable with major single amount and withdrawal bad debt provision single at period-end:

Applicable  Not applicable

In RMB

Other account receivable (units)	Closing balance			
	Other account receivable	Bad debt provision	Accrual ratio	Accrual reason

Portman	4,021,734.22	4,021,734.22	100.00%	Un-recyclable
Shenzhen Jifang Investment Co., Ltd.	1,071,160.00	1,071,160.00	100.00%	Un-recyclable
Traffic accident compensation	555,785.81	555,785.81	100.00%	Un-recyclable
Zhao Baomin	553,901.68	553,901.68	100.00%	Un-recyclable
Hebei Botou Court	520,021.00	520,021.00	100.00%	Un-recyclable
Total	6,722,602.71	6,722,602.71	--	--

Other account receivable with bad debt provision withdrawal by method of account age in portfolio:

Applicable  Not applicable

In RMB

Account age	Closing balance		
	Other account receivable	Bad debt provision	Accrual ratio
Sub-item of within one year			
A combination of bad debts	720,065.04		
Subtotal of within one year	633,884.00		
1-2 year	3,037,474.40	151,873.72	5.00%
2-3 year			10.00%
Over three years	137,400.00	41,220.00	30.00%
Total	4,528,823.44	193,093.72	

Explanation on portfolio basis:

Withdrawing bad bed provision by percentage of total other accounts receivable outstanding in portfolio

Applicable  Not applicable

Withdrawing bad bed provision by other methods in portfolio:

Applicable  Not applicable

Other account receivable with single minor amount but withdrawal single item bad debt provision at period-end

Debtor	Book balance	Bad debt	Accrual ratio (%)	Reasons
Electricity fee in Gongming canteen	489,214.70	489,214.70	100.00	Uncollectible
Jiantao (Fogang) Laminates Co., Ltd.	465,528.10	465,528.10	100.00	Uncollectible
Labor union	332,402.55	332,402.55	100.00	Uncollectible
Lu Wei	290,000.00	290,000.00	100.00	Uncollectible
4/F hotle Daiqiangbo	194,569.00	194,569.00	100.00	Uncollectible
Chuangjing	192,794.00	192,794.00	100.00	Uncollectible
Shenzhen Mingli Co., Ltd.	170,394.84	170,394.84	100.00	Uncollectible
Other units	6,224,740.39	6,224,740.39	100.00	Uncollectible
Total	8,359,643.58	8,359,643.58	—	—



**(2) Bad debt provision accrual, switch-back or taken back in reporting period**

Bad debt provision accrual was 901,519.30 Yuan; the amount collected or switches back amounting to 0.00 Yuan.

Including major amount of bad debt provision that switch-back or taken back in the Period:

In RMB

Company	Amount switch-back or taken back	Way
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**(3) Classify according to nature**

In RMB

Nature	Ending book balance	Opening book balance
Margin and deposit	1,793,485.04	1,793,485.04
Borrow money	2,190,666.85	2,719,549.04
Intercourse funds	9,081,233.88	7,503,053.91
Rent receivable	5,857,777.46	6,195,824.01
Other	687,906.50	96,285.60
Total	19,611,069.73	18,308,197.60

**(4) Top 5 other receivables collected by arrears party at ending balance**

In RMB

Company	Nature	Ending balance	Account age	Proportion in total other receivables at year-end	Ending balance of bad debt provision
Portman	Lease receivable	4,021,734.22	Over three years	22.84%	4,021,734.22
Shenzhen Jifang Investment Co., Ltd.	Lease receivable	1,071,160.00	1-2 year	6.08%	1,071,160.00
Fujian Jielian Electronic Co., Ltd.	Deposit	800,000.00	Within 1 year	4.54%	
Wuwu Branch of Shenzhen Dachong Industrial Co., Ltd.	Deposit	641,266.64	2-3 year	3.64%	
Traffic accident compensation	Other	555,785.81	Over three years	3.16%	555,785.81
Total	--	7,089,946.67	--	40.26%	5,648,680.03

**6. Inventory**

Whether the company needs to comply with the disclosure requirements of the real estate industry

No

**(1) Category of inventory**

In RMB

Item	Closing balance			Opening balance		
	Book balance	Provision for price fall-down	Book value	Book balance	Provision for price fall-down	Book value
Raw materials	29,640,518.78	937,858.86	28,702,659.92	29,871,068.31	1,089,943.56	28,781,124.75
Goods in process	119,575.09		119,575.09			
Inventory goods	29,291,605.18	1,660,379.81	27,631,225.37	15,940,570.96	914,927.55	15,025,643.41
Homemade semi-finished products	3,433,461.82	1,444.25	3,432,017.57	2,757,682.20	41,816.29	2,715,865.91
Low priced and easily worn articles	587,236.21	85,692.51	501,543.70	404,377.39	24,626.66	379,750.73
<b>Total</b>	<b>63,072,397.08</b>	<b>2,685,375.43</b>	<b>60,387,021.65</b>	<b>48,973,698.86</b>	<b>2,071,314.06</b>	<b>46,902,384.80</b>

Does the Company comply with the disclosure requirement of “Information Disclosure Guidelines of Shenzhen Stock Exchange No.4 – Listed Companies Engaged in Seed Industry and Planting Business” or not

No

**(2) Provision for price fall-down**

In RMB

Items	Opening balance	Current increased		Current decreased		Closing balance
		Accrual	Other	Switch back or Written-off	Other	
Raw materials	1,089,943.56	434,503.93		586,588.63		937,858.86
Inventory goods	914,927.55	1,304,232.69		558,780.43		1,660,379.81
Homemade semi-finished products	41,816.29	1,444.25		41,816.29		1,444.25
Low priced and easily worn articles	24,626.66	69,485.78		8,419.93		85,692.51
<b>Total</b>	<b>2,071,314.06</b>	<b>1,809,666.65</b>		<b>1,195,605.28</b>		<b>2,685,375.43</b>

Inventory depreciation combining with sluggishness and inventory age was accrued based on the net realizable value, some raw material prices went up and down, and some low-value consumables were recycled.

**(3) Explanation on capitalization of borrowing costs in ending balance of inventory****(4) Assets completed without settle resulted by construction contract at period-end**

In RMB

Item	Amount
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Other explanation:

**7. Non-current assets due within one year**

In RMB

Item	Closing balance	Opening balance
Decoration fee		12,191.49
Total		12,191.49

Other explanation:

**8. Other current assets**

In RMB

Item	Closing balance	Opening balance
Value-added tax to be deducted	9,996.21	
Advance payment of income tax	42,314.30	
Total	52,310.51	

Other explanation:

Nil

**9. Investment real estate****(1) Investment real estate measured at cost**

√ Applicable    □ Not applicable

In RMB

Item	House and building	Land use right	Construction in process	Total
I. Original book value				
1. Opening balance	133,661,686.94			133,661,686.94
2. Current increased				
(1) outsourcing				
(2) inventory\fixed assets\construction in				

process transfer-in				
(3) increased by combination				
3.Current decreased				
(1) disposal				
(2) other transfer-out				
4.Closing balance	133,661,686.94			133,661,686.94
II. Accumulated depreciation and accumulated amortization				
1.Opening balance	79,516,461.92			79,516,461.92
2.Current increased	1,734,266.40			1,734,266.40
(1) accrual or amortization	1,734,266.40			1,734,266.40
3.Current decreased				
(1) disposal				
(2) other transfer-out				
4.Closing balance	81,250,728.32			81,250,728.32
III. Depreciation reserves				
1.Opening balance				
2.Current increased				
(1) accrual				
3. Current decreased				
(1) disposal				
(2) other transfer-out				
4.Closing balance				

IV. Book value				
1. Ending Book value	52,410,958.62			52,410,958.62
2. Opening Book value	54,145,225.02			54,145,225.02

## (2) Investment real estate measure on fair value

Applicable  Not applicable

## 10. Fixed assets

### (1) Fixed assets

In RMB

Items	House and building	Machine equipment	Transportation equipment	Office equipment	Instrument equipment	Tool equipment	Mold equipment	Total
I. Original book value:								
1. Opening balance	65,608,798.85	77,069,199.69	5,213,153.64	6,900,942.25	2,755,661.49	4,384,205.71	12,606,833.39	174,538,795.02
2. Current increased		6,656,731.60	1,440,927.36	90,551.41	296,264.95	1,134,912.22	2,269,572.50	11,888,960.04
(1) purchasing		6,656,731.60	1,440,927.36	90,551.41	296,264.95	1,134,912.22	2,269,572.50	11,888,960.04
(2) construction in progress transfer-in								
(3) increased by combination								
3. Current decreased		3,567,206.46	222,226.00	10,029.81		51,121.45		3,850,583.72
(1) disposal or scrapping		3,567,206.46	222,226.00	10,029.81		51,121.45		3,850,583.72
4. Closing	65,608,798.8	80,158,724.8	6,431,855.00	6,981,463.85	3,051,926.44	5,467,996.48	14,876,405.8	182,577,171.

balance	5	3					9	34
II. Accumulativ e depreciation								
1.Opening balance	12,890,366.5 6	57,558,303.0 3	3,162,640.76	5,197,749.19	2,426,117.30	2,566,496.57	9,192,414.59	92,994,088.0 0
2.Current increased	1,953,603.12	4,185,128.76	585,278.77	295,829.04	70,786.08	568,510.06	1,582,869.80	9,242,005.63
(1) accrual	1,953,603.12	4,185,128.76	585,278.77	295,829.04	70,786.08	568,510.06	1,582,869.80	9,242,005.63
3.Current decreased		3,063,586.19	179,753.40	9,026.83		26,398.26		3,278,764.68
(1) disposal or scrapping		3,063,586.19	179,753.40	9,026.83		26,398.26		3,278,764.68
4.Closing balance	14,843,969.6 8	58,679,845.6 0	3,568,166.13	5,484,551.40	2,496,903.38	3,108,608.37	10,775,284.3 9	98,957,328.9 5
III. Depreciation reserves								
1.Opening balance								
2.Current increased								
(1) accrual								
3.Current decreased								
(1) disposal or scrapping								
4.Closing balance								
IV. Book value								
1. Ending Book value	50,764,829.1 7	21,478,879.2 3	2,863,688.87	1,496,912.45	555,023.06	2,359,388.11	4,101,121.50	83,619,842.3 9

2. Opening Book value	52,718,432.29	19,510,896.66	2,050,512.88	1,703,193.06	329,544.19	1,817,709.14	3,414,418.80	81,544,707.02
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## (2) Fixed assets leasing-out by operational lease

In RMB

Item	Ending book value
House and building	905,391.76
	905,391.76

## 11. Construction in progress

### (1) Construction in progress

In RMB

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Transformation project of Huafa Building	654,356.00		654,356.00	654,356.00		654,356.00
Total	654,356.00		654,356.00	654,356.00		654,356.00

## 12. Disposal of fixed assets

In RMB

Item	Closing balance	Opening balance
Gongming Huafa Electronic City	92,857,471.69	92,857,471.69
Total	92,857,471.69	92,857,471.69

Other explanation:

Urban reconstruction in Gongming

## 14. Intangible assets

### (1) Intangible assets

In RMB

Item	Land use right	Patent right	Non-patented technology	Computer software	Total
I. Original book					

value					
1. Opening balance	55,187,826.36			661,878.97	55,849,705.33
2. Current increased					
(1) purchasing					
(2) internal R&D					
(3) increased by combination					
3. Current decreased	98,052.00				98,052.00
(1) disposal	98,052.00				98,052.00
4. Closing balance	55,089,774.36			661,878.97	55,751,653.33
II. Accumulated amortization					
1. Opening balance	10,569,435.45			402,174.11	10,971,609.56
2. Current increased	1,443,964.11			49,885.92	1,493,850.03
(1) accrual	1,443,964.11			49,885.92	1,493,850.03
3. Current decreased	21,122.63				21,122.63
(1) disposal	21,122.63				21,122.63
4. Closing balance	11,992,276.93			452,060.03	12,444,336.96
III. Depreciation reserves					
1. Opening balance					
2. Current increased					



(1) accrual					
3.Current decreased					
(1) disposal					
4.Closing balance					
IV. Book value					
1. Ending Book value	43,097,497.43			209,818.94	43,307,316.37
2. Opening Book value	44,618,390.91			259,704.86	44,878,095.77

The proportion of intangible assets form by internal R&D in total book value of intangible assets at period-end

#### 14. Long-term deferred expenditure

In RMB

Item	Opening balance	Current increased	Amortized in Period	Other decreased	Closing balance
Golf membership fee	191,666.59		50,000.04		141,666.55
Total	191,666.59		50,000.04		141,666.55

Other explanation

#### 15. Deferred income tax asset /deferred income tax liability

##### (1) Deferred income tax assets un-offset

In RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax asset	Deductible temporary differences	Deferred income tax asset
Provision for impairment of assets	27,849,536.92	6,690,066.24	26,543,004.31	6,635,751.08
Estimated liabilities	64,411.00	16,102.75	2,604,411.81	651,102.95
Other			4,754,489.08	1,188,622.27
Total	27,913,947.92	6,706,168.99	33,901,905.20	8,475,476.30

**(2) Amount of deferred income tax asset and deferred income tax liability after trade-off**

In RMB

Item	Trade-off between the deferred income tax assets and liabilities	Ending balance of deferred income tax assets or liabilities after off-set	Trade-off between the deferred income tax assets and liabilities at period-begin	Opening balance of deferred income tax assets or liabilities after off-set
Deferred income tax asset		6,731,168.99		8,475,476.30

**(3) Deferred income tax asset without confirmed**

In RMB

Item	Closing balance	Opening balance
Deductible temporary difference	3,172,018.51	3,153,478.41
Deductible loss	525,348.33	1,006,234.22
Total	3,697,366.84	4,159,712.63

**(4) Deductible losses of deferred income tax asset without confirmed will expired in later year**

In RMB

Year	Closing amount	Opening amount	Note
2017		480,885.89	
2018	525,348.33	525,348.33	
Total	525,348.33	1,006,234.22	--

Other explanation:

Nil

**16. Short-term borrowing****(1) Category of short-term borrowing**

In RMB

Item	Closing balance	Opening balance
Loan in pledge	8,500,000.00	6,500,000.00
Mortgage borrowing	100,000,000.00	100,000,000.00
Guaranteed loan	20,000,000.00	20,000,000.00
Portfolio loans with mortgage guarantee	38,120,264.81	54,710,467.81
Total	166,620,264.81	181,210,467.81

Explanation on category of short-term borrowing:

Nil

## 17. Note payable

In RMB

Category	Closing balance	Opening balance
Bank acceptance bill	17,810,270.28	16,714,584.01
Total	17,810,270.28	16,714,584.01

Totally 0 Yuan due note payable are paid at period-end

## 18. Account payable

### (1) Account payable

In RMB

Item	Closing balance	Opening balance
Within one year (one year included)	71,817,382.90	61,929,564.68
Over 1 year	12,187,487.83	11,784,860.09
Total	84,004,870.73	73,714,424.77

### (2) Major account payable over one year

In RMB

Item	Closing balance	Reasons of un-paid or carry-over
Shenzhen Yuehai Global Logistics Co., Ltd.	2,858,885.97	Unsettled
LG	1,906,267.50	Unsettled
Dongjin Electronics (Nanjing) Plasma Co., Ltd.	617,963.45	Unsettled
Total	5,383,116.92	--

Other explanation:

Nil

## 19. Account received in advance

### (1) Account received in advance

In RMB

Item	Closing balance	Opening balance
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Within one year (one year included)	234,017.18	1,067.00
Over 1 year	44,111.00	47,779.60
Total	278,128.18	48,846.60

## 20. Salary payable

### (1) Salary payable

In RMB

Item	Opening balance	Increase during the period	Decrease during this period	Closing balance
I. Short-term compensation	4,547,625.04	66,161,797.50	65,620,970.79	5,088,451.75
II. Post-employment welfare- defined contribution plans	-5,093.82	4,639,594.05	4,639,594.05	-5,093.82
III. Dismiss welfare		296,106.68	296,106.68	
Total	4,542,531.22	71,097,498.23	70,556,671.52	5,083,357.93

### (2) Short-term compensation

In RMB

Item	Opening balance	Increase during the period	Decrease during this period	Closing balance
1. Wages, bonuses, allowances and subsidies	3,542,662.41	58,299,582.57	57,802,934.79	4,039,310.19
2. Welfare for workers and staff		5,162,936.06	5,135,827.06	27,109.00
3. Social insurance	23,041.98	2,059,937.27	2,059,937.27	23,041.98
Including: Medical insurance	23,041.98	1,720,922.00	1,720,922.00	23,041.98
Work injury insurance		191,453.81	191,453.81	
Maternity insurance		147,561.46	147,561.46	
4. Housing accumulation fund	24,310.00	468,303.32	468,303.32	24,310.00
5. Labor union expenditure and personnel education	957,610.65	171,038.28	153,968.35	974,680.58

expense				
Total	4,547,625.04	66,161,797.50	65,620,970.79	5,088,451.75

**(3) Defined contribution plans**

In RMB

Item	Opening balance	Increase during the period	Decrease during this period	Closing balance
1. Basic endowment insurance	-5,093.82	4,439,964.74	4,439,964.74	-5,093.82
2. Unemployment insurance		199,629.31	199,629.31	
Total	-5,093.82	4,639,594.05	4,639,594.05	-5,093.82

Other explanation:

Nil

**21. Tax payable**

In RMB

Item	Closing balance	Opening balance
Value-added tax	5,473,037.12	5,922,024.47
Enterprise income tax	5,228,514.39	8,460,507.90
Individual income tax	20,213.76	72,577.79
Urban maintenance and construction tax	1,447,509.59	444,600.28
House property tax	743,004.72	763,249.59
Land use tax	324,212.74	324,212.71
Education surcharge	621,129.51	191,311.22
Local education surcharge	322,572.35	101,317.51
Dike fee	1,665.00	1,149.33
Stamp tax	34,988.50	20,009.90
Disposal fund of waste electrical products	919,430.00	467,070.00
Total	15,136,277.68	16,768,030.70

Other explanation:

Nil

**22. Interest payable**

In RMB

Item	Closing balance	Opening balance
Interest of short-term loans payable	164,895.80	123,641.69
Total	164,895.80	123,641.69

Significant overdue and unpaid interest:

In RMB

Loan unit	Overdue amount	Reason for overdue
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Other explanation:

Nil

## 23. Other payable

### (1) Classification of other payable according to nature of account

In RMB

Item	Closing balance	Opening balance
Margin and deposit	6,280,204.22	5,957,390.38
Lease management fee	2,307,901.27	2,003,231.87
Intercourse funds	6,534,652.44	5,330,161.96
After sale and repairmen	2,384,774.18	1,302,101.54
Other	2,419,744.84	2,457,149.41
Total	19,927,276.95	17,050,035.16

### (2) Significant other payable with over one year age

In RMB

Item	Closing balance	Reasons of un-paid or carry-over
Shenzhen SED Property Development Co., Ltd.	1,244,058.55	Unsettled
Shenzhen Huayongxing Environmental Protection Technology Co., Ltd.	1,000,000.00	Deposit
Linghang Technology (Shenzhen) Co., Ltd.	656,345.28	Unsettled
Shenzhen Tongxing Electronics Co., Ltd.	578,259.83	Unsettled
Shenzhen Yongdasheng Investment Development Co., Ltd.	558,970.00	Deposit
Total	4,037,633.66	--

Other explanation

Nil

## 24. Accrued liabilities

In RMB

Item	Closing balance	Opening balance	Causes
Pending action	64,411.00	2,604,411.81	Business and labor disputes
Total	64,411.00	2,604,411.81	--

Other explanations, including important assumptions and estimation about important estimated liabilities:

Note 1: On November 24, 2015, Shenzhen Intermediate People's Court adjudicated the dispute case that Shaanxi Linghua complained about the Company's work contract ((2013) SZFSZZ No. 1491): Shaanxi Linghua should pay the damages for breach of contract of 1,778,081.05 Yuan to the Company within 10 days from the date the adjudication takes effect, Shaanxi Linghua should pay the remaining payment of 869,458.96 Yuan to the Company within 10 days from the date the adjudication takes effect, and compensate for the loss of interest. The Company applied for retrial to Guangdong Higher People's Court. On December 3, 2016, Guangdong Higher People's Court made a ruling on the application ((2016) YMSNo. 3280), and rejected the Company's retrial application. Up to December 31, 2016, the Company accrued the litigation cost of RMB 2,360,203.26 and recognized it as an estimated liability. On July 27, 2017, the Company received the closing notice from the People's Court of Futian District, Shenzhen, Guangdong Province, stating that the Company did not execute its obligations according to the judgments of Civil Judgment (2010) SFFMECZ No. 9 and Civil Judgment (2013) SZFSZZ No. 1491, on July 18, 2017, the court made a mandatory deduction of the amount of RMB 1,012,400.00 from the Company's account at China CITIC Bank, Shenzhen Houhai Sub-branch (7352). At this point, the dispute case between the Company and Adlink was settled.

Note 2: According to the Enforcement Notice ( (2008) SFFZZ No.522-529) of Shenzhen Intermediate People's Court, Shenzhen Labor Dispute Arbitration Commission issued SLZC [2007] No. 1069-1077, No. 1079, No. 1081, and No. 1085-1087 arbitration awards for the labor dispute case of Cai Yaoqiang and other thirteen people, which has taken legal effect. According to the Basic Information Credit Report of Enterprises, the Company has total unexecuted labor dispute subject of RMB 64,411.00, and the Company recognizes it as the estimated liability.

## 25. Share capital

In RMB

	Opening balance	Changes in the Period (+,-)					Closing balance
		Issuing new shares	Bonus shares	Shares transfer from public reserves	Other	Subtotal	
Total shares	283,161,227.00						283,161,227.00

Other explanation:

Ended as 31 December 2016, the shares of the Company held by controlling shareholder has 116,100,000 shares in status of pledge, taking 41% of the total share capital; mortgagee is China Merchants Securities Assets Management Co., Ltd. Shares in judicial freeze amounted as 116,489,894 shares. The mortgage expired on 31

December 2017

**26. Capital surplus**

In RMB

Item	Opening balance	Increase during the period	Decrease during this period	Closing balance
Capital premium (equity premium)	96,501,903.02			96,501,903.02
Other capital surplus	50,085,368.48			50,085,368.48
Total	146,587,271.50			146,587,271.50

Other explanation, including changes and reasons of changes:

Nil

**27. Surplus reserves**

In RMB

Item	Opening balance	Increase during the period	Decrease during this period	Closing balance
Statutory surplus reserves	21,322,617.25			21,322,617.25
Discretionary surplus reserve	56,068,976.00			56,068,976.00
Total	77,391,593.25			77,391,593.25

Other explanation, including changes and reasons for changes:

Nil

**28. Retained profit**

In RMB

Item	This period	Last period
Retained profit at the end of the previous period before adjustment	-187,441,523.12	
Retained profit at period-begin after adjustment	-187,441,523.12	
Add: net profit attributable to owners of the parent company	974,409.39	
Retained profit at period-end	-186,467,113.73	

Details about adjusting the retained profits at the beginning of the period:

- 1) The retroactive adjustments to Accounting Standards for Business Enterprises and its relevant new regulations affect the retained profits at the beginning of the period amounting to 0 Yuan.
- 2) The changes in accounting policies affect the retained profits at the beginning of the period amounting to 0 Yuan.



- 3) The major accounting error correction affects the retained profits at the beginning of the period amounting to 2,530,667.50 Yuan
- 4) Merge scope changes caused by the same control affect the retained profits at the beginning of the period amounting to 0 Yuan.
- 5) Other adjustments affect the retained profits at the beginning of the period amounting to 0 Yuan

## 29. Operating income and cost

In RMB

Item	Current Period		Last Period	
	Income	Cost	Income	Cost
Main business	811,691,458.39	767,897,597.88	570,057,375.54	524,715,312.30
Other business	46,348,674.35	10,311,192.00	49,110,395.20	10,021,300.72
Total	858,040,132.74	778,208,789.88	619,167,770.74	534,736,613.02

## 31. Tax and surcharges

In RMB

Item	Current Period	Last Period
City maintenance and construction tax	1,427,781.18	1,237,422.94
Educational surtax	611,819.05	532,299.17
House property tax	2,699,817.08	2,379,135.20
Land use tax	864,650.63	651,551.53
Vehicle use tax	9,075.62	1,050.62
Stamp tax	515,320.90	314,848.62
Business tax		705,358.40
Local education development fee	319,456.43	315,891.10
Total	6,447,920.89	6,137,557.58

Other explanation:

Nil

## 31. Sales expenses

In RMB

Item	Current Period	Last Period
Employee compensation	4,984,220.26	3,961,051.20
Transportation fee	4,707,497.34	3,734,511.93
Commodity inspection fee	1,016,453.60	835,099.19
Customs fee	71,162.46	73,375.06

Commodity loss	1,270,308.03	577,556.46
After sales service fee	3,184,997.76	1,750,857.26
Entertainment expense	183,187.97	134,299.80
Other	498,666.45	348,519.92
<b>Total</b>	<b>15,916,493.87</b>	<b>11,415,270.82</b>

Other explanation:

Nil

### 32. Administrative expenses

In RMB

Item	Current Period	Last Period
Salary	9,181,074.76	10,789,526.57
Depreciation charge	2,005,410.35	2,727,784.79
Social insurance premium	3,063,807.83	6,752,570.66
Business entertainment expenses	2,164,825.72	2,789,553.98
Taxes and surcharges		1,053,920.89
Employee benefits	2,282,050.50	1,582,132.90
Travel expenses	3,182,447.37	3,242,531.84
Amortization of intangible assets	1,472,727.40	1,494,294.72
Transportation fee	1,234,314.61	1,564,024.45
Consulting fee	4,178,432.28	5,469,220.77
Security fee	1,909,696.23	1,213,334.31
Repairs fee	2,434,021.55	1,380,527.36
Audit fee	967,918.64	734,235.85
Office allowance	1,472,390.85	2,282,069.51
Communication fee	294,064.24	364,141.24
Amortization of low cost and short lived articles	391,757.33	540,722.73
Securities information disclosure fee	646,641.60	404,595.80
Litigation fee	487,564.11	460,211.00
Lease fee	4,416,416.15	4,499,772.41
Staff education and labor union expenditure	113,009.17	100,664.53
Water and electricity fee	476,436.91	101,827.25
Other expenses	408,103.93	713,832.04

Total	42,783,111.53	50,261,495.60
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Other explanation:

Nil

### 33. Financial expenses

In RMB

Item	Current Period	Last Period
Interest costs	10,849,008.00	9,256,353.17
Less: interest income	1,682,070.72	865,609.05
Exchange loss	4,516,307.95	2,967,605.72
Less: exchange gains	5,205,454.35	8,734,892.51
Handing expense	498,775.07	427,320.01
Asset management fee		1,960,000.00
Other expense	2,520.00	2,120.00
Total	8,979,085.95	5,012,897.34

Other explanation:

Nil

### 34. Losses on assets impairment

In RMB

Item	Current Period	Last Period
I. Bad debt losses	807,725.34	3,370,059.54
II. Inventory falling price loss	614,061.37	176,877.32
Total	1,421,786.71	3,546,936.86

Other explanation:

Nil

### 35. Gains on investment

In RMB

Item	Current Period	Last Period
Investment income generated by financial products	372,245.91	333,974.06
Total	372,245.91	333,974.06

Other explanation:

**36. Asset disposal income**

In RMB

Source of asset disposal income	Current Period	Last Period
Disposal gains or losses arising from the disposal of not held for sale fixed assets \ construction in progress \ productive biological assets \ intangible assets	199,069.56	82,132.08
	199,069.56	82,132.08

**37. Other income**

In RMB

Source of other income	Current Period	Last Period
Stabilization subsidy	161,420.00	

**38. Non-operating income**

In RMB

Item	Current Period	Last Period	Amount reckoned in current non-recurring gains/losses
Receive donations	51,500.00	4,000.00	51,500.00
Government subsidy	1,013,769.68	1,419,888.89	1,013,769.68
Unable to pay	139,368.16	379,187.99	139,368.16
Penalty revenue	1,670,673.90	3,526,305.00	1,670,673.90
Fine income	77,471.33	81,319.60	77,471.33
Other	19,173.00		19,173.00
Total	3,476,152.23	5,533,431.78	2,971,956.07

Government subsidy reckoned into current gains/losses:

In RMB

Item	Issuing subject	Offering causes	Nature	Subsidy impact current gains/losses (Y/N)	The special subsidy (Y/N)	Amount in the Period	Amount in last period	Assets-related/income-related
Export bonus	Commercial Bureau of Caidian District,	Reward	Subsidy obtained for conforms with the local	No	Yes	50,000.00	20,000.00	Income-related

	Wuhan		support policy for investment incentive to encourage investment					
Stabilization subsidy	Human Resources & Social Security Bureau of Caidian District, Wuhan	Reward	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes		183,500.00	Income-related
Reward for excellent private enterprise in Caidian District for year of 2016	Commercial Bureau of Caidian District, Wuhan	Reward	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes	200,000.00		Income-related
Development & promotion funds for processing trade of Midwest for year of 2016	Commercial Bureau of Caidian District, Wuhan	Reward	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes	270,000.00		Income-related
Enterprise development subsidy	Economic & Information Bureau of Caidian District, Wuhan	Subsidy	Subsidy obtained for conforms with the local support policy for investment	No	Yes		100,000.00	Income-related

			incentive to encourage investment					
Excellent enterprise award for year of 2016	Caidian Bureau of Finance, Wuhan	Reward	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes	200,000.00	200,000.00	Income-related
Enterprise development fund (manufacturing project of home appliance parts )	Caidian Bureau of Finance, Wuhan	Subsidy	Subsidy for research and development, technical reforming and reconstruction	No	Yes	293,769.68	863,469.00	Income-related
Water conservation subsidy	Office of Water Conservation of Wuhan	Reward	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes		10,000.00	Income-related
Maternity insurance benefits	Shenzhen Municipal Bureau of Human Resources & Social Security	Subsidy	Subsidy obtained for conforms with the local support policy for investment incentive to encourage investment	No	Yes		42,919.89	Income-related
Total	--	--	--	--	--	1,013,769.68	1,419,888.89	--

Other explanation:

Nil

**39. Non-operating expenditure**

In RMB

Item	Current Period	Last Period	Amount included in current non-recurring profits or losses
Penalty expenditure	2,985.68	401,518.25	2,985.68
Loss of creditor's rights transfer	5,755,200.00	4,754,489.08	5,755,200.00
Other expenses	545.88	44,787.59	545.88
Total	5,758,731.56	5,200,794.92	

Other explanation:

Nil

**40. Income tax expenses****(1) Statement of income tax expense**

In RMB

Item	Current Period	Last Period
Current income tax expense	1,000,988.22	5,300,506.90
Deferred income tax expense	555,685.04	-2,075,205.01
Total	1,556,673.26	3,225,301.89

**(2) Adjustment on accounting profit and income tax expenses**

In RMB

Item	Current Period
Total profit	2,531,082.65
Income tax based on statutory/applicable rate	442,130.64
Impact by different tax rate applied by subsidies	-461,085.57
Cost, expenses and loss which are not deductible	553,226.30
Impact on deductible temporary differences or losses deductible which was un-recognized as deferred income tax assets	1,022,694.52
Income tax expense	1,556,673.26

Other explanation

Nil

**41. Items of statement of cash flow****(1) Other cash received in relation to operation activities**

In RMB

Item	Current Period	Last Period
Unit intercourse account	5,469,555.18	58,857,368.87
Collection management fee and utilities etc.	430,720.45	887,774.50
Repayment from employees	3,315,558.82	2,519,419.93
Margin, deposit	59,281.50	1,195,207.00
Interest income	211,336.37	198,375.93
Refund	1,764,059.75	1,484,810.16
Claim deduction etc.	905,067.46	70,996.80
Government grants	1,451,189.68	1,419,888.89
Receive grant	15,500.00	4,000.00
Capital occupation fee	0.00	1,838,752.40
Other	185,116.26	
<b>Total</b>	<b>13,807,385.47</b>	<b>68,476,594.48</b>

Explanation on other cash received in relation to operation activities:

Nil

**(2) Other cash paid in relation to operation activities**

In RMB

Item	Current Period	Last Period
Unit intercourse account	2,512,814.07	67,264,966.80
Advances to employees	3,794,266.72	3,149,396.42
Litigation fee	2,215,866.00	489,061.00
Margin, deposit	1,167,554.00	1,665,134.00
Entertainment expense	2,769,800.23	2,974,661.79
Water and electricity	370,312.12	101,827.25
Travel expenses	3,287,308.11	3,356,481.54
Transportation fee	5,008,475.05	3,918,442.17
Transportation fee	1,030,400.36	1,632,669.14
Repairs	3,724,821.24	1,419,253.95
Audit fees, consulting fees	5,258,621.00	9,261,709.50



Security	166,131.50	1,212,962.31
Financial institutions handling fee	517,938.92	426,098.13
Office expenses	668,598.26	2,171,388.26
Communication fee	313,916.50	381,223.14
Lease fee	4,616,957.86	4,507,704.41
Other	971,692.54	1,410,801.99
Refund		1,114,064.48
Asset management fee		1,960,000.00
Commodity inspection fee	977,449.41	812,042.67
After sales service fee	1,698,357.00	1,447,902.00
Fines and indemnities	600,818.52	401,518.25
Securities information disclosure fee	663,685.00	404,595.80
Total	42,335,784.41	111,483,905.00

Explanation on other cash paid in relation to operation activities:

Nil

## 42. Supplementary information to statement of cash flow

### (1) Supplementary information to statement of cash flow

In RMB

Supplementary information	This Period	Last Period
1. Net profit adjusted to cash flow of operation activities:	--	--
Net profit	974,409.39	5,457,710.33
Add: Assets impairment provision	1,421,786.71	3,546,936.86
Depreciation of fixed assets, consumption of oil assets and depreciation of productive biology assets	10,976,272.03	11,051,791.44
Amortization of intangible assets	1,493,850.03	1,494,294.72
Amortization of long-term deferred expenses	62,191.53	70,900.08
Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is listed with "-")	-199,069.56	-101,056.08
Loss from discarding fixed assets as useless (gain is listed with "-")		18,924.00
Financial expenses (gain is listed with "-")	10,910,660.03	11,476,211.74

Investment loss (income is listed with “-”)	-372,245.91	-333,974.06
Decrease of deferred income tax assets (increase is listed with “-”)	1,744,307.31	-2,075,205.01
Decrease of inventory (increase is listed with “-”)	-13,484,636.85	-19,947,136.21
Decrease of operating receivable accounts (increase is listed with “-”)	2,182,974.23	-65,334,769.96
Increase of operating payable accounts (decrease is listed with “-”)	-3,987,244.58	35,982,075.57
Net cash flow arising from operating activities	11,723,254.36	-18,693,296.58
2. Material investment and financing not involved in cash flow:	--	--
3. Net change of cash and cash equivalents:	--	--
Balance of cash at period end	66,240,945.59	91,310,804.48
Less: Balance of cash at period-begin	91,310,804.48	632,846,956.16
Add: Balance of cash equivalent at period-end	15,234,028.71	12,704,508.49
Less: Balance of cash equivalent at period-begin	12,704,508.49	
Net increasing of cash and cash equivalents	-22,540,338.67	-528,831,643.19

**(2) Constitution of cash and cash equivalent:**

In RMB

Item	Closing balance	Opening balance
I . Cash	66,240,945.59	91,310,804.48
Including: Cash on hand	170,053.77	235,039.12
Bank deposit available for payment at any time	66,070,891.82	91,075,765.36
II. Cash equivalent	15,234,028.71	12,704,508.49
Including: bond investment due in three months	15,234,028.71	12,704,508.49
III. Balance of cash and cash equivalent at period-end	81,474,974.30	104,015,312.97

Other explanation:

Monetary fund at year-end-other monetary fund refers to the bank acceptance bond 2,571,550.38 Yuan, which is not belonging to the cash and cash equivalent. At end of the year, among the note receivable due within 3 months, the 8,228,588.14 Yuan are used for pledge, which is not belongs to cash and cash equivalent.

**43. Assets with ownership or use right restricted**

In RMB

Item	Ending book value	Restriction reasons
Monetary Fund	2,571,550.38	Bank acceptance bill
Notes receivable	15,738,970.85	Pledge
Fixed assets	74,643,021.02	Bank loan secured
Intangible assets	43,097,497.43	Bank loan secured
Accounts receivable	8,831,928.89	Pledge
Investment real estate	27,583,299.22	Bank loan secured
Liquidation of fixed assets	92,857,471.69	Court closure
Total	265,323,739.48	--

Other explanation:

Nil

**44. Item of foreign currency****(1) Item of foreign currency**

In RMB

Items	Closing balance of foreign currency	Rate of conversion	Ending RMB balance converted
Including: USD	3,121,823.67	6.5342	20,398,620.22
HKD	32.66	0.8359	27.30
Including: USD	8,312,142.14	6.5342	54,313,199.17
Advance account			
Including: USD	6,885.13	6.5342	44,988.82
Short term loan			
Including: USD	3,538,346.67	6.5342	23,120,264.81

Other explanation:

Nil

**45. Other**

1. The government grants collected in the year amounting as 1,451,189.68 Yuan in total, including 0.00 Yuan government grants with assets concerned, 1,451,189.68 Yuan received in the period; the grants with income concerned amounting as 1,451,189.68 Yuan.
2. Government grants related to income

Item	Amount reckoned into gain/loss (listed by positive number)	Item that reckoned
Stabilization subsidy	161,420.00	Other income
Export bonus	50,000.00	Non operating income
Reward for excellent private enterprise in Caidian District for year of 2016	200,000.00	Non operating income
Development & promotion funds for processing trade of Midwest for year of 2016	270,000.00	Non operating income
Excellent enterprise award for year of 2016	200,000.00	Non operating income
Enterprise development fund (manufacturing project of home appliance parts )	293,769.68	Non operating income
Subsidized loan	258,500.00	Finacial cost reduction
Interest subsidy for liquidity loans from growth enterprise in Wuhan for year of 2016	17,500.00	Finacial cost reduction
Total	1,451,189.68	—

## VIII. Equity in other entity

### 1. Equity in subsidiary

#### (1) Constitute of enterprise group

Subsidiary	Main operation place	Registered place	Business nature	Share-holding ratio		Acquired way
				Directly	Indirectly	
Huafa Leasing Company	Shenzhen	Shenzhen	Property management	60.00%		Investment establishment
Huafa Property Company	Shenzhen	Shenzhen	Property management	100.00%		Investment establishment
Hengfa Technology Company	Wuhan	Wuhan	Production and sales	100.00%		Investment establishment
Hengfa Hengtian Company	Shenzhen	Shenzhen	Property management	100.00%		Investment establishment
Hengfa Hengtai Company	Shenzhen	Shenzhen	Property management	100.00%		Investment establishment

Explanation on share-holding ratio in subsidiary different from ratio of voting right:

Nil

Basis for controlling the invested entity with half or below voting rights held and without controlling invested entity but with over half and over voting rights:

Nil

Controlling basis for the structuring entity included in consolidated range:

Nil

Basis on determining to be an agent or consignor:

Nil

Other explanation:

Nil

## IX. The risk associated with financial instruments

The Group's main financial instruments include loans, receivables, payables, tradable financial assets, trading financial liabilities, etc., please refer to the details of each financial instrument in Note 5. The risks associated with these financial instruments and the risk management policies adopted by the Group to reduce these risks are described below. The management of the Group manages and monitors these risk exposures to ensure that the above risks are controlled within the limits.

### 1. Various risk management objectives and policies

The objective of the Group's risk management is to strike a proper balance between risks and profits, minimize the negative impact of risks on the Group's operating results, and maximize the benefits of shareholders and other equity investors. Based on this risk management objectives, the Group's basic strategy for risk management is to identify and analyze the risks faced by the Group, establish appropriate risk bottom lines and carry out risk management, and timely and reliably monitor the risks control them within the limits.

#### (1) Market risk

The market risk of financial instruments refers to the risk that the fair value or the future cash flows of financial instruments fluctuate due to the changes in market prices, including foreign exchange risk, interest rate risk and other price risk.

#### 1) Exchange rate risk

The Group's exchange rate risk is mainly related to US dollars and Hong Kong dollars. Except the Group's second level subsidiary, Hengfa Technology Company's monitor business has day-to-day operations in US dollars; other principal business activities of the Group settle accounts in RMB. On December 31, 2017, except for the US dollar balance of assets and liabilities in below table and the sporadic Hong Kong dollar balance, the Group's assets and liabilities are all RMB balance. The exchange rate risk arising from the assets and liabilities of the US dollar, Hong Kong dollar balance may have an impact on the Group's operating results.

Item	2017-12-31 (RMB conversion)	2016-12-31 (RMB conversion)
Monetary Fund - USD	20,398,620.23	16,473.78
Monetary Fund - HKD	27.30	29.21
Accounts receivable - USD	54,313,199.17	46,955,995.68
Advance account - USD	44,988.82	8,873,087.08
Accounts payable - USD		1,172,353.00

Short term borrowings	23,120,264.81	34,710,467.81
- USD		

The Company eyes on the influence from variation of exchange

## 2) Interest rate risk

The interest rate risk of the Group arises from bank loans. The financial liabilities of floating interest rate make the Group face cash flow interest rate risk, and the financial liabilities of fixed rate make the Group face the interest rate risk of fair value. The Group determines the relative proportion of fixed rate and floating interest rate contracts based on the prevailing market environment. On December 31, 2017, the Group's interest-bearing debt was mainly the floating interest rate loan contract denominated in Renminbi and US dollars, amounting to RMB 166,620,264.81 (December 31, 2016: RMB 181,210,467.81).

The Group's risk of changes in the cash flow of financial instruments due to changes in interest rates is mainly related to the floating interest rate bank loans. The Group's policy is to maintain the floating interest rate of these loans so as to eliminate the fair value risk of the interest rate changes.

## 3) Price risk

The Group sells monitors and so on at market prices and is therefore affected by such price fluctuations.

## (2) Credit risk

Credit risk refers to the risk that a party of the financial instrument does not fulfill its obligations and causes property loss to another party. On December 31, 2017, the maximum credit risk exposure that may cause financial losses to the Group is mainly attributable to the failure of the other party to fulfill its obligations resulting in the losses of the Group's financial assets and the Group's financial guarantees, including:

The carrying amount of the financial assets recognized in the consolidated balance sheet; for the financial instruments measured at fair value, the book value reflects its risk exposures but not the maximum risk exposure, and its maximum risk exposure changes with the future changes in fair value.

In order to reduce the credit risk, the Group has set up a special department to determine the credit line, carry out the credit approval, and implement other monitoring procedures to take necessary measures to recover the overdue credit. In addition, the Group reviews the recovery of each individual receivable at every balance sheet date to accrue sufficient provision for bad debts of uncollectible funds. As a result, the Group's management believes that the Group's credit risk has been greatly reduced.

The Group's working capital is deposited in banks with higher credit ratings, so the credit risk of working capital is low.

The Group has adopted necessary policies to ensure that all customers have good credit records. In addition to the top five account receivables, the Group has no other significant credit risk.

The total amount of the top five account receivables is RMB 131,399,474.20.

### (3) Liquidity risk

The liquidity risk is the risk that the Group is unable to fulfill its financial obligations on the due date. The Group's approach to manage liquidity risk is to ensure that there is sufficient financial liquidity to fulfill its due debts but not cause unacceptable losses or damages to the corporate reputation. The Group regularly analyzes the structure and duration of liabilities to ensure there are sufficient funds. The management of the Group monitors the use of bank loans and ensures the compliance with loan agreement, and conducts financing consultations with financial institutions in order to maintain a certain line of credit and reduce the liquidity risk.

The financial assets and financial liabilities held by the Group based on the maturity of the undiscounted outstanding contractual obligations are analyzed as follows

Amount on December 31, 2017

Item	Within 1 year	1-2 year	2-3 year	Over 3 year	Total
Financial assets					
Monetary Fund	68,812,495.97				68,812,495.97
Notes receivable	64,778,266.65				64,778,266.65
Accounts receivable	148,639,591.75	154,351.84	2,054.67		148,795,998.26
Other receivables	1,443,680.72	895,869.00		96,180.00	2,435,729.72
Advance account	2,603,895.64	272,532.52	1,699.85		2,878,128.01
Financial liabilities					
Short term borrowings	166,620,264.81				166,620,264.81
Notes payable	17,810,270.28				17,810,270.28
Accounts payable	71,817,382.90	178,286.54	126,368.67	11,882,832.62	84,004,870.73
Other payables	15,889,643.29			4,037,633.66	19,927,276.95
Advance receivable	234,017.18	77.00	25,952.00	18,082.00	278,128.18
Employee salary payable	5,083,357.93				5,083,357.93

## 2. Sensitivity analysis

The Group uses the sensitivity analysis technique to analyze the possible impacts of the reasonable and possible changes in risk variable on the current profit and losses or the owner's equity. Since any risk variable rarely changes in isolation, and the correlation among the variables has a significant effect on the final effect amount of a certain risk variable changes, and the following contents are on the assumption that the change in each variable is independent.

### (1) Sensitivity analysis of foreign exchange risk

Sensitivity analysis of foreign exchange risk assumes that all overseas operating net investment hedges and cash flow hedges are highly effective.

On the basis of the above assumptions, in case that other variable don't change, the after-tax effect of the possible and reasonable changes in the exchange rate on the current profits and losses are as follows

Item	Exchange rate fluctuation	2017		2016	
		Impact on net profit	Impact on owner's equity	Impact on net profit	Impact on owner's equity
All foreign currency	5% appreciation of the RMB	-2,581,828.54	-2,581,828.54	-998,138.25	-998,138.25
All foreign currency	5% devaluation of the RMB	2,581,828.54	2,581,828.54	998,138.25	998,138.25

## X. Related party and related transactions

### 1. Parent company of the enterprise

Parent company	Registration place	Business nature	Registered capital	Share-holding ratio on the enterprise for parent company	Voting right ratio on the enterprise
Wuhan Zhongheng New Technology Industry Group Co., Ltd.	Wuhan	Production and sales, real estate development and sales, housing leasing and management	34,500,000.00	41.14%	41.14%

Explanation on parent company of the enterprise

Nil

The ultimate control of the enterprise is Li Zhongqiu.

Other explanation:

Nil

### 2. Subsidiary of the Enterprise

Found more in VIII. Equity in other entity in the Note

### 3. Other related party

Other related party	Relationship with the Enterprise
Shenzhen Zhongheng Huafa Science and Technology Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Hengsheng Yutian Industrial Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Hengsheng Photoelectric Industry Co., Ltd.	Control by same controlling shareholder and ultimate controller
Hongkong Yutian International Investment Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan New Oriental Real Estate Development Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Zhongheng Property Management Co., Ltd.	Control by same controlling shareholder and ultimate controller



Wuhan Optical Valley Display System Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Yutian Xingye Property Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Yutian Dongfang Property Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Xiahua Zhongheng Electronics Co. Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Zhongheng Yutian Trade Co., Ltd.	Control by same controlling shareholder and ultimate controller
Wuhan Yutian Hongguang Real Estate Co., Ltd.	Control by same controlling shareholder and ultimate controller
Shenzhen Zhongheng Huayu Investment Holding Co., Ltd.	Control by same controlling shareholder and ultimate controller
Yutian Investment Co., Ltd. (Famous Sky Capital Limited)	Control by same controlling shareholder and ultimate controller
Yutian International Co., Ltd.	Control by same controlling shareholder and ultimate controller
Hongkong Zhongheng Yutian Co., Ltd.	Control by same controlling shareholder and ultimate controller
Shenzhen Yutian Henghua Co., Ltd.	Control by same controlling shareholder and ultimate controller
Shenzhen Zhongheng Yongye Technology Co., Ltd.	Control by same controlling shareholder and ultimate controller
Shenzhen Yutian Hengrui Co., Ltd.	Control by same controlling shareholder and ultimate controller

Other explanation

Nil

#### 4. Related transaction

##### (1) Goods purchasing, labor service providing and receiving

Goods purchasing/labor service receiving

In RMB

Related party	Content	Amount of this period	Trading limit approved	Whether over the approved limited or not	Amount of last period
Hongkong Yutian International Investment Co., Ltd.	Purchase good	209,991,225.25	261,368,000.00	N	160,560,343.18
Wuhan Hengsheng Photoelectric Industry Co., Ltd.	Purchase good	122,865,451.21	176,423,400.00	N	48,070,877.55

Goods sold/labor service providing

In RMB

Related party	Content	Amount of this period	Amount of last period
Hongkong Yutian International Investment Co., Ltd.	Sales good	211,214,811.40	193,821,823.74
Wuhan Hengsheng	Sales good	4,328,922.01	1,907,193.07

Photoelectric Industry Co., Ltd.			
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Explanation on goods purchasing, labor service providing and receiving

## (2) Related guarantee

As the guarantor

In RMB

Secured party	Amount guarantee	Start	End	Completed or not (Y/N)
Hengfa Technology Company	50,000,000.00	2017-11-21	2018-11-21	No

As the secured party

In RMB

Guarantor	Amount guarantee	Start	End	Completed or not (Y/N)
Li Zhongqiu	20,000,000.00	2017-05-19	2018-05-19	No
Li Zhongqiu, Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.	100,000,000.00	2016-07-22	2018-07-21	No

Explanation on related guarantee

Nil

## (3) Remuneration of key manager

In RMB

Item	Current Period	Last Period
Remuneration of key manager	1,143,000.00	1,394,600.00

## 5. Receivable/payable items of related parties

### (1) Receivable item

In RMB

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt reserves	Book balance	Bad debt reserves
Accounts receivable		44,436,775.47		41,299,300.89	
Advance payment	Hongkong Yutian International Investment Co., Ltd.	44,988.82		8,873,087.08	

**(2) Payable item**

In RMB

Item	Related party	Ending book balance	Opening book balance
Other payables	Shenzhen Zhongheng Huafa Science and Technology Co., Ltd.		6,288.00
Accounts payable	Wuhan Hengsheng Photoelectric Industry Co., Ltd.	3,565,595.98	7,173,172.20

**6. Commitments of related party**

In line with the claim of application for arbitration from Shenzhen Vanke, Shen HUAFA and Wuhan Zhongheng paid and money together. As the commitment letter to Shen HUAFA from Wuhan Zhongheng Group, if the Vanke wins, the losses from disputes arising by contract will bear by Wuhan Zhongheng Group in full.

**XI. Commitment or contingency****1. Important commitment**

Important commitment on balance sheet date

As of the balance sheet date, the irrevocable operating lease contract signed by the Company are as:

The Company entered into a house leasing contract with Wuwu Branch of Shenzhen Dacong Industrial Co., Ltd., term of the leasing period from 18 August 2015 to 17 August 2020

Minimum leasing payment for irrevocable operating lease contract	Minimum leasing payment
First year after balance sheet date	3,847,599.84
Second year after balance sheet date	3,847,599.84
Third year after balance sheet date	2,426,125.45
Total	10,121,325.13

**2. Contingency****(1) Contingency on balance sheet date****1. Pending arbitration with Shenzhen Vanke**

In August 2015, Shenzhen HUAFA and Wuhan Zhongheng New Technology Industry Group Co., Ltd. (hereinafter referred to as "Wuhan Zhongheng") signed the "Cooperation Agreement on Urban Renewal Project of Update Units at Huafa Industrial Park, Gongming Street, Guangming New District, Shenzhen". As Shenzhen HUAFA and Wuhan Zhongheng planned to cooperate with Shenzhen Vanke Real Estate CO., Ltd. (hereinafter referred to as "Shenzhen Vanke") on the Huafa urban renewal project (hereinafter referred to as "Huafa Renovation Project) at Gongming Street, Guangming New District, Shenzhen, both parties appointed that

Shenzhen HUAFA entrusted Wuhan Zhongheng to represent it in this cooperation, and established project company - Shenzhen Vanke Guangming Real Estate Co., Ltd. (hereinafter referred to as “Vanke Guangming”) as the subject of project implementation with Shenzhen Vanke; Vanke Guangming signed “Demolition Compensation Agreement” with Shenzhen HUAFA and Wuhan Zhongheng, and paid the compensation for demolition.

On August 21, 2015, Shenzhen HUAFA, Wuhan Zhongheng and Shenzhen Vanke signed the “Cooperative Operation Contract of Renovation Project at Huafa Industrial Park, Gongming Street, Guangming New District”(hereinafter referred to as “Cooperative Operation Contract”), the contract refined and appointed the cooperation model and operating steps of both sides. And then Shenzhen HUAFA, Wuhan Zhongheng and Shenzhen Vanke signed the “Agreement on the Housing Acquisition and Removal Compensation and Settlement”. After signing the above agreement, Shenzhen Vanke paid the cooperation price of 600 million Yuan to Wuhan Zhongheng through Vanke Guangming.

In September 2016, Shenzhen Vanke filed an arbitration to South China International Economic and Trade Arbitration Commission (hereinafter referred to as “South China Arbitration”) as Shenzhen HUAFA and Wuhan Zhongheng violated the appointment of “Cooperative Operation Contract” and handled the “Confirmation of Subject of Reconstruction Implementation” at an overdue time, and required Shenzhen HUAFA and Wuhan Zhongheng to pay liquidated damages and attorneys' fees of RMB 464.60 million.

While filing the arbitration, Shenzhen Vanke also applied for property preservation of 400 million Yuan of property under the name of Shenzhen Huafa and Wuhan Zhongheng to Shenzhen Intermediate People’s Court. According to the ruling of Shenzhen Intermediate People's Court and “Notification of Sealing up, Seizing and Freezing Assets” (The reference numbers are (2016) Yue 03 Cai Bao No. 51, (2016) Yue 03 Cai Bao No. 53), the 27 house properties (Note: the property within the scope of Huafa renovation project) under the name of Shenzhen HUAFA and 116,489,894 shares (Note: of which 116,100,000 shares have been pledged) of Shenzhen HUAFA stock held by Wuhan Zhongheng were frozen.

On November 12, 2016, the arbitration court held a hearing on this case.

In December 2016, Wuhan Zhongheng to Shenzhen HUAFA issued a “Commitment Letter” which included that if the arbitration (Note: the case) ruled in favor of Shenzhen Vanke, the loss of arbitration caused by the contract disputes should be fully assumed by our company. In the above contingent losses, if the judicial decision ruled your company to pay the compensation in advance, our company promised to pay your company in cash within one month, if our company could not pay on time due to uncontrollable factors, our company would like to pay the corresponding interest according to the benchmark interest rate of bank loans in the corresponding period. Because the plots in the renovation project placed in our company hadn’t been applied for transfer procedures and were still under your company’s name (Note: based on the “Asset Replacement Contract” signed by Wuhan Zhongheng and Shenzhen HUAFA on April 29, 2009), therefore, there was no risk of compliance, at the same time, our company promised to give priority to paying the above compensation with the compensation for demolition of renovation project.

On March 14, 2017, Shenzhen HUAFA received the “Decision of Arbitrator not Granting Avoiding” issued by South China Arbitration, which rejected the application for avoiding of chief arbitrator proposed by Shenzhen Vanke. On March 15, 2017, Shenzhen HUAFA received the “Letter About the Resignation of the Chief Arbitrator of No. SHEN DP20160334 Case” signed by the chief arbitrator and forwarded by South China Arbitration. On March 20, 2017, Shenzhen HUAFA received the “Letter About the Resignation of the Arbitrator of No. SHEN DP20160334 Case” forwarded by South China Arbitration, the arbitrator selected by Shenzhen Vanke said to

resign from the arbitrator of this case due to physical reasons.

The deadline for giving a ruling to this case was originally scheduled on February 12, 2017. According to the “Decision of Adjourning the Ruling” issued by South China Arbitration on February 10, 2017, the deadline for giving a ruling to this case shall be prolonged to May 12, 2017. Due to the changes in the members of above arbitration court, this case needs South China Arbitration to reassign the chief arbitrator and Shenzhen Vanke to reselect the arbitrators. According to the provisions of article 32 of the Arbitration Rules of South China Arbitration, after constituting the new arbitration court, it shall decide whether all or part of the hearing procedures that have been carried out before need to be reopened; if the arbitration court decides to reopen all hearing procedures, then the deadline for giving a ruling shall be calculated from the date that the arbitration court decides to reopen the hearing procedures.

On August 16, 2017, South China International Economic and Trade Arbitration Commission made the “Arbitral Award” SCIA [2017] D376, according to the arbitral award, the applicant and counterclaim respondent in arbitration case SCIA [2017] D376 were Shenzhen Vanke Real Estate Co., Ltd. (hereinafter referred to as “Applicant” and “Vanke”). The first respondent and the first applicant for counterclaim were Wuhan Zhongheng New Technology Industry Group Co., Ltd. (hereinafter referred to as “Wuhan Zhongheng” and “First Respondent”). The second respondent and the second applicant for counterclaim were Zhongheng Huafa. The award results were as follows:

(1) The first respondent and the second respondent pay liquidated damages to the applicant with a base number of RMB 600 million, calculating by the annual interest rate of 36% from October 1, 2015 to November 11, 2016;

(2) The first respondent and the second respondent pay the lawyer fees of RMB 1.4 million to the applicant due to the case;

(3) The first respondent and the second respondent pay the property preservation fees of RMB 10,000 to the applicant;

(4) The arbitration fees for this request and case was RMB 3,101,515.00, the first respondent and the second respondent should bear 70%, i.e. RMB 2,171,060.50, and the applicant should bear 30%, i.e. RMB 930,454.50. The applicant had already paid the arbitration fees in full amount for this request which could be used as the arbitration fees of this case and request and shall not be refunded. The first respondent and the second respondent should directly pay RMB 2,171,060.50 to the applicant;

The arbitration fee of counterclaim in this case was RMB 76,050 which was undertaken by the first respondent and the second respondent at their own expense. The first respondent and the second respondent paid the arbitration fees in full amount for this request which could be used as the arbitration fees of this case and request and shall not be refunded;

The actual expenses of the arbitrators in this case amounted to RMB 7,754.90, the first respondent and the second respondent assumed 70%, i.e. RMB 5,428.43, and the applicant assumed 30%, i.e. RMB 2,326.47; the above actual expenses of the arbitrators had been paid by the Commission, so the first respondent and the second respondent and the applicant should directly pay RMB 5,428.43 and RMB 2,326.47 respectively to the Commission;

(5) Reject the applicant’s other arbitration requests;

(6) Reject the arbitration counterclaims of the first respondent and the second respondent.

In summary, Wuhan Zhongheng and Shenzhen Huafa should pay liquidated damages, interest, lawyer fees,

property preservation fees, and arbitration fees for this request to Vanke and pay actual expenses of the arbitrators in this case and pay the actual expenses incurred by the arbitrators in this case to South China International Economic and Trade Arbitration Commission.

The reasons of Wuhan Zhongheng resulted in a failure of a net handover, the district urban renewal functional department could not issue the corresponding demolition documents, which in turn made the project company fail to be confirmed as the subject of implementation, and finally and directly made the subject of implementation fail to get the “Land Value Payment Notification” and sign the “Land Use Rights Transfer Contract”. Wuhan Zhongheng shall bear all responsibilities for faults in response to the three major default facts. On February 6, 2018, Shenzhen Huafa believed that the ruling of the case had problems in the arbitration procedure and the assertion of the so-called breach of contract facts, the ruling results damaged the legitimate rights and interests of Shenzhen Huafa, Huafa has filed an application for revoking the award to Shenzhen Intermediate People’s Court, and Shenzhen Intermediate People’s Court has officially accepted the case on February 7, 2018, the case number is (2018) Yue 03 MT 113. The case has been accepted but not sub judice yet.

## 2. The contingent liability from pending action and its financial impact

Litigious party	Types of litigations, times and explanation	Cause of action	Case No.	Amount object	Note
Defendant: Shenzhen Jifang Investment Co., Ltd. and Shenzhen Carnival Foreigning Trade Clothing City Co., Ltd .	<p>----2016.03.08(People’s Court of Futian District, Shenzhen) accept the case</p> <p>----2016.03.24 Application for bankaccount preservation of 550,000 Yuan</p> <p>----Date of first instance opening: 2017.3.7</p> <p>---- Date of second instance opening 2017.11.9</p> <p>----2018.3.15 (verdict of the 2nd instance effective)</p> <p>---2018.3.26 Application for enforcement, in processing</p>	Dispute over leasing contracts	(2016) Yue0304 MC No.: 5870; (2017) Yue 03 MZ No.: 22027; (2018) Yue 0304 Z No.: 10334	Litigation amount: 733800 Yuan	
Defendant: Shenzhen Huayongxing Enviornmental Technology Co., Ltd. Shenzhen Yidaxing Technology Co., Ltd.	<p>----2016.03.23 (Pepole’s Court of Baoan District, Shenzhen) accept the case</p> <p>(Pepole’s Court of Baoan District, Shenzhen) Application for bankaccount preservation of 8 million Yuan (in payment)</p> <p>----2017.3.20 Opening a trail</p> <p>The first trial has come out, and the opponent applied for an appeal, the</p>	Dispute over leasing contracts	2016 Yue 0306 MC No.6180	Litigation amount: 9.4726 million Yuan	

	2nd trial's citation has not been received yet				
Defendant: Shenzhen Huayongxing Environmental Technology Co., Ltd., Shenzhen Guangyong Breadboard Co., Ltd., Shenzhen Mingyi Electric Co., Ltd., Shenzhen Ouruilai Technology Co., Ltd. and Shenzhen Kangzhengxin Technology Co., Ltd.	<p>----2016.03.24(People's Court of Baoan District, Shenzhen) accept the case</p> <p>-----2016.04.11(People's Court of Baoan District, Shenzhen) Application for bank account preservation of 17 million Yuan</p> <p>-----2017.2.14 Opening a trial</p> <p>The first trial has come out, and the opponent applied for an appeal, the 2nd trial's citation has not been received yet</p>	Dispute over leasing contracts	2016 Yue 0306 MC No. 6229	Litigation amount: 19.6492 million Yuan	
Defendant: Wuhan Zhongheng New Technology Industrial Group Co., Ltd. and Shenzhen Zhongheng Huawa Co., Ltd. Plaintiff: V&T LAW FIRM	<p>---- On March 12, 2018, we received the arbitration application of V&amp;T Law Firm from Shenzhen International Arbitration Commission, we have entrusted lawyers to respond to the suits and filed a counterclaim against V&amp;T Law Firm, there is no notice of hearing at present.</p>	Dispute over agency contract	Case No.: SHEN DX20180087	Litigation amount: 19.402 million Yuan	

## XII. Principle notes of financial statements of parent company

### 1. Accounts receivable

#### (1) Category of account receivable

In RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt reserves		Book value	Book balance		Bad debt reserves		Book value
	Amount	Ratio	Amount	Accrual ratio		Amount	Ratio	Amount	Accrual ratio	
Account receivable with single significant amount and withdrawal bad debt provision separately	5,000,988.97	48.58%	5,000,988.97	100.00%		5,094,414.36	49.05%	5,094,414.36	100.00%	
Accounts with single	5,292,435	51.42%	5,292,435	100.00%		5,292,435	50.95%	5,292,435	100.00%	

significant amount and bad debts provision accrued individually	5.32		5.32			35.32		.32		
Total	10,293,424.29	100.00%	10,293,424.29			10,386,849.68	100.00%	10,386,849.68		

Account receivable with major single amount and withdrawal bad debt provision single at period-end:

√ Applicable    □ Not applicable

In RMB

Account receivable (by unit)	Closing balance			
	Accounts receivable	Bad debt reserve	Provision ratio	Provision reason
Hongkong Haowei Industry Co. Ltd.	1,870,887.18	1,870,887.18	100.00%	Un-recyclable
TCL ACE ELECTRIC APPLIANCE (HUIZHOU) CO., LTD.	1,325,431.75	1,325,431.75	100.00%	Un-recyclable
Qingdao Haier Parts Procurement Co., Ltd.	1,225,326.15	1,225,326.15	100.00%	Un-recyclable
SKYWORTH Multimedia (Shenzhen) Co., Ltd.	579,343.89	579,343.89	100.00%	Un-recyclable
Total	5,000,988.97	5,000,988.97	--	--

Account receivable with bad debt provision withdrawal by method of account age in portfolio:

□ Applicable    √ Not applicable

In combination, withdrawal proportion of bad debt provision based on balance proportion for account receivable:

□ Applicable    √ Not applicable

In combination, withdrawal proportion of bad debt provision based on other methods for account receivable:

Accounts with single significant amount and bad debts provision accrued individually at period-end

Debtor	Book balance	Bad debt	Accrual ratio	Reasons
Shenzhen Huixin Video Technology Co., Ltd.	381,168.96	381,168.96	100.00	Uncollectible
Shenzhen Wandelai Digital Technology Co., Ltd.	351,813.70	351,813.70	100.00	Uncollectible
Shenzhen Dalong Electronic Co., Ltd.	344,700.00	344,700.00	100.00	Uncollectible
Shenzhen Keya Electronic Co., Ltd.	332,337.76	332,337.76	100.00	Uncollectible
Shenzhen Qunping Electronic Co., Ltd.	304,542.95	304,542.95	100.00	Uncollectible
China Galaxy Electronics (Hong Kong) Co., Ltd.	288,261.17	288,261.17	100.00	Uncollectible
Dongguan Weite Electronic Co., Ltd.	274,399.80	274,399.80	100.00	Uncollectible
Hong Kong New Century Electronics Co.,	207,409.40	207,409.40	100.00	Uncollectible



Ltd.				
Shenyang Beitai Electronic Co., Ltd.	203,304.02	203,304.02	100.00	Uncollectible
Beijing Xinfang Weiye Technology Co., Ltd.	193,000.00	193,000.00	100.00	Uncollectible
TCL Electronics (Hong Kong) Co., Ltd.	145,087.14	145,087.14	100.00	Uncollectible
Huizhou TCL Xinte Electronics Co., Ltd.	142,707.14	142,707.14	100.00	Uncollectible
SkyWorth – RGB Electronic Co., Ltd.	133,485.83	133,485.83	100.00	Uncollectible
Other	1,990,217.45	1,990,217.45	100.00	Uncollectible
Total	5,292,435.32	5,292,435.32	—	—

## (2) Bad debt provision accrual, switch-back or taken back in reporting period

Bad debt provision accrual was 0.00 Yuan; the amount collected or switches back amounting to 93,425.39 Yuan.

Including major amount of bad debt provision that switch-back or taken back in the Period:

In RMB

Company	Amount switch back or taken back	Way
SKYWORTH Multimedia (Shenzhen) Co., Ltd.	93,425.39	Bank deposit
Total	93,425.39	--

## (3) Top five receivables collected by arrears party at ending balance

Company	Closing balance	Ratio in total account receivable (%)	Balance of bad debt provision
Hong Kong Haowei Industrial Co. Ltd.	1,870,887.18	100.00	1,870,887.18
TCL ACE ELECTRIC APPLIANCE (HUIZHOU) CO., LTD	1,325,431.75	100.00	1,325,431.75
Qingdao Haier Parts Procurement Co., Ltd.	1,225,326.15	100.00	1,225,326.15
SKYWORTH Multimedia (Shenzhen) Co., Ltd.	579,343.89	100.00	579,343.89
Shenzhen Huixin Video Technology Co., Ltd.	381,168.96	100.00	381,168.96
Total	5,382,157.93	—	5,382,157.93

## 2. Other accounts receivable

### (1) Category of other account receivable

In RMB

Category	Closing balance	Opening balance
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	Book balance		Bad debt reserves		Book value	Book balance		Bad debt reserves		Book value
	Amount	Ratio	Amount	Accrual ratio		Amount	Ratio	Amount	Accrual ratio	
Other account receivable with single significant amount and withdrawal bad debt provision separately	108,940,808.28	91.51%	11,281,461.86	10.36%	97,659,346.42	123,637,504.36	93.25%	10,601,686.53	8.57%	113,035,817.83
Other account receivable with bad debt provision accrual by portfolio	2,286,099.02	1.92%	102,100.00	4.47%	2,183,999.02	965,485.79	0.73%	13,050.45	1.35%	952,435.34
Other account receivable with single minor amount but withdrawal single item bad debt provision	7,815,588.16	6.57%	7,736,789.76	98.99%	78,798.40	7,988,484.16	6.02%	7,909,685.76	99.01%	78,798.40
Total	119,042,495.46	100.00%	19,120,351.62		99,922,143.84	132,591,474.31	100.00%	18,524,422.74		114,067,051.57

Other account receivable with major single amount and withdrawal bad debt provision single at period-end:

√ Applicable    □ Not applicable

In RMB

Other account receivable (units)	Closing balance			
	Other account receivable	Bad debt provision	Accrual ratio	Accrual reason
Shenzhen Huafa Property Leasing Co., Ltd.	4,558,859.15	4,558,859.15	100.00%	Un-recyclable
Hebei Botou Court	520,021.00	520,021.00	100.00%	Un-recyclable
Traffic accident compensation	555,785.81	555,785.81	100.00%	Un-recyclable
Portman	4,021,734.22	4,021,734.22	100.00%	Un-recyclable
Zhao Baomin	553,901.68	553,901.68	100.00%	Un-recyclable
Shenzhen Jifang Investment Co., Ltd.	1,071,160.00	1,071,160.00	100.00%	Un-recyclable
Total	11,281,461.86	11,281,461.86	--	--

Other account receivable with bad debt provision withdrawal by method of account age in portfolio:

√ Applicable    □ Not applicable

In RMB

Account age	Closing balance		
	Other receivable	Bad debt reserves	Accrual ratio
Sub-item of within one year			
A combination of bad debts.	97,738,144.82		
Subtotal of within one year	279,099.02		
1-2 year	2,000,000.00		5.00%
2-3 year			10.00%
Over three years	7,000.00	2,100.00	30.00%
Total	100,024,243.38	2,100.00	

Explanation on portfolio basis:

Nil

In combination, withdrawal proportion of bad debt provision based on balance proportion for other account receivable:

 Applicable  Not applicable

In combination, withdrawal proportion of bad debt provision based on other methods for other account receivable:

 Applicable  Not applicable

Other account receivable with single minor amount but withdrawal single item bad debt provision at period-end

Debtor	Book balance	Bad debt	Accrual ratio (%)	Reasons
Electricity fee in Gongming canteen	489,214.70	489,214.70	100.00	Uncollectible
Jiantao (Fogang) Laminates Co., Ltd.	465,528.10	465,528.10	100.00	Uncollectible
Labor union	332,402.55	332,402.55	100.00	Uncollectible
Lu Wei	290,000.00	290,000.00	100.00	Uncollectible
4/F hotel Dai Qiangbo	194,569.00	194,569.00	100.00	Uncollectible
Chuangjing	192,794.00	192,794.00	100.00	Uncollectible
Shenzhen Mingli Co., Ltd.	170,394.84	170,394.84	100.00	Uncollectible
Shenzhen Poly Property Group Co., Ltd.	78,798.40			Deposit without accrual
Other Units	5,601,886.57	5,601,886.57	100.00	Uncollectible
Total	7,815,588.16	7,736,789.76	—	—

**(2) Bad debt provision accrual, switch-back or taken back in reporting period**

Bad debt provision accrual was 495,928.88 Yuan; the amount collected or switches back amounting to 0.00 Yuan.

Including major amount of bad debt provision that switch-back or taken back in the Period:

In RMB

Company	Amount switch-back or taken back	Way
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**(3) Other receivables by nature**

In RMB

Nature	Ending book balance	Opening book balance
Margin and deposit	720,065.04	720,065.04
Borrow money	2,013,402.14	2,570,694.91
Intercourse funds	110,451,250.82	123,104,890.35
Rent receivable	5,857,777.46	6,195,824.01
Total	119,042,495.46	132,591,474.31

**(4) Top 5 other receivables collected by arrears party at ending balance**

In RMB

Company	Nature	Ending balance	Account age	Proportion in total other receivables at year-end	Ending balance of bad debt provision
Wuhan Hengfa Technology Co. Ltd.	Intercourse funds	95,098,997.30	0-2 year	81.25%	
Shenzhen Huafa Property Leasing Co., Ltd.	Intercourse funds	4,558,859.15	Over three years	3.90%	4,558,859.15
Portman	Lease receivable	4,021,734.22	Over three years	3.44%	4,021,734.22
Wan shang tian qin (shenzhen) law firm company.	Receivables	2,000,000.00	1-2year	1.68%	100,000.00
Shenzhen Zhongheng Huafa Property Co., Ltd.	Intercourse funds	1,919,082.48	Within 1 year	1.64%	
Total	--	107,598,673.15	--	90.39%	9,651,753.37

**3. Long-term equity investment**

In RMB

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investment for subsidiary	187,208,900.00	600,000.00	186,608,900.00	187,208,900.00	600,000.00	186,608,900.00
Total	187,208,900.00	600,000.00	186,608,900.00	187,208,900.00	600,000.00	186,608,900.00

**(1) Investment for subsidiary**

In RMB

The invested entity	Opening balance	Increase during the period	Decrease during this period	Closing balance	Impairment accrual	Ending balance of impairment provision
Huafa Leasing Company	600,000.00			600,000.00		600,000.00
Huafa Property Company	1,000,000.00			1,000,000.00		
Hengfa Technology company	183,608,900.00			183,608,900.00		
Huafa Hengtian Company	1,000,000.00			1,000,000.00		
Huafa Hengtai Company	1,000,000.00			1,000,000.00		
Total	187,208,900.00			187,208,900.00		600,000.00

**4. Operating income and cost**

In RMB

Items	Current Period		Last Period	
	Income	Cost	Income	Cost
Other business	41,156,307.77	5,877,729.00	43,547,414.64	6,585,571.92
Total	41,156,307.77	5,877,729.00	43,547,414.64	6,585,571.92

Other explanation:

Other business - by category

Item	Current Period		Last Period	
	Income	Cost	Income	Cost
Subtotal of other business	41,156,307.77	5,877,729.00	43,547,414.64	6,585,571.92
Property leasing	36,273,253.79	1,517,893.56	38,068,434.47	1,832,841.70
Utilities and others	4,883,053.98	4,359,835.44	5,478,980.17	4,752,730.22
Total	41,156,307.77	5,877,729.00	43,547,414.64	6,585,571.92

**XIII. Supplementary Information****1. Current non-recurring gains/losses**

√ Applicable    □ Not applicable

In RMB

Item	Amount	Note
Gains/losses from the disposal of non-current asset	199,069.56	
Governmental subsidy reckoned into current gains/losses (not including the subsidy enjoyed in quota or ration according to national standards, which are closely relevant to enterprise's business)	1,451,189.68	
Other non-operating income and expenditure except for the aforementioned items	-3,800,545.17	
Other gains and losses items complying with definition for non-current gains and losses	372,245.91	
Less: impact on income tax	-672,860.55	
Total	-1,105,179.47	--

Concerning the extraordinary profit (gain)/loss defined by *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, and the items defined as recurring profit (gain)/loss according to the lists of extraordinary profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Extraordinary Profit/loss*, explain reasons

Applicable     Not applicable

## 2. REO and earnings per share

Profits during report period	Weighted average ROE	Earnings per share	
		Basic EPS (RMB/Share)	Diluted EPS (RMB/Share)
Net profits belong to common stock stockholders of the Company	0.30%	0.0034	0.0034
Net profits belong to common stock stockholders of the Company after deducting nonrecurring gains and losses	0.65%	0.0073	0.0180

## **Section XII. Documents available for reference**

- I. Text of the Annual Report caring signature of the Chairman;
- II. Financial statement carrying the signatures and seals of the person in charge of the Company, principal of the accounting works and person in charge of accounting organ;
- III. All documents of the Company and manuscripts of public notices that disclosed in the China Securities journal, Securities Times and Hong Kong Commercial Daily designated by CSRC in the report period;
- IV. Article of Association
- V. Other relevant files.