

U. S. Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2014

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-54205

**HUAYUE ELECTRONICS, INC.**

(Name of Registrant in its Charter)

Delaware

(State of Other Jurisdiction of incorporation or organization)

20-2188353

(I.R.S. Employer I.D. No.)

51 Huilingxi Road, Zhouhuizheng, Wujin District  
Changzhou, Jiangsu Province, P.R. China 213022  
(Address of Principal Executive Offices)

Issuer's Telephone Number: 86-519-83630688

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

January 20, 2015  
Common Voting Stock: 31,327,741

**HUAYUE ELECTRONICS, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2014**

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**Huayue Electronics Inc**  
**Consolidated Balance Sheets**  
(In US Dollars)

	November 30, 2014	May 31, 2014
	(Unaudited)	(Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 112,115	\$ 344,636
Restricted cash	162,790	-
Accounts receivable, net	4,408,468	5,753,108
Other receivables	2,310,487	1,662,856
Inventory, net	785,697	448,449
Advances to suppliers	1,949,949	288,183
Investment in sales-type lease-current	2,227,442	1,000,168
Deferred tax assets	556,967	393,131
Total current assets	<u>12,513,915</u>	<u>9,890,531</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	12,389,094	12,740,996
<b>OTHER ASSETS</b>		
Investment in sales-type lease-non current	2,576,196	1,184,000
Deferred tax assets	85,966	34,486
Total other assets	<u>2,662,162</u>	<u>1,218,486</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,565,171</u>	<u>\$ 23,850,013</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term loans	\$ 3,011,607	\$ 2,960,474
Notes payable	162,790	-
Accounts payable and accrued expenses	2,921,794	3,062,789
Taxes payable	3,980,418	2,940,416
Advances from customers	2,401,501	411,268
Deferred revenue-current	167,899	71,771
Due to related parties	240,837	592,095
Total current liabilities	<u>12,886,846</u>	<u>10,038,813</u>
<b>LONG TERM LIABILITIES-DEFERRED REVENUE</b>	453,780	164,487
<b>TOTAL LIABILITIES</b>	<u>13,340,626</u>	<u>10,203,300</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 60,000,000 shares authorized; 31,327,741 shares issued and outstanding	31,328	31,328
Additional paid in capital	6,866,352	6,866,352
Statutory reserves	802,235	636,097
Accumulated other comprehensive income	376,422	139,612
Retained earnings	6,148,208	5,973,324
Total stockholders' equity	<u>14,224,545</u>	<u>13,646,713</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 27,565,171</u>	<u>\$ 23,850,013</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Huayue Electronics Inc**  
**Consolidated Statements of operations and Comprehensive Income (loss)**  
(In US Dollars)

	For the Three Months Ended November 30,		For the Six Months Ended November 30,	
	2014	2013	2014	2013
Net sales	\$ 2,763,880	\$ 4,307,583	\$ 6,283,572	\$ 7,796,044
Cost of goods sold	1,380,696	1,232,515	3,323,160	3,651,099
<b>Gross profit</b>	<b>1,383,184</b>	<b>3,075,068</b>	<b>2,960,412</b>	<b>4,144,945</b>
Selling expenses	1,314	18,993	13,491	25,847
General and administrative expenses	839,642	795,266	2,550,717	1,415,530
<b>Total expenses</b>	<b>840,956</b>	<b>814,259</b>	<b>2,564,208</b>	<b>1,441,377</b>
<b>Income from operations</b>	<b>542,228</b>	<b>2,260,809</b>	<b>396,204</b>	<b>2,703,568</b>
<b>Non-operating income (expenses):</b>				
Interest expense, net	6,253	(56,998)	915	(122,824)
Other income	8,122	145,508	9,736	147,166
<b>Total non-operating income (expenses)</b>	<b>14,375</b>	<b>88,510</b>	<b>10,651</b>	<b>24,342</b>
<b>Income before income taxes</b>	<b>556,603</b>	<b>2,349,319</b>	<b>406,855</b>	<b>2,727,910</b>
<b>Income tax provision (benefit)</b>				
Current	236,193	516,725	273,093	626,189
Deferred	(147,897)	(136,642)	(207,259)	(241,867)
<b>Total income tax provision</b>	<b>88,296</b>	<b>380,083</b>	<b>65,834</b>	<b>384,322</b>
<b>Net income</b>	<b>468,307</b>	<b>1,969,236</b>	<b>341,021</b>	<b>2,343,588</b>
Other comprehensive income (loss) item				
Foreign currency translation gain	2,398	85,027	236,810	123,397
<b>Comprehensive income</b>	<b>\$ 470,705</b>	<b>\$ 2,054,263</b>	<b>\$ 577,831</b>	<b>\$ 2,466,985</b>
Basic and diluted earnings per common share	<b>\$ 0.01</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>	<b>\$ 0.07</b>
Weighted average number of common shares	<b>31,327,741</b>	<b>31,327,741</b>	<b>31,327,741</b>	<b>31,327,741</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Huayue Electronics Inc**  
**Consolidated Statements of Cash Flows**  
(In US Dollars)  
(Unaudited)

	<b>Six months ended November 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ 341,021	\$ 2,343,588
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	571,964	292,604
Provision for doubtful accounts	2,376,717	945,297
Deferred tax (benefit)	(207,930)	(241,866)
Decrease (increase) in assets:		
Accounts receivable	(848,573)	(3,199,823)
Notes receivable	-	(520,165)
Other receivable	(618,910)	(660,277)
Due from related party		(325,103)
Advances to suppliers	(1,740,924)	(163,712)
Inventory	(329,502)	189,084
Investment in lease type sale	(2,581,744)	-
Increase (decrease) in liabilities:		
Accounts payables and accrued expenses	(193,896)	465,846
Advances from customers	1,983,129	(120,133)
Taxes payable	989,215	1,431,380
Deferred revenue	381,341	287,965
<b>Net cash provided by operating activities</b>	<b>121,908</b>	<b>724,685</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Deposit made for equipment purchase	-	(812,757)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(812,757)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in restricted Cash	(162,790)	(48,765)
Repayments of bank notes	-	(113,786)
Proceeds from bank loans	-	81,276
Proceeds from (repayment of) related parties loans	(361,484)	101,000
Proceeds from notes payable	162,790	-
<b>Net cash used in financing activities</b>	<b>(361,484)</b>	<b>19,725</b>
<b>EFFECT OF EXCHANGE RATE CHANGE ON CASH</b>	<b>7,055</b>	<b>2,364</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(232,521)</b>	<b>(65,983)</b>
<b>CASH - beginning of period</b>	<b>344,636</b>	<b>269,065</b>
<b>CASH - end of period</b>	<b>\$ 112,115</b>	<b>\$ 203,082</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Income tax paid	\$ -	\$ -
Interest paid	\$ 6,949	\$ 122,824

The accompanying notes are an integral part of these unaudited consolidated financial statements

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Huayue Electronics, Inc. (“Huayue Electronics” or the “Company”) have been prepared in accordance with generally accepted accounting principles (“U.S. GAAP”) for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the interim period ended November 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2015. The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis and the financial statements and notes thereto included in our Form 10-K/A for the fiscal year ended May 31, 2014, filed with the SEC on December 28, 2014.

**NOTE 1A – RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

Subsequent to the filing of its Annual Report on Form 10-K for the year ended May 31, 2014, the Company reviewed its measurement for inventory valuation, and determined that the estimate for the inventory valuation had been understated. Certain sales transactions occurred through the date the financial statements were issued in which the sales price of certain products was substantially lower than its cost, indicating that the book value of all similar inventory should be reduced. In accordance with ASC 855, “Subsequent Event”, management reassessed and recorded a loss of \$1,553,366 on reduction of inventory to the lower of cost or market for the fiscal year ended May 31, 2014.

The effects of the adjustments on the Company’s previously issued balance sheet as of May 31, 2014 is summarized as follows:

	Previously Reported \$	Impact of Restatement \$	Restated \$
Assets			
Inventory, net	1,972,209	(1,523,760)	448,449
Deferred tax assets	164,567	228,564	393,131
Total current assets	<u>11,185,727</u>	<u>(1,296,196)</u>	<u>9,890,531</u>
Total assets	<u>25,145,209</u>	<u>(1,295,196)</u>	<u>23,850,013</u>
Stockholders’ equity			
Statutory reserves	768,133	(132,036)	636,097
Accumulated other comprehensive income	114,447	25,165	139,612
Retained earnings	<u>7,161,649</u>	<u>(1,188,325)</u>	<u>5,973,324</u>
Total Stockholders’ equity	<u>14,941,909</u>	<u>(1,295,196)</u>	<u>13,646,713</u>
Total liabilities and stockholders’ equity	<u>25,145,209</u>	<u>(1,295,196)</u>	<u>23,850,013</u>

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

The accompanying unaudited consolidated financial statements include the financial statements of the Company's subsidiaries, China Metal Holding, Inc. and Changzhou Huayue Electronics Company, Ltd. All significant inter-company balances and transactions have been eliminated in consolidation.

**Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include: the allowance for doubtful accounts, the valuation of inventory, and estimated useful lives and impairment of property and equipment. Actual results could differ from those estimated by management.

**Cash and cash equivalents**

For purposes of the statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. All cash balances are in bank accounts in PRC and are not insured by the Federal Deposit Insurance Corporation or other programs.

**Restricted Cash**

Restricted cash represents required cash deposits as a part of collateral for bankers acceptance notes payable and letters of credit. The Company is required to maintain 50% to 100% of the balance of the bank's acceptance notes payable to ensure future credit availability.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are stated at net realizable value. An allowance for doubtful accounts is established based on the management's assessment of the recoverability of accounts and other receivables. A considerable amount of judgment is required in assessing the realization of these receivables, including the current credit worthiness of each customer and the related aging analysis. Delinquent account balances are written-off against allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

**Inventory**

Inventory is composed of raw materials and packing materials for manufacturing, work in process, and finished goods. Inventories are valued at the lower of cost or market with cost determined on a weighted average basis. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of November 30, 2014 and May 31, 2014, the Company reserved allowances for inventory valuation of \$0 and \$1,523,760, respectively.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Plant, property and equipment**

Plant, property and equipment are stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and locations for its intended use. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings	20 years
Machinery and equipment	5-10 years
Transportation equipment	5 years

Expenditures for maintenance and repairs are charged to expense as incurred. Additions, renewals and betterments are capitalized.

**Impairment of long-lived assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. An impairment loss, measured based on the fair value of the asset, is recognized if expected future undiscounted cash flows are less than the carrying amount of the assets. As of November 30, 2014 and May 31, 2014, no impairment of long-lived assets is believed to exist.

**Fair value of financial instruments**

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements", defines fair value, establishes a three-level valuation hierarchy for fair value measurements and enhances disclosure requirements.

The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted market prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 - inputs to the valuation methodology are unobservable.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, restricted cash, accounts receivable, advances to suppliers, accounts payable, due to related parties, advances from customers, accrued expenses, short term bank loans and notes payable approximates their recorded values due to their short-term maturities.



**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue recognition**

The Company's revenue is derived from the sale of products. The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin 104, included in the Accounting Standards Codification ("ASC") as ASC 605, *Revenue Recognition*. Our determination to recognize revenue is based on the following:

- Persuasive evidence that an arrangement (sales contract) exists between a willing customer and us that outlines the terms of the sale (including customer information, product specification, quantity of goods, purchase price and payment terms).
- Delivery is considered to have occurred when the risks, rewards and ownership of the products are transferred from us to our customers.
- Our price to the customer is fixed and determinable as specifically outlined in the sales contract.
- For customers to whom credit terms are extended, we assess a number of factors to determine whether collection from them is probable, including past transaction history with them and their credit-worthiness. All credit extended to customers is pre-approved by management. If we determine that collection is not reasonably assured, we defer the recognition of revenue until collection becomes reasonably assured, which is generally upon receipt of payment.

Payments received before satisfaction of all of the relevant criteria for revenue recognition are recorded as advance from customers.

The Company currently does not offer customers a right of return. Therefore, uncertainty regarding customer acceptance does not exist and delivered elements are not subject to general or customer-specified return or refund privileges.

The Company commenced an "Energy management contract" program in fiscal year 2014. Under the program, the Company provides the lighting products and the installation for the customers and the Company is compensated by a fee based on an agreement regarding the anticipated energy bill savings. The lighting products will belong to the customer at the end of the term, which is one to five years for current signed contracts. These agreements are classified as sales type leases in accordance with ASC 840, Leases. The present value of the aggregate lease payment receivable is recorded as sales type lease revenue. For balance sheet purposes, the aggregate lease payments receivable are recorded net of unearned income as net investment in leases. The Company amortizes unearned income, or deferred revenue, to interest income over the lease term on an internal rate of return method. The interest income for the quarters ended November 30, 2014 and 2013 were \$87,338 and \$0, respectively.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income taxes**

The Company's subsidiaries in China are subject to the income tax laws of the PRC. No taxable income was generated outside the PRC during the quarters ended November 30, 2014 and 2013. The Company accounts for income tax under the asset and liability method as stipulated by "ASC" 740, , which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the financial statements or tax returns. Deferred income taxes will be recognized if significant temporary differences between tax and financial statements occur. Valuation allowances are established against net deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. As of November 30, 2014 and May 31, 2014, no valuation allowance is considered necessary.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the three months ended November 30, 2014 and 2013.

**Value-added tax**

Sales revenue represents the invoiced value of goods, net of a Value-Added Tax ("VAT"). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

The Company recorded \$1,552,041 and \$985,580 VAT payable in the financial statements as of November 30, 2014 and May 31, 2014, respectively.

**Foreign currency translation**

The functional currency of the U.S. parent company is USD. The functional currency of the Company's Chinese subsidiary is RMB and its reporting currency is U.S. dollars for the purpose of these financial statements. The accounts of the Chinese subsidiary were translated into USD in accordance with "ASC" Topic 830 "Foreign Currency Matters." According to Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet date; stockholders' equity is translated at historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statements of income and other comprehensive income. The company has recorded other comprehensive gain of \$2,398 and \$85,027 for the three months ended November 30, 2014 and 2013, respectively, and \$236,810 and \$123,397 for the six months ended November 30, 2014 and 2013, respectively.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following exchange rates were adopted to translate the amounts from RMB into United States dollars ("USD\$") for the reporting periods:

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
<b>Period End RMB Exchange Rate (RMB/USD\$)</b>	6.1429	6.1261
<b>Average Period RMB Exchange Rate (RMB/USD\$)</b>	6.1628	6.1519

**Concentrations of credit risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. All of the Company's cash is maintained with banks within the People's Republic of China in which no deposits are covered by insurance. The Company has not experienced any losses in such accounts. A significant portion of the Company's sales are credit sales which are primarily to customers whose ability to pay is dependent upon the industry economics prevailing in their markets. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

**NOTE 3 – ACCOUNTS RECEIVABLE, NET**

The Company provides an allowance for doubtful accounts related to its receivables. The receivables and allowance balances as of November 30, 2014 and May 31, 2014 are as follows:

	<b>November 30, 2014</b>	<b>May 31, 2014</b>
Accounts receivable	\$ 7,626,350	\$ 6,662,699
Less: Allowance for doubtful accounts	(3,217,882)	(909,591)
<b>Accounts receivable, net</b>	<b>\$ 4,408,468</b>	<b>\$ 5,753,108</b>

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 4 – INVENTORY, NET**

Inventory consists of finished goods and raw materials, net of valuation allowance. An allowance of \$0 and \$1,523,760 for inventory was made as of November 30, 2014 and May 31, 2014, respectively.

The components of inventories as of November 30, 2014 and May 31, 2014 were as follows:

	<b>November 30, 2014</b>	<b>May 31, 2014</b>
Raw materials	\$ 581,913	\$ 1,581,409
Finished goods	203,784	390,800
	-	(1,523,760)
<b>Total inventory</b>	<b>\$ 785,697</b>	<b>\$ 448,449</b>

**NOTE 5 – PLANT, PROPERTY AND EQUIPMENT, NET**

The components of property and equipment as of November 30, 2014 and May 31, 2014 were as follows:

	<b>November 30, 2014</b>	<b>May 31, 2014</b>
Machinery equipment	\$ 8,450,558	\$ 8,307,078
Building	5,502,287	5,408,865
Electronic equipment	653,758	642,658
Transportation equipment	293,228	288,250
Subtotal	14,899,831	14,646,851
Less: Accumulated depreciation	(2,510,737)	(1,905,855)
<b>Total plant, property and equipment, net</b>	<b>\$ 12,389,094</b>	<b>\$ 12,740,996</b>

The depreciation expense for the three months ended November 30, 2014 and 2013 was \$ 288,370 and \$ 146,868 , respectively, and for the six months ended November 30, 2014 and 2013 was \$ 571,964 and \$ 292,604 , respectively.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 6 - RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the company with whom transactions are reported in these financial statements are as follows:

<u>Name of entity or individual</u>	<u>Relationship with the Company</u>
Changzhou Wujin Hengtong Metal Steel Wires Co. Ltd.	Entity controlled by Ms. Pan Yile's family members
Changzhou Hanyu Electronic Co.,Ltd	Entity controlled by Mr. Pan Shudong's sister
Chuangzhou Ruiyuan Steel Pipe Co. Ltd	Entity controlled by Mr. Pan Shudong's sister
Mr. Pan Shudong	Controlling shareholder and CEO of the Company
Ms. Pan Yile	Mr. Pan Shudong's daughter and an officer of the Company
Ms. Li, Xinmei	Major shareholder

**(i) Due from Related Parties:**

The Company had zero due from related parties as of both November 30, 2014 and May 31, 2014 .

**(ii) Due to Related Parties:**

Due to related parties at November 30, 2014 and May 31, 2014 consisted of the following:

	<b>November 30, 2014</b>	<b>May 31, 2014</b>
Changzhou Wujin Hengtong Metal Steel Wires Co. Ltd.	\$ 240,837	320,051
Changzhou Ruiyuan Steel Pipe Co. Ltd	-	192,031
Changzhou Hanyu Electronic Co.,Ltd	-	80,013
<b>Due to related parties</b>	<b>\$ 240,837</b>	<b>\$ 592,095</b>

Amounts due to related parties were unsecured, had no written agreement, were due on demand, and bore no interest.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 7 – SHORT-TERM LOANS**

The Company's short term bank loans consisted of the follows:

	<b>November 30, 2014</b>	<b>May 31, 2014</b>
Loan from China Industrial and Commercial Bank (6.0% annual interest rate, due on September 27, 2014, renewed on September 4, 2014 with annual interest rate of 6.3% and maturity date on August 26, 2015)	\$ 862,785	\$ 848,136
Loan from China Industrial and Commercial Bank (6.0% annual interest rate, due on October 30, 2014, renewed on September 9, 2014 with annual interest rate of 6.3% and maturity date on June 1, 2015)	488,369	480,077
Loan from China Industrial and Commercial Bank (6.0% annual interest rate, due on July 21, 2014, renewed on July 17, 2014 with maturity date on April 15, 2015)	488,369	480,077
Loan from Changzhou Wujinyingfeng Agriculture Credit Union (1.86% monthly interest rate, due on September 21, 2014)	488,369	480,077
Loan from China Industrial and Commercial Bank (6.0% annual interest rate, due on September 25, 2014, renewed on September 9, 2014 with annual interest rate of 6.3% and maturity date on August 6, 2015)	358,137	352,056
Loan from China Huaxia Bank (8.4% annual interest rate, due on June 6, 2015)	325,578	-
Loan from China Merchant Bank (7.80% annual interest rate, due on June 18, 2014)	-	320,051
<b>Total</b>	<b>\$ 3,011,607</b>	<b>\$ 2,960,474</b>

The above loans are guaranteed by affiliate companies controlled by the CEO or his family members. The interest expense for the six months ended November 30, 2014 and 2013 was \$86,423 and \$65,830, respectively.

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 8 – NOTES PAYABLE**

	November 30, 2014	May 31, 2014
Six month notes payable to China Industrial and Commercial Bank	\$ 162,790	\$ -

\$162,790 and \$0 was held in the bank as restricted cash as of November 30, 2014 and May 31, 2014, respectively.

**NOTE 9 - TAXES PAYABLE**

Taxes payable as of November 30, 2014 and May 31, 2014 are as follows:

	November 30, 2014	May 31, 2014
Corporate income tax	\$ 1,997,629	\$ 1,694,388
Value-added tax	1,552,041	985,580
Other taxes & fees	430,748	260,448
<b>Total</b>	<b>\$ 3,980,418</b>	<b>\$ 2,940,416</b>

**NOTE 10 - INCOME TAXES**

Changzhou Huayue Electronics Co., Ltd was registered in the PRC and qualified as a high-tech company, and is entitled to a preferential tax rate of 15% through November, 2014.

For the three months ended November 30, 2014 and 2013, Changzhou Huayue Electronics Co., Ltd recorded income tax benefit and provision of \$88,296 and \$ 380,083 , respectively, and for the six months ended November 30, 2014 and 2013 were \$65,834 and \$384,332, respectively.

*(i) The components of the income tax expense (benefit) are as follows:*

	For the Three Months Ended November 30,	
	2014	2013
Current	\$ 236,193	\$ 516,725
Deferred	(147,897)	( 136,642 )
Total income tax expense (benefit)	\$ 88,296	\$ 380,083

**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 10 - INCOME TAXES (Continued)**

	<b>For the Three Months Ended November 30,</b>	
	<b>2014</b>	<b>2013</b>
Current	\$ 273,093	\$ 626,189
Deferred	(207,259)	( 241,867 )
Total income tax expense (benefit)	<u>\$ 65,834</u>	<u>\$ 384,322</u>

(ii) The following table summarizes deferred taxes resulting from differences between financial accounting basis and tax basis of assets and liabilities:

	<b>November 30, 2014</b>	<b>May 31, 2014 (Restated)</b>
<b>Current assets and liabilities</b>		
Accounts receivable allowances	\$ 486,056	\$ 135,378
Advances to supplies allowances	49,860	18,423
Inventory reserve	(3947)	228,564
Deferred revenue	24,998	10,766
<b>Total deferred tax assets - current</b>	<u>556,967</u>	<u>393,131</u>
<b>Long term assets and liabilities</b>		
Deferred revenue	68,237	24,673
Accumulative depreciation	17,729	9,813
<b>Total deferred tax assets - non current</b>	<u>85,966</u>	<u>34,486</u>
<b>Total deferred tax assets, net</b>	<u><b>\$ 642,933</b></u>	<u><b>\$ 427,617</b></u>

**NOTE 11 – CONCENTRATIONS**

For the three months ended November 30, 2014, three major customers accounted for approximately 17.5%, 11.6% and 10.2% of the total sales. For the three months ended November 30, 2013, no major customer accounted for more than 10% of the Company's total sales.

For the three months ended November 30, 2014, one major supplier accounted for approximately 18% of the Company's total purchases . For the three months ended November 30, 2013, one major supplier accounted for approximately 16% of the Company's total purchases .



**HUAYUE ELECTRONICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 12 - CONTINGENCIES**

*Guarantee:*

On March 13, 2013, the Company signed an agreement with China Industry and Commerce Bank under which the Company guaranteed borrowings of Changzhou Hanyu Electronics Inc, a related party, for bank credit (including loans, notes payable, letter of credit and other credit forms) up to RMB 5.1 million, approximately \$823,000 USD. The guarantee is effective from March 16, 2013 to March 15, 2015.

*Shares to be issued*

On March 12, 2013 the Company entered into a written agreement with Buckman, Buckman & Reid, Inc. (“BB&R”). The agreement provides that for a one year term BB&R will serve as exclusive consultant to the Company in connection with corporate structure, public market strategies and fundraising activities. In partial compensation for the services of BB&R, the Company committed to sell to BB&R for nominal consideration common stock equal to five percent of the outstanding shares of Company common stock on a fully-diluted basis. Such agreement has been fulfilled through transfer of shares from Ms. Li Xinmei, a Director of the Company and Mr. Pan Shudong’s wife, to BB&R during the six months ended November 30, 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

### Forward-Looking Statements: No Assurances Intended

*In addition to historical information, this Quarterly Report contains forward-looking statements, which are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans to,” “estimates,” “projects,” or similar expressions. These forward-looking statements represent Management’s belief as to the future of Huayue Electronics, Inc. Whether those beliefs become reality will depend on many factors that are not under Management’s control. Many risks and uncertainties exist that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Section 1A titled “Risk Factors” in the Amendment No. 1 to the Company’s Annual Report on Form 10-K/A filed on January 7, 2015. Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.*

### Outline of Our Business

Huayue Electronics, Inc. is a Delaware corporation that functions as a holding company. Through a wholly-owned subsidiary, we own all of the registered capital of Changzhou Huayue Electronic Co., Ltd. (“Changzhou Huayue”), a corporation organized and located in The People’s Republic of China (“PRC”). Since 1999 Changzhou Huayue has been engaged in the production and sale of electrolytic capacitors. Since 2008, however, the growing portion of our business has been the production and sale of energy efficient lighting products.

We first entered the market for energy efficient lighting in 2008 with a line of induction lights. In contrast to traditional lamps, induction lights do not involve either filaments or electrodes, and no electrical connection goes on inside the glass tube. Instead, energy is transferred through the glass tube solely by electromagnetic induction. Power to create the light is transferred from outside the glass tube by means of a magnetic field. As with a conventional fluorescent lamp, the power excites mercury or a mercury alloy, producing ultraviolet light which hits the phosphors resulting in visible light.

After several years of research and development, in 2011 we added a line of LED lights to our product offerings. An LED light contains diodes comprised of a negatively charged semiconductor paired with a positively charged semiconductor. When exposed to a power source, the diode becomes electrically unbalanced, which causes its electrons to seek a different energy level, thus emitting light. The primary advantage of LED lights is efficiency: energy waste is reduced by 50% to 90% compared to conventional incandescent bulbs. In addition, LED lights have a far longer lifetime than conventional lights, are environmentally friendly, and do not produce the infrared radiation that makes incandescent bulbs hot to the touch.

Our participation in the market for lighting benefits from our intellectual property. From 2008 to 2010, we obtained 60 patents from the PRC government relating to the induction lighting business, of which 33 are currently in use. Since that time, we have added 37 patents relating to lighting products. Our lighting products also benefit from representing high quality at a low cost. The incorporation of smart cards into our lamps provides constant power control and the ability to automatically adjust brightness. We have the facilities to mass produce 300 watt induction lamps with long lives that do not require frequent maintenance, as backed up by our warranties.

We recently changed our domestic distribution strategy. Prior to fiscal 2012 our target market for lighting products had been end users, to whom our in-house sales staff marketed directly. During fiscal 2012 we added an emphasis on developing customer relationships with regional distributors of lighting products and construction materials. This method has proved successful, being one of the main drivers for our revenue increase. Our sales transactions with distributors are not significantly different than our sales transactions with end users: none of our distributors has been given an exclusive territory, their purchases are based on the same price list as we give to end users, and our revenue recognition policies are the same for each type of sale. However, the relationship with distributors provides us a cost-effective way of expanding the scope of our marketing.

A growing aspect of our lighting business is our participation in energy management contracts (“EMC”). In this business model, energy efficient equipment is sold to an end user on a payment plan designed to net no cost to the customer: payments by the customer are scheduled to conform to the savings realized from use of the energy efficient equipment. Changzhou Huayue offers this option to customers directly as well as to contractors as part of a broader EMC program. Although an EMC sale results in significantly longer payment terms than a conventional net-90 days sale, profit margins on EMC sales are far higher than on conventional sales, as customers are much less price-resistant in the EMC model.

Historically, Changzhou Huayue had exported its electrolytic capacitors and related products to the United States, Europe and other countries in Asia, creating global brand awareness. For our induction lighting products, we have been securing the government approvals necessary to engage in export, and are currently in the process of negotiating terms with prospective international sales agents. Our plan is to price our products sold internationally at a 20% premium to our domestic sales, in order to provide a margin for adverse currency movements. In addition, once we receive approval for international marketing, we will be eligible to purchase receivables insurance that the Chinese government offers for eligible offshore sales. Besides significantly reducing the risk of international sales, the government insurance facilitates receivables financing, which is generally difficult in China.

### *Results of Operations*

The following data is derived from the Company’s Consolidated Statements of Income and Comprehensive Income for the three months and six months ended November 30, 2014 and 2013:

	For the Three Months Ended November 30,			
	2014	2013	Change	Percentage
Net sales	\$ 2,763,880	\$ 4,307,583	(1,543,703)	-36%
Cost of goods sold	1,380,696	1,232,515	148,181	12%
<b>Gross profit</b>	<b>1,383,184</b>	<b>3,075,068</b>	<b>(1,691,884)</b>	<b>-55%</b>
<b>Gross Profit Margin %</b>	50%	71%	-21%	-30%
Selling expenses	1,314	18,993	(17,679)	-93%
General and administrative expenses	839,642	795,266	44,376	6%
<b>Income (loss) from operations</b>	<b>542,228</b>	<b>2,260,809</b>	<b>(1,718,581)</b>	<b>-76%</b>
Interest expense, net	6,253	(56,998)	63,251	-111%
Other income	8,122	145,508	(137,386)	-94%
<b>Income (loss) before income taxes</b>	<b>556,603</b>	<b>2,349,319</b>	<b>(1,792,716)</b>	<b>-76%</b>
<b>Total income tax provision</b>	<b>88,296</b>	<b>380,083</b>	<b>(291,787)</b>	<b>-77%</b>
<b>Net income (loss)</b>	<b>468,307</b>	<b>1,969,236</b>	<b>(1,500,929)</b>	<b>-76%</b>
Basic and diluted earnings per common share	<u>\$ 0.01</u>	<u>\$ 0.06</u>	<u>-0.05</u>	-76%

	For the Six Months Ended November 30,			
	2014	2013	Change	Percentage
Net sales	\$ 6,283,572	\$ 7,796,044	(1,512,472)	-19%
Cost of goods sold	3,323,160	3,651,099	(327,939)	-9%
<b>Gross profit</b>	<b>2,960,412</b>	<b>4,144,945</b>	<b>(1,184,533)</b>	<b>-29%</b>
<b>Gross Profit Margin %</b>	47%	53%	-6%	-11%
Selling expenses	13,491	25,847	(12,356)	-48%
General and administrative expenses	2,550,717	1,415,530	1,135,187	80%
<b>Income (loss) from operations</b>	<b>396,204</b>	<b>2,703,568</b>	<b>(2,307,364)</b>	<b>-85%</b>
			-	
Interest expense, net	915	(122,824)	123,739	-101%
Other income	9,736	147,166	(137,430)	-93%
<b>Income (loss) before income taxes</b>	<b>406,855</b>	<b>2,727,910</b>	<b>(2,321,055)</b>	<b>-85%</b>
<b>Total income tax provision</b>	<b>65,834</b>	<b>384,322</b>	<b>(318,488)</b>	<b>-83%</b>
<b>Net income (loss)</b>	<b>341,021</b>	<b>2,343,588</b>	<b>(2,002,567)</b>	<b>-85%</b>
Basic and diluted earnings per common share	<b>\$ 0.01</b>	<b>\$ 0.07</b>	<b>-0.06</b>	<b>-85%</b>

## Sales

Since 2009 the Company's operations have gradually refocused from an exclusive involvement in the manufacture and sale of electrolytic capacitors to a primary focus on the sale of energy efficient lighting products. During the fiscal year ended May 31, 2014, 87% of our sales were lighting products. During the three months ended August 31, 2014, however, we experienced a surge in capacitor sales, resulting in a 40% increase in capacitor sales during the six months ended November 30, 2014 compared to the same period of fiscal year 2014. That result, combined with a reduction in sales of lighting products caused the portion of our sales attributable to capacitors to increase to 16% in the first half of fiscal year 2015, as demonstrated in the following comparison of sales by products:

	For The Three Months Ended November 30,						For The Six Months Ended November 30,					
	2014	% of total sales of 2014	2013	% of total sales of 2014	Change	Percentage Change	2014	% of total sales of 2014	2013	% of total sales of 2014	Change	Percentage Change
<b>Electrolytic capacitors</b>	118,706	4%	403,967	10%	(285,261)	-71%	1,022,192	16%	727,559	9%	294,633	40%
<b>Energy efficient lighting</b>	1,718,927	65%	1,750,119	45%	(31,192)	-2%	2,280,019	36%	4,708,043	61%	(2,428,024)	-52%
<b>EMC</b>	926,246	35%	2,153,497	55%	(1,227,251)	-57%	2,981,360	48%	2,360,442	30%	620,918	26%
<b>Total</b>	<b>2,645,173</b>		<b>3,903,616</b>		<b>(1,258,443)</b>	<b>-32%</b>	<b>(6,283,572)</b>		<b>7,068,485</b>		<b>(13,352,057)</b>	<b>-19%</b>

The reduction in sales of lighting products was caused by a reorientation of our business model. Recently we have been finding our standard lighting sales to be increasingly difficult due to competition. More and more competitors are entering into this market and lighting products are innovating rapidly. New lighting products, such as WIFI, mobile phone and internet controlled lightings, are becoming the new trend in the market. To gain competitive traction in these circumstances, we now focus the greater part of our sales effort on our program to generate lighting sales in connection with an energy management contract ("EMC"). The EMC extends the payment term for the sale over the period when energy savings will allow the customer to recoup the cost of the lighting.

We entered into a number of EMC contracts during fiscal 2014 and during the six months ended November 30, 2014, and \$2,981,360 revenue from those contracts (57% of our lighting revenue) was recognized during the six months ended November 30, 2014. However, unlike sales with conventional net-90 terms, the revenue from EMC sales is recorded over an extended period of time. For example, during the six months ended November 30, 2014, in addition to the \$2,981,360 revenue that we recorded, EMC sales caused the investment in sales-type lease item on our balance sheet to increase by \$4,803,638. So changing our marketing focus to the EMC program, while slowing the growth of our lighting products revenue in the near term, will help us build a foundation for future profitability.

We are committed to continue our innovations and to becoming the market leader for the new generation of energy efficient lighting products. We expect the sales from our new lighting products will continue to grow in the remainder of fiscal 2015 and beyond. The principal factors that will contribute to the future growth of lighting sales will be:

- ☐ Our domestic distribution network continues to grow, particularly for the sale of LED lights, a massive market that we have only recently begun to penetrate.
- ☐ We are in the final stages of securing an international distribution network and the governmental approvals necessary for international sales. We expect international sales to yield a significant portion of our revenue in fiscal 2015.
- ☐ The EMC program, although it delays our revenue recognition, allows us to demand very high margins on EMC sales. We have entered into a number of EMC contracts during fiscal 2014 and for the six months ended November 30, 2014, and we expect more EMC will be signed in future periods.
- ☐ Our engineers continue to enhance our existing products and develop new lighting products, each of which opens a new submarket for us.

### **Gross profit**

The profitability of our sales decreased for the three months ended November 30, 2014, during which we achieved a gross margin of 50% compared to 71% gross margin recorded for the same period in 2013. The primary reason for the decrease was that revenue from EMC, which is a significantly higher margin sale, represented only 35% of total sales during the three months ended November 30, 2014 compared to 55% during the three months ended November 30, 2013. As a result of the decrease in gross margin and the 36% decrease in sales, gross profit for the three months ended November 30, 2014 decreased to \$1,383,184, a decrease of \$1,691,884, or 55%, from \$3,075,068 gross profit recorded three months ended November 30, 2013.

The profitability of our sales also decreased for the six months ended November 30, 2014, during which we achieved a gross margin of 47% compared to 53% gross margin recorded for the same period in 2013. The primary reasons for the decrease in the six month period were reduced margins on non-EMC energy efficient lighting sales, which represented 36% of total sales during the six months ended November 30, 2014, as well as the significant amount of low margin capacitor sales in the first quarter of the current fiscal year. As a result of the decrease in gross margin and the 19% decrease in sales, gross profit for the six months ended November 30, 2014 decreased to \$2,960,412, a decrease of \$1,184,533, or 29%, from \$4,144,945 recorded during the six months ended November 30, 2013.

## Expenses

Total operating expenses for the three months ended November 30, 2014 were \$840,956, an increase of \$26,697, or 3%, from \$814,259 recorded for the six months ended November 30, 2013. Total operating expenses for the six months ended November 30, 2014 were \$ 2,564,208, an increase of \$ 1,122,831, or 78%, from \$ 1,441,377 recorded for the six months ended November 30, 2013. The primary reason for the increases was the bad debt expense of \$814,987 recorded during the three months ended November 30, 2014 and \$ 2,376,717 recorded during the recent six months. The bad debt expense included advances to vendors, but was primarily related to accounts receivable. The Company evaluates the collectability of its receivables by aging schedules. The provision for doubtful accounts was increased as of November 30, 2014 due to the increased balance of accounts receivable aged over one year. Operating expenses other than bad debt expense were lower in the second quarter of fiscal 2015 than in the first quarter because the Company incurred higher professional fees in the first quarter and the Company reassigned certain administrative personnel to production in the second quarter.

Because of our dramatically increased G&A expenses, we realized an operating profit of only \$542,228 for the three months ended November 30, 2014, compared to an operating profit of \$2,260,809 for the three months ended November 30, 2013. We realized an operating profit of \$396,204 for the six months ended November 30, 2014, compared to an operating profit of \$ 2,703,568 for the six months ended November 30, 2013.

We rely on short-term bank debt for our liquidity. For the three months ended November 30, 2014, interest expense was \$41,136, compared to \$56,998 for the same period in 2014. For the six months ended November 30, 2014, interest expense was \$86,423, compared to \$122,824 for the same period of fiscal 2014. The decrease in interest expense is primarily due to a decrease of loan interest rates and principal balances. As discussed below, we hope to access the international capital markets to obtain equity funding to pay off the debt and further reduce this cost and our exposure to increasing interest rates.

For the reasons described above, our net income before tax for the three months ended November 30, 2014 was \$556,603, a decrease from net income before income tax of \$2,349,319 for the three months ended November 30, 2013. Our net income before tax for the six months ended November 30, 2014 was \$406,855, a decrease from net income before income tax of \$2,727,910 for the three months ended November 30, 2013. Due to the significant temporary difference between taxable income and accounting income, we had an income tax benefit of \$88,296 for the three months ended November 30, 2014, compared to \$380,083 income tax expense for the three months ended November 30, 2013. We had an income tax benefit of \$65,834 for the three months ended November 30, 2014, compared to \$384,322 income tax expense for the three months ended November 30, 2013.

Our business operates primarily in Chinese Renminbi (“RMB”), but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars will result in translation adjustments. While our net income will be added to the retained earnings on our balance sheet, the translation adjustments will be added to a line item labeled “accumulated other comprehensive income,” since they will be more reflective of changes in the relative values of U.S. and PRC currencies than the success of our business. The amount added to “accumulated other comprehensive income” was \$2,398 during the three months ended November 30, 2014. During the three months ended November 30, 2013, our accumulated other comprehensive income increased by \$85,027. The amount added to “accumulated other comprehensive income” was \$236,810 during the six months ended November 30, 2014. During the six months ended November 30, 2013, our accumulated other comprehensive income increased by \$123,397.

### *Liquidity and Capital Resources*

Until recently the operations of the Company had been funded by contributions and short-term loans from our founder, Mr. Shudong Pan, and his family. In recent periods, however, we have developed bank lending relationships, which are now our primary source of liquidity. Today, our current liabilities are in large part made up of short term debt and notes payable to Chinese banks. Most of these debts have been guaranteed by related entities or secured by property owned by related parties. The proceeds of these loans have been utilized primarily to finance the development of our lighting business and the expanded sales effort for the new LED lighting products.

The largest component of our current assets was our accounts receivable. Accounts receivable of \$4,408,468 as of November 30, 2014 is largely relative to recent revenue. In our efforts to achieve a substantial beachhead in the induction lighting market, after we are assured that the customer has the capability and intent to make payment, we offer our customers relatively generous payment terms. Our standard payment terms are 90 days after delivery. However, for particularly attractive customers, with strong credit histories, we apply a variety of payment practices.

Our accrual of a \$3,217,882 allowance for doubtful accounts, primarily related to aged accounts receivable, demonstrates the risk inherent in our practice of offering generous payment terms. In addition, our generous payment terms reduce our liquidity. The practice is harmful to our cash flow, particularly in light of the requirement that we prepay many of our vendors for raw materials and components, as discussed below. But our generous payment terms do help us develop long-term, repeat customers.

During the six months ended November 30, 2014, we had net cash provided from operating activities of \$121,908 compared to cash provided by operating activities of \$724,685 in the six months ended November 30, 2013. The decrease of cash flow is primarily due to the increase in our investment in sales-type leases arising from EMC sales as well as sizeable advances that we have made to suppliers. In China, to secure a guaranteed supply of raw materials and components, it is common practice to make prepayments to your principal suppliers, often to the extent of several months' requirements. That security is the purpose for the advances to suppliers totaling \$1,949,949 on our November 30, 2014 balance sheet.

Cash used in financing activities was \$361,484 for the quarter ended November 30, 2014, compared to cash provided by financing activities for \$19,725 of same period in fiscal year 2014, as we reduced our debt loads in the recent six month period. The increase in net cash used financing activities was mainly because of net repayment of related party loans of \$361,484 for the six months ended November 30, 2014, compared to net proceeds of related party loans of \$101,000 for the six months ended November 30, 2013.

We believe our cash flow is enough for the working capital needs for the next twelve months. We are actively seeking for equity financing in US capital market to further expand our business. If we are forced to finance our capital needs through the issuance of debt or long term borrowing, the interest rates we pay and our interest cost of financing would increase.

We believe growth of our production capacity is critical. If we are unable to raise additional funds through any means, we will be forced to postpone our expansion plans and the growth and profitability of the Company would be reduced.

### **Critical Accounting Policies and Estimates**

#### **Estimates**

In preparing our financial statements we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements for the six months ended November 30, 2014, there was one estimate made subject to a high degree of uncertainty and material to our results, which was the determination to make an increase of \$2,292,581 and \$ 84,136 in our allowance for bad debt on Accounts Receivable and Advance to Suppliers, respectively.

#### **Revenue Recognition for Energy Management Contract ("EMC")**

The Company commenced an "Energy management contract" program in fiscal 2014. Under the program, the Company provides the lighting products and the installation for the customers and the Company is compensated by a fee based on an agreement regarding the anticipated energy bill savings. The lighting products will belong to the customer at the end of the term, which is one to five years for current signed contracts. These agreements are classified as sales type leases in accordance with ASC 840, Leases. The present value of the aggregate lease payment receivable is recorded as sales type lease revenue. For balance sheet purposes, the aggregate lease payments receivable are recorded net of unearned income as net investment in leases. The Company amortizes unearned income, or deferred revenue, to interest income over the lease term on an internal rate of return method. The interest income for the six months ended November 30, 2014 was \$87,338, and the interest income for the six months ended November 30, 2013 was immaterial.

### **Impact of Accounting Pronouncements**

There were no recent accounting pronouncements that have had a material effect on the Company's financial position or results of operations.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures* . Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated by the Securities and Exchange Commission) as of November 30, 2014. Based on that evaluation, as well as the subsequent restatement of our financial statements as of May 31, 2014, as described in Note 1A to the Consolidated Financial Statements, our management determined that there are material weaknesses in our disclosure controls, specifically:

- The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system.
- Our accounting personnel lack expertise in identifying and addressing complex accounting issued under U.S. Generally Accepted Accounting Principles.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's system of disclosure controls and procedures was not effective as of November 30, 2014.

*Changes in Internal Controls* . There was no change in internal controls over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during the Company's second fiscal quarter that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.



## **PART II - OTHER INFORMATION**

### *Item 1. Legal Proceedings*

None.

### *Item 1A Risk Factors*

There have been no material changes from the risk factors included in Section 1A of Amendment #1 to our Annual Report on Form 10-K filed on January 7, 2015.

### *Item 2. Unregistered Sale of Securities and Use of Proceeds*

#### (a) Unregistered sales of equity securities

None.

#### (c) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the 2nd quarter of fiscal 2015.

### *Item 3. Defaults Upon Senior Securities .*

None.

### *Item 4. Mine Safety Disclosures*

None.

*Item 5. Other Information.*

None.

*Item 6. Exhibits*

31.1	Rule 13a-14(a) Certification – CEO
31.2	Rule 13a-14(a) Certification – CFO
32	Rule 13a-14(b) Certification
101.INS	XBRL Instance
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: January 20, 2015

HUAYUE ELECTRONICS, INC.  
By : /s/ Pan Shudong  
Pan Shudong, Chief Executive Officer

By: /s/ Han Zhou  
Han Zhou, Chief Financial Officer, Chief Accounting Officer

## Rule 13a-14(a) Certification

I, Pan Shudong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Huayue Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrants other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 20, 2015

/s/ Pan Shudong  
Pan Shudong  
Chief Executive Officer

## Rule 13a-14(a) Certification

I, Han Zhou, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Huayue Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrants other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 20, 2015

/s/ Han Zhou  
Han Zhou  
Chief Financial Officer

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*Rule 13a-14(b) Certification*

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Huayue Electronics, Inc. (the “Company”) certify that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended November 30, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 20, 2015

/s/ Pan Shudong  
Pan Shudong, Chief Executive Officer

January 20, 2015

/s/ Han Zhou  
Han Zhou, Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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