

Shenzhen Zhongheng Huafa Co., Ltd.

The First Quarterly Report for 2008

§1 Important Notes

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

1.2 No directors, supervisors and senior executives stated any objection for the correctness, accuracy and completeness of the contents of this report.

1.3 All directors attended the Board meeting.

1.4 The first quarterly financial report of 2008 has not been audited.

1.5 Person in Charge of the Company Mr. Li Zhongqiu, Person in charge of Financial Works Mr. Shi Cheng, and Person in Charge of Finance Organ Mr. Zhang Zhiyong hereby confirm that the Financial Report of the First Quarterly Report is true and complete.

§2 Company Profile

2.1 Main Accounting Highlights and Financial Indexes:

Unit: RMB

	At the end of the report period	At the period-end of last year	Increase/decrease (%)
Total assets	367,901,506.41	377,755,155.15	-2.61%
Owners' equity (or Shareholders' equity)	247,451,944.00	245,998,316.81	0.59%
Net assets per share	0.87	0.87	0.00%
	This period	Same period of last year	Increase or decrease (%)
Net profit	1,453,627.19	118,919.63	1,122.36%
Net cash flow arising from operating activities	11,291,901.85	243,191.60	4,543.21%
Net cash flow arising from operating activities per share	0.04	0.00086	4,551.16%
Basic earnings per share	0.00513	0.00042	1,121.43%
Diluted earnings per share	0.00513	0.00042	1,121.43%
Return on equity	0.59%	0.05%	Increased 0.54 percentage points
Return on equity after deducting the non-recurring losses and gains	0.11%	-0.39%	Increased 0.50 percentage points

Items of non-recurring gains and losses

Unit: RMB

Items of non-recurring gains and losses	Amount in year-begin to the end of report period
Net lease income of the transferred the property right of Huafa Yard	949491.00
Other	234,908.79
Total	1,184,399.79

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

Unit: Share

Total number of shareholders	24,790	
Shares held by the top ten shareholders with unrestricted conditions		
Full Name of shareholder	Amount of unrestricted shares held	Type of shares
SEG (HONG KONG) CO., LTD	16,569,560	Domestically listed foreign share
GOOD HOPE CORNER INVESTMENTS LTD	13,900,000	Domestically listed foreign share
HE HUAN HAO	1,454,300	RMB common share
RENJUN DEVELOPMENT CO., LTD	1,200,000	Domestically listed foreign share
BINGHUA LIU	876,213	Domestically listed foreign share
WU WEI MIN	870,500	RMB common share
LUO YA	756,620	Domestically listed foreign share
LIU LIAO YUAN	734,200	Domestically listed foreign share
FENG ZHI E	693,500	RMB common share
ZHU MING	611,348	Domestically listed foreign share

§3 Significant events

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

Applicable Inapplicable

1. Operation incomes increased 53% compared with the same period of last year, and operation costs increased 45% compared with the same time of last year, which were mainly because manufacturing business of liquid crystal display with high sales and costs increased;
2. Sales expenses increased 72% compared with the same period of last year, which was mainly because manufacturing business of liquid crystal display increased and then transportation costs and business development costs increased;
3. Administration expenses increased 65% compared with the same period of last year, which was mainly because operation scope extended, added operation business given by controlling shareholders, and various cost expense increased correspondingly;
4. Financial expenses increased 81% compared with the same period of last year, which was mainly because business of liquid crystal display were most export sales, losses from exchange resulted by

RMB appreciation ;

5. Net profits increased 11 times compared with the same period of last year, which was mainly because Baolilong business given by controlling shareholders in first half year was in peak season.

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

Applicable Inapplicable

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

Applicable Inapplicable

Holding shareholder Wuhan Zhongheng New Science & Technology Industrial Group Co., Ltd.'s commitments:

1. Promised that the holding non-circulating shares of the Company won't be traded on the market within 36 months since they acquired listed trading right, and this commitment is under implementation.

2. Planed to put related capital of plastic injection business and its owned 70% Hengsheng Electric equity into the Company and this commitment is under implementation.

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

Applicable Inapplicable

The first half year is the hot season for its holding shareholder's beneficence Baolilong business, which brought new profit rising point. The Company predicted will change the loss trend for its operation performance from Jan. to June of 2008 compared to the same time of last year.

3.5 Other significant events which need explanations

3.5.1 Particulars about securities investment

Applicable Inapplicable

3.5.2 Equity of other listed companies held

Applicable Inapplicable

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

The Company has not received spot research, phone communication and written inquiry from investors during the report period.

§4 Appendix

4.1 Balance sheet

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

March 31, 2008

Unit: RMB

Items	Amount at period-end		Amount at period-begin	
	Merger	Parent Company	Merger	Parent Company
Current assets:				
Monetary funds	16,169,352.86	15,853,743.15	18,308,223.25	17,175,103.18
Notes receivable	970,530.09	970,530.09	3,949,751.05	3,949,751.05

Accounts receivable	38,386,406.14	38,360,883.14	57,501,749.38	57,474,744.38
Accounts paid in advance	7,085,618.04	7,085,618.04	2,469,127.52	2,469,127.52
Interest receivable				
Other receivables	12,777,808.24	14,556,169.18	17,885,097.37	20,338,083.04
Inventories	50,822,365.39	50,822,365.39	32,595,773.55	32,595,773.55
Non-current asset due within one year				
Other current assets				
Total current assets	126,212,080.76	127,649,308.99	132,709,722.12	134,002,582.72
Non-current assets:				
Long-term account receivable				
Long-term equity investment				
Investment property	48,856,951.33	48,856,951.33	49,617,510.58	49,617,510.58
Fixed assets:	183,896,499.32	183,825,521.07	187,238,973.29	187,148,677.44
Construction in progress	746,014.20	746,014.20	1,036,612.52	1,036,612.52
Engineering material				
Disposal of fixed asset				
Intangible assets	6,447,080.25	6,447,080.25	6,451,549.35	6,451,549.35
Goodwill				
Long-term expenses to be apportioned	1,042,093.26	1,042,093.26		
Deferred income tax asset	700,787.29		700,787.29	
Other non-current asset				
Total non-current asset	241,689,425.65	240,917,660.11	245,045,433.03	244,254,349.89
Total assets	367,901,506.41	368,566,969.10	377,755,155.15	378,256,932.61
Current liabilities:				
Short-term loans	49,200,000.00	49,200,000.00	60,400,000.00	60,400,000.00
Notes payable	2,899,063.90	2,899,063.90	2,812,914.35	2,812,914.35
Accounts payable	47,469,985.80	47,360,136.70	42,777,941.82	42,668,092.72
Accounts received in advance	598,951.59	598,951.59	666,261.81	655,415.81
Wage payable	823,260.47	830,045.33	1,028,977.77	974,636.79
Taxes payable	933,336.08	915,509.20	1,870,755.16	1,836,152.65
Interest payable				
Other accounts payable	18,524,964.57	19,311,318.38	22,199,987.43	22,911,403.48
Long-term liabilities due within 1 year				
Other current liabilities				
Total current liabilities	120,449,562.41	121,115,025.10	131,756,838.34	132,258,615.80
Non-current liabilities:				
Long-term loans				

Bonds payable				
Long-term account payable				
Projected liabilities				
Deferred income tax liabilities				
Other non-current liabilities				
Total non-current liabilities				
Total liabilities	120,449,562.41	121,115,025.10	131,756,838.34	132,258,615.80
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	283,161,227.00	283,161,227.00	283,161,227.00	283,161,227.00
Capital public reserve	106,032,173.92	106,032,173.92	106,032,173.92	106,032,173.92
Less: Inventory shares				
Surplus public reserve	77,391,593.25	77,391,593.25	77,391,593.25	77,391,593.25
Retained profit	-219,133,050.17	-219,133,050.17	-220,586,677.36	-220,586,677.36
Total owner's equity attributable to parent company	247,451,944.00	247,451,944.00	245,998,316.81	245,998,316.81
Minority interests				
Total owner's equity	247,451,944.00	247,451,944.00	245,998,316.81	245,998,316.81
Total liabilities and owner's equity	367,901,506.41	368,566,969.10	377,755,155.15	378,256,932.61

4.2 Profit statement

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

Jan.-Mar., 2008

Unit: RMB

Items	This period		Same period of last year	
	Merger	Parent Company		Merger
I. Total operating income	42,328,434.23	41,842,186.23	27,647,381.05	27,138,424.05
Including: Operating income	42,328,434.23	41,842,186.23	27,647,381.05	27,138,424.05
II. Total operating cost	42,059,206.83	41,573,206.73	28,534,308.83	28,025,351.83
Including: Operating cost	34,201,305.24	34,201,305.24	23,607,097.31	23,366,978.09
Operating tax and extras	477,565.00	452,280.11	26,444.97	
Sales expenses	1,011,006.23	1,011,006.23	587,384.67	587,384.67
Administration expenses	5,041,632.79	4,580,872.02	3,054,532.06	2,811,576.55
Financial expenses	2,278,741.10	2,278,786.66	1,258,849.82	1,259,412.52
Losses of devaluation of asset				
Add: Changing income of fair value (Loss is listed with "-")				
Investment income (Loss is listed with "-")				
Including: Investment income on affiliated				

company and joint venture				
Income from entrusted operations	951,043.53	951,043.53		
Exchange income (Loss is listed with “-”)				
III. Operating profit (Loss is listed with “-”)	269,227.40	268,979.50	-886,927.78	-886,927.78
Add: Non-operating income	1,245,349.09	1,245,349.09	1,066,626.20	1,066,626.20
Less: Non-operating expense	60,949.30	60,701.40	60,778.79	60,778.79
Including: Disposal loss of non-current asset				
IV. Total Profit (Loss is listed with “-”)	1,453,627.19	1,453,627.19	118,919.63	118,919.63
Less: Income tax				
V. Net profit (Net loss is listed with “-”)	1,453,627.19	1,453,627.19	118,919.63	118,919.63
Net profit attributable to owner’s equity of parent company	1,453,627.19	1,453,627.19	118,919.63	118,919.63
Minority shareholders’ gains and losses				
VI. Earnings per share				
i. Basic earnings per share	0.00513	0.00513	0.00042	0.00042
ii. Diluted earnings per share	0.00513	0.00513	0.00042	0.00042

4.3 Cash flow statement

Prepared by Shenzhen Zhongheng Huafa Co., Ltd.

Jan.-Mar., 2008

Unit: RMB

Items	This period		Same period of last year	
	Merger	Parent Company	Merger	Parent Company
I. Cash flows arising from operating activities:				
Cash received from selling commodities and providing labor services	63,268,673.33	62,791,789.33	70,712,169.28	70,200,406.28
Write-back of tax received				
Other cash received concerning operating activities	1,134,312.25	2,144,025.65	4,906,573.52	4,534,587.69
Subtotal of cash inflow arising from operating activities	64,402,985.58	64,935,814.98	75,618,742.80	74,734,993.97
Cash paid for purchasing commodities and receiving labor service	34,125,751.78	34,125,751.78	59,226,629.12	59,226,629.12
Cash paid to/for staff and workers	5,259,244.43	5,191,739.57	5,837,464.66	5,700,219.39
Taxes paid	4,336,818.33	4,292,705.13	1,581,155.04	1,552,227.39
Other cash paid concerning operating	9,389,269.19	9,216,206.29	8,730,302.38	8,105,780.00

activities				
Subtotal of cash outflow arising from operating activities	53,111,083.73	52,826,402.77	75,375,551.20	74,584,855.90
Net cash flows arising from operating activities	11,291,901.85	12,109,412.21	243,191.60	150,138.07
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	135,000.00	135,000.00		
Net cash received from disposal of subsidiaries and other units				
Other cash received concerning investing activities				
Subtotal of cash inflow from investing activities	135,000.00	135,000.00		
Cash paid for purchasing fixed, intangible and other long-term assets	54,401.68	54,401.68	917,673.80	917,673.80
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	54,401.68	54,401.68	917,673.80	917,673.80
Net cash flows arising from investing activities	80,598.32	80,598.32	-917,673.80	-917,673.80
III. Cash flows arising from financing activities				
Cash received from absorbing investment				
Including: Cash received from absorbing minority shareholders' investment by subsidiaries				
Cash received from loans			10,000,000.00	10,000,000.00
Cash received from issuing bonds				
Other cash received concerning financing activities				
Subtotal of cash inflow from financing activities			10,000,000.00	10,000,000.00
Cash paid for settling debts	11,200,000.00	11,200,000.00	1,500,000.00	1,500,000.00

Cash paid for dividend and profit distributing or interest paying	974,187.08	974,187.08	1,172,795.71	1,172,795.71
Including: Dividend and profit of minority shareholder paid by subsidiaries				
Other cash paid concerning financing activities				
Subtotal of cash outflow from financing activities	12,174,187.08	12,174,187.08	2,672,795.71	2,672,795.71
Net cash flows arising from financing activities	-12,174,187.08	-12,174,187.08	7,327,204.29	7,327,204.29
IV. Influence on cash due to fluctuation in exchange rate	-1,337,183.48	-1,337,183.48	-13,619.23	-13,619.23
V. Net increase of cash and cash equivalents	-2,138,870.39	-1,321,360.03	6,639,102.86	6,546,049.33
Add: Balance of cash and cash equivalents at the period -begin	18,308,223.25	17,175,103.18	19,610,336.01	17,579,528.19
VI. Balance of cash and cash equivalents at the period -end	16,169,352.86	15,853,743.15	26,249,438.87	24,125,577.52

4.4 Auditor' report

Auditor's opinions: Un-audited

Chairman: Li Zhongqiu
Board of the Directors of
Shenzhen Zhongheng Huafa Co., Ltd.
April 29, 2008