

Konka Group Co., Ltd.

Report of the 3rd Quarter of 2005

1. Important notice

1.1 The Board of Directors and of Konka Group Co., Ltd. (hereinafter referred to as the Company) and all Directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

1.2 This Quarterly Report has been examined and approved by all the directors at the 11th meeting of the 5th Board of Directors of the Company (voting conducted through fax).

1.3 The financial report of this quarter was not audited.

1.4 Chairman of the Board of the Company Mr. Hou Songrong, Chief Financial Supervisor Mr. Yang Guobin and General Manager of Financial Department Ms. Ruan Renzong hereby confirm that the Financial Report of the 3rd quarter is true and complete.

2. Company profile

2.1 Brief information

Short form of stock	Shen Konka - A,	Shen Konka - B
Code of stock	000016	200016
	Secretary of the Board	Securities Affairs Representatives
Name	Mr.He Jianjun	Mr.Xu Wenxiao
Contact address	Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen	Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen
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2.2 Financial information

2.2.1 Major accounting data and financial indexes

Unit: RMB

	End of the report period	End of the last year	Increase/decrease of amount of end of report period than that of end of last year (%)
Total assets	8,263,929,496.53	9,597,845,796.50	-13.90
Shareholders' equity (excluding minority equity)	3,214,371,786.85	3,193,928,132.53	0.64
Net assets per share	5.34	5.31	0.56
Net assets per share after adjustment	5.11	5.11	0.00
	In the report period	Year begin to end of report period	Increase/decrease of amount of report period than that of corresponding period of last year
Net cash flow arising from operating activities	-	-55,582,851.09	-
Earnings per share	0.0191	0.0579	Decrease RMB 0.0048
Return on equity (%)	0.3579%	1.0843%	Decrease 0.1039 percentage
Return on equity after deducting non-recurring gains and losses (%)	0.3629%	1.1173%	Decrease 0.0842 percentage

Items of non-recurring gains and losses	Amount
Income from equity investment and transfer	-399,367.44
Subsidy income	206,465.19
Non-operating income	2,279,084.71
Non-operating expenditure	-3,147,268.12
Total	-1,061,085.66

2.2.2 Income statement

Statement of Profit and Profit Distribution 1

Unit: RMB

Items	Jul.-Sep. 2005		Jul.-Sep. 2004	
	Consolidation	Company	Consolidation	Company
I. Income from core business	2,544,584,982.66	1,993,033,848.92	2,932,792,267.02	1,994,100,163.98
Less: cost of core business	2,110,865,163.72	1,675,898,067.76	2,517,679,424.13	1,755,426,047.50
Tax and surcharge of core business	189,591.79	10,240.67	283,578.57	28,931.03
II. Profit from core business	433,530,227.15	317,125,540.49	414,829,264.32	238,645,185.45
Add: profit from other business	7,342,257.49	1,453,116.57	8,704,857.17	3,790,522.42
Less: operating expense	329,830,754.45	210,729,881.68	319,954,398.95	196,165,673.51
Administrative expense	97,053,312.62	59,616,895.70	78,859,849.65	43,725,880.37
Financial expense	1,472,596.40	130,733.52	3,152,917.65	1,590,348.67
III. Operating profit	12,515,821.17	48,101,146.16	21,566,955.24	953,805.32
Add: investment earnings	-86,454.59	-	-	-
Subsidy income	71,565.19	-	-	-
Non-operating income	1,015,180.34	522,823.44	1,815,959.70	530,766.41
Less: non-operating expenditure	1,160,779.41	477,696.88	1,358,730.07	766,575.08
IV. Total profit	12,355,332.70	48,146,272.72	22,024,184.87	717,996.65
Less: income tax	4,427,270.39	-	2,803,825.84	-
Minority gains and losses	4,450,027.40	-	4,721,411.64	-
Unoffset losses of subsidiaries	-8,027,322.64	-	133,002.05	-
V. Net profit	11,505,357.55	48,146,272.72	14,365,945.34	717,996.65
Add: retained profit at the beginning of the year	0.00	0.00	0.00	0.00
Other transfer-in	0.00	0.00	0.00	0.00
VI. Profit available for distribution	11,505,357.55	48,146,272.72	14,365,945.34	717,996.65
Less: statutory surplus reserve withdrawn	0.00	0.00	0.00	0.00
Statutory public welfare fund withdrawn	0.00	0.00	0.00	0.00
Employee bonus & welfare fund withdrawn	0.00	0.00	0.00	0.00
Reserve fund withdrawn	0.00	0.00	0.00	0.00
Business development fund withdrawn	0.00	0.00	0.00	0.00
Investment transferred from profit	0.00	0.00	0.00	0.00
VII. Profit available to grant investors	11,505,357.55	48,146,272.72	14,365,945.34	717,996.65
Less: dividends payable to preference shares	0.00	0.00	0.00	0.00
Discretionary surplus reserve withdrawn	0.00	0.00	0.00	0.00
Dividends payable to ordinary shares	0.00	0.00	0.00	0.00
Dividends for ordinary shares transferred into capital (or share capital)	0.00	0.00	0.00	0.00
VIII. Undistributed profit	11,505,357.55	48,146,272.72	14,365,945.34	717,996.65
Profit Statement (supplementary material)				
1. Income from the selling or disposal of some departments or invested units	0.00	0.00	0.00	0.00
2. Losses caused by natural disasters	0.00	0.00	0.00	0.00
3. Increase (or decrease) of total profit caused by the changes in accounting policies	0.00	0.00	0.00	0.00
4. Increase (or decrease) of total profit caused by the changes in accounting estimation	0.00	0.00	0.00	0.00
5. Losses arising from debt reorganization	0.00	0.00	0.00	0.00
6. Others	0.00	0.00	0.00	0.00

Statement of Profit and Profit Distribution 2

Unit: RMB

Items	Jan.-Sep. 2005		Jan.-Sep. 2004	
	Consolidation	Company	Consolidation	Company
I. Income from core business	8,009,240,854.87	6,354,420,651.84	9,801,390,582.38	6,428,434,040.52
Less: cost of core business	6,768,474,563.17	5,432,995,372.20	8,348,107,565.85	5,594,929,501.98
Tax and surcharge of core business	828,349.00	303,405.00	1,244,977.24	605,751.27
II. Profit from core business	1,239,937,942.70	921,121,874.64	1,452,038,039.29	832,898,787.27
Add: profit from other business	16,778,220.24	1,970,263.20	17,126,658.57	7,895,506.18
Less: operating expense	963,982,394.85	598,487,940.32	1,118,764,553.54	663,562,424.73
Administrative expense	256,243,649.45	151,577,356.58	270,942,368.06	165,703,215.44
Financial expense	6,039,674.84	1,367,269.56	3,405,056.83	130,692.86
III. Operating profit	30,450,443.80	171,659,571.38	76,052,719.43	11,397,960.42
Add: investment earnings	-399,367.44	-100,204,828.74	-287,450.45	34,197,275.71
Subsidy income	206,465.19	-	4,656,771.35	-
Non-operating income	2,279,084.71	1,500,662.69	4,610,283.97	1,051,687.82
Less: non-operating expenditure	3,147,268.12	1,631,813.19	4,992,381.53	3,485,216.15
IV. Total profit	29,389,358.14	71,323,592.14	80,039,942.77	43,161,707.80
Less: income tax	5,962,063.74	-	10,522,016.63	-
Minority gains and losses	2,398,214.12	-	12,823,166.84	-
Unoffset losses of subsidiaries	-13,824,682.77	-	-152,496.51	-
V. Net profit	34,853,763.05	71,323,592.14	56,847,255.81	43,161,707.80
Add: retained profit at the beginning of the year	-375,756,844.99	-338,517,003.06	-511,783,686.15	-472,119,217.00
Other transfer-in	375,756,844.99	375,756,844.99	0.00	0.00
VI. Profit available for distribution	34,853,763.05	108,563,434.07	-454,936,430.34	-428,957,509.20
Less: statutory surplus reserve withdrawn	0.00	0.00	0.00	0.00
Statutory public welfare fund withdrawn	0.00	0.00	0.00	0.00
Employee bonus & welfare fund withdrawn	0.00	0.00	0.00	0.00
Reserve fund withdrawn	0.00	0.00	0.00	0.00
Business development fund withdrawn	0.00	0.00	0.00	0.00
Investment transferred from profit	0.00	0.00	0.00	0.00
VII. Profit available to grant investors	34,853,763.05	108,563,434.07	-454,936,430.34	-428,957,509.20
Less: dividends payable to preference shares	0.00	0.00	0.00	0.00
Discretionary surplus reserve withdrawn	0.00	0.00	0.00	0.00
Dividends payable to ordinary shares	0.00	0.00	0.00	0.00
Dividends for ordinary shares transferred into capital (or share capital)	0.00	0.00	0.00	0.00
VIII. Undistributed profit	34,853,763.05	108,563,434.07	-454,936,430.34	-428,957,509.20
Profit Statement (supplementary material)				
1. Income from the selling or disposal of some departments or invested units	0.00	0.00	0.00	0.00
2. Losses caused by natural disasters	0.00	0.00	0.00	0.00
3. Increase (or decrease) of total profit caused by the changes in accounting policies	0.00	0.00	0.00	0.00
4. Increase (or decrease) of total profit caused by the changes in accounting estimation	0.00	0.00	0.00	0.00
5. Losses arising from debt reorganization	0.00	0.00	0.00	0.00
6. Others	0.00	0.00	0.00	0.00

2.3 2.3 Number of shareholders by the end of the report period and shares held by the top ten stockholders holding circulating shares (no company of G-share)

Total number of stockholders by the end of the report period	137,654	
Particulars about the top ten stockholders holding circulating shares		
Name of the stockholder	Number of circulating shares held by the end of the report period	Type (A, B, H share or others)
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD	39,541,212.00	B-share
BUILDUNITED LIMITEDERCE	20,000,000.00	B-share
THOMSON INVESTMENTS GROUP LIMITED	15,896,074.00	B-share
ABLEWELL INVESTMENTS LIMITED	14,100,000.00	B-share
NOMURA SECURITIES CO., LTD	6,750,000.00	B-share
MERRILL LYNCH PIERCE FENNER & SMITH INC	5,975,926.00	B-share
FIRST SHANGHAI SECURITIES LIMITED	5,833,659.00	B-share
MINSHENG SECURITIES CO., LTD	2,847,622.00	A-share
CHUANGLI DEVELOPMENT HONG KONG HOLDING CO.	2,568,800.00	B-share
CHINA GAOXIN INVESTMENT GROUP CORP.	2,550,914.00	A-share

3. Discussion and Analysis of the Management

3.1 General analysis on the overall operations in the report period

In the report period, the Company continues to strengthen the R & D and popularization of products with high-tech content and high added value, and centralize advantageous resources to expand the Company's advantages in the digital TV and flat TV area. Thanks to these efforts, the sales structure of color TVs has been further improved, and the proportions of the sales quantity and sales income of high-end products, including liquid crystal, plasma and digital products, etc, have been climbing up.

Due to the worsening market competition, the prices of household electrical products keep descending, which leads to the decline of sales income and profit of the Company compared with the same period of the previous year. In the report period, the income from main businesses totals RMB 2545million; the sales income accumulated during January and September amounts to RMB 8009million, down by 18.28% year-on-year, while the net profit totals RMB 34,854 thousand, decreased by 38.69% year-on-year, and the earnings per share are RMB 0.0579.

During January and September, the color TV business of the Company has maintained an overall steady momentum, realized a sales income of RMB 6779million, and kept its leading position concerning domestic market share.

The supply in the cell phone market has been exceeding demand on the whole. This, accompanied by the both domestic and foreign manufacturers getting rid of the stale and bringing forth the fresh, has contributed to the fierce competition, the decrease of cell phone prices and the increase of marketing expenses. All these factors have bore great influence on the Company cell phone business. Since this year, the sales income of the cell phone business has dropped by a fairly large margin and exerted negative influence on the Company's work performance. During January and September this year, the sales income from the cell phone business totals RMB 1230 million, down by 56.83% year-on-year.

3.1.1 Main industries or products taking over 10% of income from core business or total profit from core business

Applicable		Inapplicable		
Industries or products		Income from core business (RMB)	Cost of core business (RMB)	Gross profit ratio (%)
Household appliances	Color TVs	6,779,009,519.61	5,669,458,909.27	16.37
Communications	Mobile phones	1,230,231,335.26	1,099,015,653.90	10.67
Including: related transactions		0	0	0

3.1.2 Seasonal or periodic characteristic of the operation of the Company

Applicable

Inapplicable

3.1.3 Profit structure in the report period (material changes in proportions of profit from core business, profit from other business, period expense, investment earnings, subsidy income and net non-operating income and expenditure in total profits than those of the last report period and reasons)

Unit: RMB

Items	Jan.-Sep. 2005		Jan.-Jun. 2005		Increase/decrease of proportion in total profit (+/-) (%)
	Amount	Proportion in total profit (%)	Amount	Proportion in total profit (%)	
Profit from core business	1,239,937,942.70	4219.00	806,407,715.55	4734.10	-10.88
Profit from other business	16,778,220.24	57.09	9,435,962.75	55.39	3.06
Period expense	1,226,265,719.14	4172.48	797,909,055.67	4684.21	-10.92
Investment earnings	-399,367.44	-1.36	-312,912.85	-1.84	26.03
Net amount of non-operating income and expenditure	-868,183.41	-2.95	-722,584.34	-4.24	30.36
Total profit	29,389,358.14	100.00	17,034,025.44	100.00	-

Explanation: The profit from net amount of non-operating income & expenditure and investment earnings has changed in proportion mainly due to the change in total amount of profit.

3.1.4 Material changes in core business and its structure than that of the last report period and reasons

Applicable

Inapplicable

3.1.5 Material changes in profitability of core business (gross profit ratio) than that of the last report period and reasons

Applicable

Inapplicable

3.2 Significant events and analysis to their influences and solutions

Applicable

Inapplicable

Daily Related Transaction of the Company In the report period :

Unit: RMB

Type	Classified by products or labor, etc.	Related parties	Estimated total amount		Proportion occupying the same kind of transaction
Purchase raw material	Package raw material	Shanghai Huali Packaging Co., Ltd.	45,002,679.10	63,927,711.86	0.79%
		Shenzhen Huali Packaging Trade Co., Ltd.	18,925,032.76		0.33%

The Company has disclosed Public Notice on Estimation of Daily Related Transaction of the Company (Public Notice No. 2005-06) published on Securities Times, Shanghai Securities News, China Securities and Hong Kong Ta Kung Pao and on Internet website designated by CSRC: <http://www.cninfo.com.cn>. In the report period, regulated price reference, price of transaction, amount of transaction and the way of clearing, etc. of package raw material actually purchased by the Company from the abovementioned related parties, was substantial agreement with estimated situation.

3.3 Changes in accounting policy, accounting estimate and consolidated scope and significant accounting errors and reasons

Applicable Inapplicable

3.4 Relevant explanations from the Board of Directors and the Supervisory Committee in the event of being audited and produced “Non-standard Opinion”

Applicable Inapplicable

3.5 Forecasting of accumulated net profit from the beginning of the year to the end of the next report period probably to be in deficiency or warning of its great changes than that of the same period of last year and reasons

Applicable Inapplicable

3.6 Roll adjustments of the Company to the disclosed annual business plan or budget

Applicable Inapplicable

**Board of Directors of
Konka Group Co., Ltd.
Oct. 24, 2005**

KONKA GROUP CO., LTD.

For the period ended Sep. 30, 2005

Financial Report (for B shares)

(Un-audited)

Contents

1. Consolidated Balance Sheet
2. Consolidated Profit and Loss Account
3. Consolidated Statement of Cash Flow

Chairman of the board: Hou Songrong **Chief financial official :**Yang Guobin **Organizer :**Ruan Renzong

Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)
Consolidated Balance Sheet

As of September 30, 2005

	Sep. 30, 2005	Dec. 31, 2004
	RMB ' 000	RMB ' 000
Non-current assets		
Fixed assets	1,345,696	1,387,288
Goodwill	989	989
Intangible assets	19,928	11,014
Interests in associates	33,552	35,159
Other investments	10,043	10,290
	1,410,208	1,444,740
Current assets		
Bank balances and cash	699,947	851,762
Inventories	3,208,286	3,580,777
Properties held for sale	4,172	4,172
Note receivables	2,044,788	2,933,652
Account receivables	680,719	571,016
Prepayments, deposits and other receivables	209,029	199,251
	6,846,941	8,140,630
Current liabilities		
Tax payable	(13,554)	(2,145)
Short-term bank loans	(28,000)	(48,149)
Note payables	(2,840,939)	(3,977,323)
Account payables	(1,187,536)	(1,271,053)
Other payables and accrued expenses	(711,244)	(821,192)
	(4,781,273)	(6,119,862)
Net current assets	2,065,668	2,020,768
Total assets less current liabilities	3,475,876	3,465,508

Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

Consolidated Balance Sheet (Con.)

As of September 30, 2005

	Sep. 30, 2005	Dec. 31, 2004
	<u>RMB ' 000</u>	<u>RMB ' 000</u>
Total assets less current liabilities	3,475,876	3,465,508
Long-term account receivables of financing lease		
Long-term bank loans	-	-
Deferred income	(12,024)	(13,490)
Other long-term liabilities	(11,099)	(10,499)
	<u>(23,123)</u>	<u>(23,989)</u>
Minority interests	(223,329)	(247,827)
	<u>3,229,424</u>	<u>3,193,692</u>
	=====	=====
Shareholders' equity		
Share capital	601,986	601,986
Reserves	2,627,438	2,591,706
Shareholders' equity	<u>3,229,424</u>	<u>3,193,692</u>

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

Financial consolidated statement has been approved by the Board of Directors dated Oct.24,2005

Chairman of the board: Hou Songrong Chief financial official : Yang Guobin Organizer : Ruan Renzong

Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)
Consolidated income statement

For the period from January to September, 2005
Jul. – Sep. 2005 Jan. – Sep. 2005
2005

	RMB ' 000	RMB ' 000
Turnover	2,544,585	8,009,241
Cost of sales	(2,111,055)	(6,769,303)
Gross profit	433,530	1,239,938
Other revenue	7,269	17,615
Distribution costs	(329,830)	(963,982)
Administrative expenses	(97,054)	(256,244)
Profit from operating activities	13,915	37,327
Finance costs	(1,473)	(6,040)
Share of profit of associated companies	(87)	(399)
	-	-
Profit before taxation	12,355	30,888
Taxation	(4,427)	(5,962)
Profit before minority interests	7,928	24,926
Share of profit of minority interests	3,578	11,427
Net profit of this report period	11,506	36,353
	-----	-----
	--	-
Retained profit at the year-beginning	-	(361,412)
Profit attributable to shareholders	-	50,698
Profit distribution:		
Transferring into reserves	-	-
Dividends	-	-
Issue of bonus shares	-	-
Retained profit at the end of report period	-	50,698
	=====	=====
Earnings/(loss) per share - basic	RMB0.02	RMB 0.06
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Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)
Consolidated Cash Flow Statement

For the period from January to September, 2005

	Jan. – Sep. 2005
	RMB ' 000
Cash flow from operating activities	
Operating profit	36,353
Adjustment items:	
Depreciation of fixed assets	98,846
Amortization of intangible assets	4,301
Amortization of deferred expenditure	12,505
Loss on rejection or sale of fixed assets	804
Interests income	1,706
Dividend income	399
Government subsidy income	(1,634)
Balance difference from foreign currency exchange	(989)
(Increase)/decrease in account receivables	701,630
(Increase)/decrease in inventories	395,645
Decrease in account payables	(1,312,100)
Income tax paid	5,962
Net cash inflow from operating activities	(56,572)
Investing reward and financing expenses	
Interests received	648
Interests paid	(2,045)
Dividend paid	0
Cash outflow from investing reward and financing expenses	(1,397)
Investing activities	
Purchases of fixed assets	(67,738)
Proceeds from disposal of fixed assets	1,505
Deferred expenses paid	-
Net cash inflow/ (expenditure) from acquisition of associates	8,850
Investment in associated company	-
Purchases of long-term investment	-
Net cash outflow from investing activities	(57,383)
Net cash outflow before financing activities	(115,352)

Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

Consolidated Cash Flows Statement (Con.)

For the period from January to September, 2005

	Jan. – Sep. 2005
	RMB ' 000
Financing activities	
Additional bank loans	20,082
Repayment for bank loans	(40,267)
Expenditure of financing lease	-
Contribution from minority shareholders on formation of new subsidiary	-
Dividend paid to minority shareholders	(16,278)
Net cash inflow from financing activities	(36,463)
Cash and cash equivalents at beginning of the period	851,762
Cash and cash equivalents at end of the period	699,947
Net increase/(decrease) in cash and cash equivalents	(151,815)
	=====
Analysis of balances of cash and cash equivalents	
Monetary funds	699,947
	=====

Chairman of the board: Hou Songrong Chief financial official : Yang Guobin Organizer : Ruan Renzong