

**KONKA GROUP CO., LTD.
SEMI-ANNUAL REPORT 2005**

KONKA GROUP CO., LTD.
CHAIRMAN OF THE BOARD: REN KE LEI
AUGUST 25, 2005

KONKA GROUP CO., LTD. SEMI-ANNUAL REPORT 2005

Important Notice

The Board of Directors of KONKA GROUP CO., LTD. (hereinafter referred to as the Company) and all its directors hereby assure that there are no false records, misleading statements or significant omissions in this report, and they would shoulder any individual as well as joint responsibility concerning to the authenticity, accuracy and completeness of the contents.

This Semi-Annual Report has been examined and approved by the 10th meeting of the 5th Board of Directors of the Company.

All directors could guarantee the authenticity, accuracy and completeness of this report.

Chairman of the Board of the Company Mr. Ren Kelei, Chief Financial Officer Mr. Yang Guobin and Person in Charge of Accounting work Mr. Ruan Renzong hereby confirm that the Financial Report of the Semi-annual Report is true and complete.

The Financial Report of the Semi-Annual Report of the Company is not audited.

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I. Company Profile

(I) Basic information

1. Legal Name of the Company in Chinese: 康佳集团股份有限公司
Abbreviation in Chinese: 康佳集团
Legal Name of the Company in English: KONKA GROUP CO., LTD.
Abbreviation in English: KONKA GROUP
2. Registered (Office) Address: Overseas Chinese Town, Nanshan District, Shenzhen
Post Code: 518053
Internet Website: <http://www.konka.com>
E-mail: szkonka@konka.com
3. Legal Representative: Chairman of the Board, Mr. Ren Kelei
4. Secretary of Board of Directors: Mr. He Jianjun
Securities Affairs Representative: Mr. Xu Wenxiao
Contact Address: Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen
Tel.: (86) 755-26608866
Fax: (86) 755-26601139
E-mail: szkonka@konka.com
5. Newspaper Chosen for Disclosing the Information of the Company:
China Securities Journal, Securities Times and Hong Kong Ta Kung Pao, etc.

Internet Website Designated by CSRC for Publishing the Semi-Annual Report:

<http://www.cninfo.com.cn>

The Place Where the Annual Report Is Prepared and Placed:

Secretariat of the Board of Directors of the Company

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: Shen Konka - A, Shen Konka - B

Stock Code: 000016, 200016

7. Date of the Initial Registration: Oct. 1, 1980

Place of the Initial Registration: Shenzhen City

8. Registration Code of Enterprise Legal Person's Business License: QGYSZ Zi No. 100476

9. Registration Code of Tax: 440301618815578

10. Certified Public Accountants Engaged by the Company

Name: Shenzhen Dahua Tiancheng Certified Public Accountants

Address: Room 1102-1103, 11/F, Tower B, United Plaza, No. 5022, Binhai Av., Futian District, Shenzhen

(II) Accounting data and business data

1. Major accounting data and financial indexes (Unit: RMB)

Items	Jun. 30, 2005	Dec. 31, 2004	Increase/decrease (%)
Current assets	6,819,900,097.38	8,123,949,886.86	-16.05
Current liabilities	4,817,421,718.11	6,144,937,837.33	-21.60
Total assets	8,267,646,166.44	9,597,845,796.50	-13.86
Shareholders' equity (excluding minority interests)	3,211,597,362.08	3,193,928,132.53	0.55
Net assets per share	5.34	5.31	0.56
Net assets per share after adjustment	5.13	5.11	0.39
Items	Jan. - Jun. 2005	Jan. - Jun. 2004	Increase/decrease (%)
Net profit	23,348,405.50	42,481,310.47	-45.04
Net profit after deducting non-recurring gains and losses	24,249,002.69	38,688,080.15	-37.32
Earnings per share	0.04	0.07	-42.86
Return on equity	0.73%	1.37%	Decrease by 0.64%
Net cash flow arising out of operating activities	-172,455,799.24	132,026,555.37	-230.62

2. Items of non-recurring gains and losses (Unit: RMB)

Items of non-recurring gains and losses	Amount
Investment yield	-312,912.85
Subsidy income	134,900.00
Non-operating income	1,263,904.37
Non-operating expense	-1,986,488.71
Total	-900,597.19

3. Difference between CAS and IAS (Unit: RMB)

	Net assets	Net profit
According to IAS	3,218,623,162.16	24,847,155.50
1. Adjustment to capital reserves before taxation	6,978,000.00	
2. Adjustment to surplus reserves before taxation	-17,909,000.00	
3. Government subsidies transferred into capital reserves from deferred income	13,523,000.00	
4. Part of government subsidies classified as income	-1,498,750.00	-1,498,750.00
5. Write-off of moving costs before taxation	2,317,654.09	
6. Adjustment to losses of subsidiaries unoffset	-10,436,704.17	
According to Accounting System for Enterprise Business	3,211,597,362.08	23,348,405.50

II. Changes in Share Capital and Particulars about Shares Held by Main Shareholders

1. Ended June 30, 2005, the Company's total shares and share structure remained unchanged compared with that at the end of the last year.
2. Ended June 30, 2005, the Company has 139,685 shareholders, including 125,227 shareholders of A-share and 14,458 shareholders of B-share.
3. Ended June 30, 2005, particulars about shares held by the top ten shareholders and the top ten shareholders of circulation share:

No.	Name of shareholders (Full name)	Increase/ decrease in this period	Shares held at the period-end	Proportion (%)	Type of share (circulating or non-circulating)	Number of shares pledged or frozen	Nature of shareholders (state-owned shareholder or foreign-funded shareholder)
1	OVERSEAS CHINESE TOWN GROUP COMPANY	-29,000,000	145,949,746	24.24	Non-circulating A-share	0	State-owned shareholder
2	THOMSON INVESTMENTS GROUP LIMITED	+29,000,000	29,000,000	4.82	Non-circulating A-share	Unknown	Foreign-funded shareholder
		-3,103,926	15,896,074	2.64	Circulating B-share		
3	HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	0	39,541,212	6.57	Circulating B-share	Unknown	Foreign-funded shareholder
4	BUILDUNITED LIMITED	+20,000,000	20,000,000	3.32	Circulating B-share	Unknown	Foreign-funded shareholder
5	FIRST SHANGHAI SECURITIES LIMITED	+19,833,659	19,833,659	3.29	Circulating B-share	Unknown	Foreign-funded shareholder
6	NOMURA SECURITIES CO., LTD	+6,750,000	6,750,000	1.12	Circulating B-share	Unknown	Foreign-funded shareholder
7	MERRILL LYNCH PIERCE FENNER & SMITH INC	+444,900	5,975,926	0.993	Circulating B-share	Unknown	Foreign-funded shareholder
8	SKANDIA GLOBAL FUNDS PLC	+248,680	4,517,482	0.75	Circulating B-share	Unknown	Foreign-funded shareholder
9	MINSHENG SECURITIES CO., LTD	0	2,847,622	0.47	Circulating A-share	Unknown	Other
10	CHUANGLI DEVELOPMENT HONG KONG CO., LTD	+2,568,800	2,568,800	0.43	Circulating B-share	Unknown	Foreign-funded shareholder

Shares held by the top ten shareholders of circulation share			
	Name of shareholder	Circulation shares held at the end of the period	Type (A-share, B-share, H-share, or others)
1	HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	39,541,212	B-share
2	BUILDUNITED LIMITED	20,000,000	B-share
3	FIRST SHANGHAI SECURITIES LIMITED	19,833,659	B-share
4	THOMSON INVESTMENTS GROUP LIMITED	15,896,074	B-share
5	NOMURA SECURITIES CO., LTD	6,750,000	B-share
6	MERRILL LYNCH PIERCE FENNER & SMITH INC	5,975,926	B-share
7	SKANDIA GLOBAL FUNDS PLC	4,517,482	B-share
8	MINSHENG SECURITIES CO., LTD	2,847,622	B-share
9	CHUANGLI DEVELOPMENT HONG KONG CO., LTD	2,568,800	B-share
10	CHINA GAOXIN INVESTMENT GROUP CORP.	2,550,914	B-share
Explanations on the relations among the aforesaid shareholders or consistent action		The principal shareholder Overseas Chinese Town Group Company has no associated relations with the other shareholders, nor does it belongs to person of consistent action; it is not known whether the other shareholders belong to persons of consistent action or not, nor is it known whether there are associated relations among the other shareholders.	
Explanations on the time limit of shareholding by strategic investors or ordinary legal persons participating in the allotment of new shares		The Company has no such case as shareholding time limit by strategic investors or ordinary legal persons participating in the allotment of new shares.	

(4) Particulars shareholders holding more than 5% equity

Name	Type of shares held	Nature of enterprise	Legal representative	Date of foundation	Registered capital (RMB '0000)	Core businesses
OVERSEAS CHINESE TOWN GROUP COMPANY	Domestic corporate shares	Wholly state-funded company	Ren Kelei	May 1986	RMB 20,000	Industry, tourism, real estate, finance and commerce, etc
THOMSON INVESTMENTS GROUP LIMITED	Corporate shares, foreign circulation shares	Foreign-funded company	Didier Trutt	Nov. 1, 2004	USD 5	Investment, holding property, and other businesses not prohibited by the laws of British Virgin Islands
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	Foreign circulation shares	State-owned foreign company	Che Shujian	October 1985	HKD 70,000	Tourism, industrial investment, infrastructure, real estate, hotel management, passenger-cargo transportation and import & export trade

According to the acknowledgement of China Securities Depository and Clearing Corporation Limited Shenzhen Branch, Anhui Tianda Enterprise Group Co., Ltd accepted the transfer of 55 million state-owned corporate shares of the Company (taking up 9.14% of the Company's total share capital) held by Overseas Chinese Town Group Company, and the relevant procedures of ownership transfer have been completed. After this equity transfer, the state-owned corporate shares of the Company held by Overseas Chinese Town Group Co., Ltd total 90,949,746 shares, taking up 15.10% of the Company's total share capital, and this company is the principal shareholder of the Company.

4. In the report period, the Company's controlling shareholder or actual controller remained unchanged, still being the Overseas Chinese Town Group Company.

III. Particulars about Directors, Supervisors and Senior Executives

1. Shares of the Company held by the current directors, supervisors and senior executives of the Company remained unchanged.

Name	Post	Sex	Age	Office term	Shares held at the year-begin (share)	Shares held at the year-end (share)	Note
Ren Kelei	Chairman of the Board	Male	54	June 2004 – June 2007	0	0	
Jian Di'an	Vice Chairman of the Board	Male	55	June 2004 – June 2007	0	0	
Hou Songrong	Vice Chairman of the Board	Male	36	June 2004 – June 2007	0	0	
	President			April 2004 – April 2006			
Wang Ruquan	Director	Male	50	June 2004 – June 2007	0	0	
Ni Zheng	Director	Male	36	June 2004 – June 2007	0	0	
Wei Qing	Director	Male	52	June 2004 – June 2007	0	0	
Xiao Zhuoji	Independent Director	Male	71	June 2004 – June 2007	0	0	
Ye Wu	Independent Director	Male	66	June 2004 – June 2007	0	0	
Ma Liguang	Independent Director	Female	64	June 2004 – June 2007	0	0	
Dong Yaping	Chairman of the Supervisory Committee	Male	51	June 2004 – June 2007	0	0	
Wang Xiaowen	Supervisor	Female	35	June 2004 – June 2007	0	0	
Sha Gang	Supervisor	Male	40	June 2004 – June 2007	0	0	Employee representative
Zeng Hui	Executive vice-president	Male	44	November 2004 – April 2006	0	0	
Yang Guobin	CFO	Male	35	April 2004 – April 2006	0	0	
Wang Youlai	Vice-president	Male	43	April 2004 – April 2006	2,640	2,640	
Huang Zhongtian	Vice-president	Male	43	April 2004 – April 2006	514	514	
Chen Yuehua	Vice-president	Male	41	November 2004 – April 2006	0	0	
He Jianjun	Secretary of the Board	Male	35	March 2004 – June 2007	0	0	

2. In the report period, no changing elections have been held for the Board of Directors or the Supervisory Committee, nor has the secretary of the Board been changed.

IX. Discussion and Analysis of the Management

(I) Analysis on the operating results of the Company

The Company mainly engages in the production and operation of color TV, digital mobile phone as well as the supporting products (such as high-frequency head, tools, injection mould, and package, etc), which belong to the industries of electronics manufacture and telecommunication manufacture.

During the upper half-year of 2005, various works of the Company have been carried out according to the principle of “giving priority to value operation”. The Company has actively simplified administration and transferred power to lower levels, upgraded the product design, research and development capacity, improved the product sales structure, strengthened the brand image construction and financial system construction, tightened the management in aspects such as purchase, production, technology, quality and human resources, etc, incessantly enhanced the core capacity construction, and endeavored to promote the healthy and steady development of each business.

In the report period, the Company realized a sales income of 5.465RMB billion, a decrease of 20.44% year-on-year; a net profit of RMB’ 2334.840000, a decrease of 45.04%; earnings per share RMB0.04, a decrease of 42.86%.

1. Main works during the upper half year of 2005

(1) Product research and development: while upgrading the internal management, the Company has enhanced the product research and development, so as to form a interactive mechanism of benign circle, in which the management would boost product research and development efficiency, and product reserve and development would promote the advance of the management. Thus, the basic goal of management advance and product breakthrough has been realized.

(2) Marketing:

Color TV business: the Company has clung to the two lines of “flat panel and high definition”, and extended the international advertisement, through which to upgrade Konka’s image.

Cell phone business: the Company has successfully carried out the market strategy of “Video Entertainment, Happy China”, and established the pioneer image of the industry in the market segment of video phone. Feedback from the public, industry and market sounds good.

(3) Purchase and external coordination: the Company has endeavors to accelerate the reaction of the supply chain, continuously optimized the stock level of raw materials, effectively controlled costs, improved the payment article of the suppliers, and ensured the successful pass of export and import at the custom.

(4) Production and quality control: the Company has incessantly strengthened the management of businesses such as production, technology, power equipments and meterage, etc, and promoted the scientific, normalized and standardized level of quality management.

(5) Logistic distribution and delivery: the Company has further improved the organization construction, normalized transportation management, controlled logistic costs and accelerated the construction of the platform of logistic information, etc. Through these measures, the level of logistic service has been obviously advanced.

(6) Financial planning: the Company has continued to optimize the construction of the finance system and teamwork construction, improve the business planning and capital budget management work, resulting in the large-margin advance of business planning and capital budget level compared with that of the year 2004, which further ensures the financial security and healthy and steady development of the Company.

(7) After-sales service: to strengthen the maintenance charge management, improve the settlement plan of the contract maintenance charges, tighten examination of network points, and promote the management of service fittings, etc, the Company has incessantly upgraded the overall quality of the personnel in the service system, continuously enhanced the service quality construction and improved service image.

2. Operation achievement of the 1st half year of 2005

(1) Color TV business: during the upper half year of 2005, the income from color TV

business totals RMB 4.577billion, about the same level as that of the last year. The sales structure of color TV has been further improved, and the proportion of the sales volume and income of high definition products, including LC, plasma, digital product, projection, 34” mirror, has increased incessantly. The domestic market share of Konka color TVs has maintained its leading position.

(2) Cell phone business: due to overheated competition, the domestically produced cell phone industry entered the hard winter of sales reducing, profit decreasing and market share diminishing. During the upper half year of 2005, situation has not turned for the good but for the worse caused by the implementation of cell phone authorization system and the concussion of “black cell phone”, resulting in the down sliding of sales volume and the fall of sales price, hence the large-margin decrease of the Company’s sales income of cell phone. In the report period, the Company’s cell phone business realized a sales income of RMB0.888 billion, a decrease of 57.35% year-on-year, and had made a loss.

(3) Overseas business: while continuing to enlarge the strategic cooperation with the A-class household electric appliance enterprises, such as DAEWOO and DESTBUY, etc, the Company has also increased the sales proportion of large-screen TV, improved the stimulation mechanism for the sales personnel and actively adjusted the internal organization structure, which have contributed to the large-margin increase of the overseas business. In the report period, the overseas business has realized a sales income of RMB0.61 billion, an increase of 13.03% year-on-year.

In the following half year, the Company would focus on strengthening the capacity construction of each section, tightening the project management, supervision and tracking, boosting the research and development of the projects driven by technology, improving the products’ sales structure, continuing the work of simplifying administration, transferring power to lower levels and reducing costs and expenses, and working hard to cultivate core advantages, so as to create a grand new future for Konka.

(II) Analysis on the Company’s financial indexes (Unit: RMB)

Items	Jan.-Jun. 2005	Jan.-Jun. 2004	Increase/decrease (%) than that of the same period of last year
Income from core business	5,464,655,872.21	6,868,598,315.36	-20.44
Cost of core business	4,657,609,399.45	5,830,428,141.72	-20.12
Profit from core business	806,407,715.55	1,037,328,774.97	-22.26
Administrative expenses	159,190,336.83	192,082,518.41	-17.12
Operating expenses	634,151,640.40	798,810,154.59	-20.61
Financial expenses	4,567,078.44	252,139.18	1,711.33
Net profit	23,348,405.50	42,481,310.47	-45.04
Net increase in cash and cash equivalents	-247,538,690.95	71,010,952.15	-448.59
Items	Jun. 30, 2005	Dec. 31, 2004	Increase/decrease proportion %
Total assets	8,267,646,166.44	9,597,845,796.50	-13.86
Shareholders’ equity	3,211,597,362.08	3,193,928,132.53	0.55
Accounts receivable	552,625,842.06	572,145,544.60	-3.41
Fixed assets	1,330,856,110.39	1,356,476,597.96	-1.89
Retained profits	23,348,405.50	-375,756,844.99	106.21

Explanation and analysis on the main changed items:

1. Due to the fierce competition in the cell phone industry, the sales achievement of the cell phone industry has down slid by a large margin during the 1st half year of 2005, resulting in decrease of 20.44 % of the Company's overall sales income year-on-year;
2. The financial expense of the current period has increased by RMB 4,314,939.26, mainly caused by the increase of the discount interest of bills and exchange loss;
3. Influenced by the price downfall of the cell phone business, the net profit of the current period has decreased by 45.04 % year-on-year;
4. Due to the payment of the bills in the current period for the purchase made in the previous period, the operating cash flow has decreased by 448.59% year-on-year;
5. Since the Company has offset the loss of the previous years amounting to RMB 375,756,844.99 and the net profit of the current period totaling RMB 23,348,405.50 with the discretionary surplus reserves approved by the Shareholders' General Meeting, the retained profit has increased by 106.29% compared with that at the beginning of the year.

(III) Particulars about core business classified according to industries, products and areas and statement of their comparison with those of the same period of last year

Industries	Products (areas)	Income from core business (RMB)	Cost of core business (RMB)	Gross profit ratio (%)	Comparison with that of the same period of last year		
					Increase/decrease of income (%)	Increase/decrease of cost (%)	Increase/decrease of gross profit ratio (%)
Household appliances	Color TVs (domestic sale)	3,967,080,867.48	3,313,489,878.16	16.48	-6.61	-7.06	Increased by 0.4%
	Color TVs (overseas sale)	609,948,091.04	555,095,291.49	8.99	13.03	15.29	Decreased by 1.78%
	Total of color TVs	4,577,028,958.52	3,868,585,169.65	15.48	-4.40	-4.40	0.00
Communication	Mobile phones (domestic sale)	887,626,913.69	789,024,229.80	11.11	-57.35	-55.77	Decreased by 3.17%

Note: There are no related transactions in the above businesses.

(IV) Operation of controlling companies whose earnings influenced over 10% of the net profit of the Company

In the report period, there is no operation of controlling companies whose earnings influenced over 10% of the net profit of the Company.

V. Significant Events

(I) The Company's administration

In the report period, the Company has steadily improved its corporate management structure, established modern enterprise system, set and improved relevant systems and regulations to normalized its operation, and strengthened the information disclosure work in accordance with the requirements of the Company Law, Securities Law and other regulations and laws set by the CSRC. And the implementation of all the resolutions has been carried out strictly in compliance with the relevant regulation of the Company's rules and Articles of Association.

(II) Profit distribution, capitalization of public reserve and issuance

The Company had no profit distribution or capitalization of public reserve into share capital in the mid-year.

(III) Material lawsuits and arbitrations

The Company has no material lawsuits or arbitrations in the report period.

(IV) Material purchase, sale and reorganization of assets

By the end of the report period, the Company had no significant purchase, sale and reorganization of assets

(V) Material related transactions

1. Transactions with the controlling shareholder and its subsidiaries

During the upper half year of 2005, the Company had some small-amount related transactions with the subsidiaries of the controlling shareholder (Overseas Chinese Town Group Company), including charges for property management, water and power, land use and commodity purchase, etc, all of which were fair transactions and conducted according to normal market prices. These transactions have not done harm to the interests of the Company or other shareholders of the Company. For details, please refer to “(3) Transactions with related companies” and “(4) Current with related companies” in the “Note 6 to the accounting statement” in the financial report.

2. Implementation of the related transactions concerning regular operation

Unit: RMB

Type of related transaction	Further classification according to product or labor service	Related person	Amount implemented in the upper half year		Proportion taking up the same kind of transactions
Purchase of raw materials	Raw materials of packing	Shanghai Huali Packaging Co., Ltd	33,486,448.46	47,310,970.45	0.68%
		Shenzhen Huali Packing & Trading Co., Ltd	13,824,521.99		0.28%

The Company published the Notice on the Estimation of Regular Related Transactions (Notice No.: 2005-06) in Securities Times, Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and the Internet website <http://www.cninfo.com.cn> designated by the CSRC. The pricing terms, transaction prices, transaction amount and settling methods of the raw material purchases from the aforesaid two related parties were basically in compliance with the estimation.

(VI) Material contracts and their implementations

1. In the report period, the Company had never kept as custodian, contracted or leased any other company's assets and vice versa.
2. In the report period, the Company had never entrusted financing.

(VII) Commitments of the shareholders

By the end of report period, the Company and the shareholders holding 5% shares of the Company had no commitments.

(VIII) Other significant events

In the report year, there existed no such event resulted in inspection, administrative punishment or circulating notice of criticism from China Securities Regulatory Commission and other administration departments or public blame from the Shenzhen Stock Exchange against the Company, the Board of Directors or any directors.

(IX) Indexes of information disclosure

Notice No. 2005-	Contents of notice	Date	Newspaper and magazine	Note
01	Notice on the Reply from the SASAC on the Transfer of State-Owned Corporate shares	Feb. 2, 2005	Securities Times, Ta Kung Pao	29 million state-owned corporate shares held by Overseas Chinese Town Group were transferred to Thomson Company.
02	Notice on the Reply from the Ministry of Commerce on the Transfer of State-Owned Corporate shares	Mar. 22, 2005	Securities Times, Ta Kung Pao	29 million state-owned corporate shares held by Overseas Chinese Town Group were transferred to Thomson Company.
03	Notice on the Changes of the Shares Held by Shareholders	Apr. 1, 2005	Securities Times, Ta Kung Pao	49,238,800 circulating B shares held by Hong Kong Overseas Chinese Town were transferred to the other four companies including Build United Limited, etc.

	Summary of the Annual Report 2004			
04	Notice on the Resolutions of the 6 th Meeting of the 5 th Board of Directors	Apr. 19, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	Examined the annual report 2004 and its summary.
05	Notice on Resolutions of the 3 rd Meeting of the 5 th Supervisory Committee			
06	Notice on the Estimation of the Regular Related Transactions			
	1 st Quarterly Report 2005	Apr. 29, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	
07	Notice on the Progress of the Share Transfer	Apr. 30, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	Overseas Chinese Town Group transferred 29 million state-owned corporate shares of the Company to Thomson Company.
08	Notice on the Resolutions of the 8 th Meeting of the 5 th Board of Directors	May 28, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	Examined the convening of the Shareholders' General Meeting and the proposals planned to be submitted to the Shareholders' General Meeting.
09	Notice on Convening the Shareholders' General Meeting 2004			
10	Notice on the Resolutions of the 6 th Meeting of the 5 th Supervisory Committee			
11	Notice on the Resolution of the Shareholders' General Meeting 2004	Jul. 1, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	(1) Examined and approved the work report 2004 of the Board, work report of the Supervisory Committee, audit report 2004, proposal on the profit distribution, proposal on the offset of losses, proposal on the engagement of auditing institutions and auditing charges, proposal on buying liability insurance for directors, supervisors and senior executives, and the proposal on modifying the articles of association of the Company, etc.
12	Notice on the Progress of Share Transfer	Jul. 29, 2005	China Securities Journal, Times, Securities News, Ta Kung Pao	Overseas Chinese Town Group transferred 55 million state-owned corporate shares of the Company to Anhui Tianda Company.

The above public notices were published on the website of CNINFO, namely www.cninfo.com.cn.

(X) Explanation on the capital current of related parties and guarantee

1. By Jun. 30, 2005, capital current of related parties

(Unit: RMB)

Name of related parties	Relationship with the listed company	Item in the accounting statement	Balance at the period beginning	Debit	Credit	Balance at the period end	Way of occupation	Irregular capital occupation prohibited in the No. 56 Document or not
Shenzhen Konkang Energy Technology Co., Ltd	Subsidiary of the controlling shareholder and subordinate enterprise, affiliated company	Accounts receivable	1,130,000.00	0.00	0.00	1,130,000.00	Current funds	No

Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of the controlling shareholder and subordinate enterprise	Others receivable	1,046,098.74	85,821.00	84,336.00	1,047,583.74	Boarding rent and deposit	No
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the controlling shareholder and subordinate enterprise	Others receivable	76,876.00	3,102.42	3,102.42	76,876.00	Deposit	No
Shenzhen OCT Water and Power Company	Subsidiary of the controlling shareholder and subordinate enterprise	Others receivable	1,378,513.99	4,218,042.43	4,730,732.10	865,824.32	Prepayment of Water and power charges	No
Indonesia Konka Trade Co., Ltd	Shareholding subsidiary	Accounts receivable	25,391,619.71	0.00	0.00	25,391,619.71	Payment for goods	No
Total			29,023,108.44	4,306,965.85	4,818,170.52	28,511,903.77		No

2. Guarantees

In the report period, to further reduce purchase costs and advance competitiveness, the Company provided a guarantee for a credit amounting to RMB 11.6 million got by Dongguan Konka Mould Plastic Co., Ltd. Apart from this, the Company provided no guarantees for other shareholding subsidiaries by Jun. 30, 2005, nor did it offer any external guarantees.

(XI) Pledges of assets

1. On Nov. 9, 2004, the Company's subsidiary Anhua Konka Electronics Co., Ltd signed the Contract on the Ceiling Amount of Mortgage with Chuzhou Branch of the Bank of China. The Contract ruled that this company would pledge the land use right with a book value of RMB 4.314 million on the East of Nanqiao S. Road in the Development District of Chuzhou as RMB 16.65 million (CGY (2000) Z No. 00776 Land Certificate), and the housing ownership of the old workshops on the East of Nanqiao S. Road in the Development District of Chuzhou, the Building A, B, C, D, E in the Development District and the power station totaling 57,297.65 m² (CFQZ 2000 Z No. 01194 and CFQZ 2000 Z No. 02068 House Property Title Certificate) with a total book value of RMB 52.12 million as RMB 48.23 million, and the total pledge price amounted to RMB 64.88 million, for the liabilities not exceeding RMB 38.23 million owed to Chuzhou Branch of the Bank of China during Nov. 9, 2004 and Nov. 9, 2007 as well as those owed to this bank before Nov. 9, 2004.

2. The Company's subsidiary Chongqing Konka Electronics Co., Ltd pledged its house property of 20,064 m² and the use right of the land of 18,200 m² to get the RMB 10 million loan from the Chongqing Jiangbei Sub-branch of the Bank of China. The loan term was from Sep. 3, 2004 to Aug. 15, 2005.

VI. Financial Report

The 2005 semi-annual financial report of the Company (unaudited) is attached at the back.

VII. Documents Available for Reference

1. Text of semi-annual report carrying the signature of Chairman of the Bureau of the Directors;
2. Text of the financial report carrying the signatures and seals of the principal of the Company, person in charge of accounting and person in charge of accounting organization;
3. Texts of all documents and manuscripts of public notices disclosed in the newspapers and magazines designated by CSRC in the report period;
4. Text of Articles of Association;
5. Other relevant materials.

**Board of Directors of
Konka Group Co., Ltd.**
Aug. 25, 2005

KONKA GROUP COMPANY LIMITED

Financial Report

Ended June 30, 2005
(Unaudited)

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Legal Representative: Ren Kelei
Manager of the Accounting Department: Ruan Renzong

Chief Financial Officer: Yang Guobin

KONKA GROUP COMPANY LIMITED
Consolidated Profit and Loss Statement
Ended June 30, 2005

Items	Notes	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Turnover	5	5,464,656	6,868,598
Sales costs		<u>(4,658,248)</u>	<u>5,830,428</u>
Gross profit		806,408	1,038,170
Other income	6	10,346	13,553
Distribution cost		<u>(634,152)</u>	<u>(798,810)</u>
Administration expenses		<u>(159,190)</u>	<u>(192,083)</u>
Operating profit		23,412	59,869
Financial expenses		<u>(4,567)</u>	<u>(252)</u>
Amount in deficits of associated companies		<u>(312)</u>	<u>(102)</u>
Profit before tax		18,533	59,515
Taxes	7	<u>(1,535)</u>	<u>(7,718)</u>
Profit before minority shareholders' equity		16,998	51,797
Profit distributable to minority shareholders		<u>7,849</u>	<u>(7,817)</u>
Profit distributable to shareholders		24,847	43,980
Accumulative loss at year beginning		<u>(361,412)</u>	<u>(503,961)</u>
Compensating accumulated losses in previous year		375,757	
Deficits before distribution or allocation		<u>(39,192)</u>	<u>(459,981)</u>
Distribution or allocation:			
Dividend not payable		<u>-</u>	<u>-</u>
Accumulative loss at year end		<u>(39,192)</u>	<u>(459,981)</u>
Earnings per share – basic		<u>RMB 0.04</u>	<u>RMB 0.07</u>

The basic earning per share is calculated based on the profit distributable to the shareholders this year amounting to RMB24,847thousand (while RMB 43,980 thousand in 2004) and the share capital issued in the year totaling 601,986,352.

KONKA GROUP COMPANY LIMITED
Consolidated Balance Sheet
Ended June 30, 2005

Items	Notes	June, 2005 in RMB '000	2004 in RMB '000
Non-current assets			
Fixed assets	8	1,361,134	1,387,288
Goodwill	9	989	989
Intangible assets	10	16,242	11,014
Amount in equity of associated companies	11	34,732	35,159
Other Investments	12	10,290	10,290
		<u>1,423,387</u>	<u>1,444,740</u>
Current assets			
Inventories	13	2,860,882	3,580,777
Properties to be sold	14	4,172	4,172
Accounts receivable	15	551,496	571,016
Advance payments, margin and other receivables	16	204,821	199,251
Notes receivable	17	2,608,473	2,933,652
Bank balance and cash		604,223	851,762
		<u>6,834,067</u>	<u>8,140,630</u>
Current liabilities			
Taxes payable		9,742	(2,145)
Accounts payable		(1,365,950)	(1,271,053)
Other payables and accrued charges		(621,661)	(821,192)
Notes payable		(2,789,963)	(3,977,323)
Short-term bank loan	18	(25,000)	(48,149)
		<u>(4,792,832)</u>	<u>(6,119,862)</u>
Net current assets		<u>2,041,235</u>	<u>2,020,768</u>
Total assets less current liabilities		<u><u>3,464,622</u></u>	<u><u>3,465,508</u></u>

(to be continued)

KONKA GROUP COMPANY LIMITED
Consolidated Balance Sheet
Ended June 30, 2005

(continued)

Items	Notes	June, 2005 in RMB '000	2004 in RMB '000
Total assets less current liabilities		<u>3,464,622</u>	<u>3,465,508</u>
Non-current liabilities			
Deferred income		(12,024)	(13,490)
Other long-term liabilities		<u>(10,499)</u>	<u>(10,499)</u>
		<u>(22,523)</u>	<u>(23,989)</u>
Minority shareholders' equity		<u>(223,476)</u>	<u>(247,827)</u>
Net asset value		<u><u>3,218,623</u></u>	<u><u>3,193,692</u></u>
Financial sources:			
Share capital	19	601,986	601,986
Reserve		<u>2,616,637</u>	<u>2,591,706</u>
Shareholder's equity		<u><u>3,218,623</u></u>	<u><u>3,193,692</u></u>

The financial report from page 1 to page 24 was approved and authorized for issuing by the Board of Directors and the following two director representatives subscribed the report in Aug. 25, 2005.

Director

Director

KONKA GROUP COMPANY LIMITED.
Consolidated Statement of Change in Shareholders' Equity
Ended June 30, 2005

	Reserve						Total reserve in RMB '000	Total in RMB '000
	Share capital in RMB '000	Capital public reserve in RMB '000	Surplus public reserve in RMB '000	Accumulative retained profit (loss) in RMB '000	Dividend reserve in RMB '000	Reserve for foreign currency conversion in RMB '000		
Ended January 1, 2004	601,986	1,820,452	1,133,044	(503,961)	-	(128)	2,449,407	3,051,393
Profit of 2004	-	-	-	142,549	-	-	142,549	142,549
Foreign currency conversion balance	-	-	-	-	-	(250)	(250)	250
December 31, 2004	601,986	1,820,452	1,133,044	(361,412)	-	(378)	2,591,706	3,193,692
Ended January 1, 2005	601,986	1,820,452	1,133,044	(361,412)	-	(378)	2,591,706	3,193,692
Profit of the 1 st Half Year of 2005	-	-	-	24,847	-	-	24,847	24,847
Dividend not payable	-	-	-	-	-	-	-	-
Compensation for accumulated losses in previous year	-	-	(375,757)	375,757	-	-	-	-
Foreign currency conversion balance	-	-	-	-	-	84	84	84
June 30, 2005	601,986	1,820,452	757,287	39,192	-	(294)	2,616,637	3,218,623

According to the PRC Company Law and the regulations in connection with joint stock company, the Company must list the income from designated sources as capital public reserve, including stock premium, assets reappraisal premium and premium from the assets invested externally, etc. The statutory purpose of the capital public reserve is usually the share capital converted or increased while the premium of assets reappraised invested externally is written off from the relevant investment or when non-temporary reserve for devaluation is provided. Surplus public reserve includes the statutory public reserve, statutory public welfare fund and discretionary surplus public reserve.

The statutory public reserve is provided based on no less than 10% of the profit of the year after making up for the loss but shall no longer be provided after the total amount has reached 50% of the accumulated registered share capital. The statutory public reserve can be used for making up for loss and additional issuing of shares, etc. However, the statutory public reserve retained after additional issuing of shares should not be less than 25% of the registered capital. The statutory public welfare fund is provided based on no less than 5% of the profit of the year after making up for the loss. The statutory public reserve is solely used in payment for staff's welfare facilities. The discretionary surplus public reserve is provided according to the resolution of the shareholders' general meeting. It can be used for making up for loss and additional issuing of shares, etc.

KONKA GROUP COMPANY LIMITED
Consolidated Cash Flow Statement
Ended June 30, 2005

Items	Notes	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Cash flows arising from operating activities			
Operating profit before tax		24,847	43,980
Adjustment items:			
Depreciation of fixed assets		68,286	67,869
Amortization of intangible assets		2,738	1,900
Amortization of deferred expenses		9,107	8,932
Loss from sale or discard of fixed assets		1,192	724
Interest income		1,181	887
Dividend income		313	127
Government subsidy income	(	1,634)	(6,155)
Foreign currency conversion balance		84	(731)
(Increase)/decrease of accounts receivable		291,549	380,978
(Increase)/decrease of inventories		719,895	(623,548)
Decrease of accounts payable	(	1,291,465)	248,616
Income tax payment		1,535	7,718
Net cash flow in/(out) arising from operating activities	(	172,372)	131,297
Investment activities			
Interest received		648	0
Interest paid	(	1,128)	(478)
Dividend paid		0	595
Purchase of fixed assets	(	45,014)	(67,640)
Income from sales of fixed assets		1,324	840
Cash flow in (payment) in acquisition/sale of subsidiaries		8,431	6,796
Income from selling and taking back other investment			0
Short-term investment (increase)/decrease			0
Net cash flow in/(out) arising from investment activities	(	35,739)	(59,887)

(to be continued)

KONKA GROUP COMPANY LIMITED
Consolidated Cash Flow Statement
Ended June 30, 2005

(continued)

Items	Notes	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Net cash flow in/(out) arising from investment activities		(35,739)	(59,887)
Financing activities			
Newly increased bank loan		5,082	23,096
Repayment of bank loan	20	(28,232)	(18,565)
Payment of financing lease	20	0	75
Payment of dividends to minority shareholders	20	(16,278)	(5,005)
Cash flow in/(out) arising from financing activities		(39,428)	(399)
Increase/decrease of cash and cash equivalents		(247,539)	71,011
Cash and cash equivalents at the beginning of the period		851,762	1,331,893
Cash and cash equivalents at the end of the period		604,223	1,402,904
Analysis on balance of cash and cash equivalents			
Bank balance and cash		604,223	1,402,904

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

1. Background Information

KONKA GROUP COMPANY LIMITED (the Company) is a company limited by shares through reorganization of the former Shenzhen Konka Electronics Co., Ltd. in August 1991 in accordance with the Provisions of the People's Republic of China governing Companies Limited by Shares with approval by Shenzhen Municipal People's Government. Meanwhile approved by People's Bank of China Shenzhen Special Economic Zone Branch, the Company issued RMB based ordinary shares (A-shares) and domestically listed foreign capital shares (B-shares). Both A-shares and B-shares are listed with Shenzhen Stock Exchange. The present name Konka Group Company Limited was renamed on August 29, 1995.

The Company and its subsidiaries (jointly referred to as the Group) are mainly engaged in production and sales of color TV sets, cell phones, recorders, music centers, facsimile machines, interphone and the relevant components, real estate development and securities investment.

2. Preparation of Accounting Statements

This financial report is prepared in accordance with the international accounting standards. These standards are different from the Enterprise Accounting Standards of the People's Republic of China on which the Company's statutory financial report is prepared. The Company has made reasonable adjustment of the statutory financial report according to the international accounting standards. Such adjustment involves the details that have influenced the net asset value ended June 30, 2005 and the operation result ended that day which is stated in Note 26 of the financial report. In addition, this financial report is prepared according to the historical cost method except that fixed assets are stated based on the estimated value less the accumulative depreciation and short term investments are calculated based on the lower of the cost and the market value or net realizable value.

3. Basis of Consolidated Statements

Consolidated financial report includes the financial report of the Group ended June 30, 2005. Except the subsidiaries not consolidated as specified otherwise, the material transactions and account balance among the companies under the Group have been offset in consolidation.

(a) Subsidiaries:

Subsidiaries refer to the companies whose equity is directly or indirectly controlled by the Company by over 50% and/or whose major voting power can be exercised by the Company in their board of directors/management committee. As at June 30, 2005, the Company has the following subsidiaries:

<u>Companies</u>	<u>Registrati on place</u>	<u>Registered capital</u>	<u>Proportion of shares held</u>		<u>Principal business</u>
			<u>Direct</u>	<u>Indirect</u>	
Dongguan Konka Electronics Co.,Ltd.	China	RMB 200 million	100%	-	TV sets and audio products, etc.
Pacific Konka Electronics Co.,Ltd. *	Macao	A\$1 million	100%	-	Sales of electronic products
Konka Electronics (USA) Inc. *	United States	US\$ 3 million	100%	-	Research and development
Konka (Hong Kong) Limited	Hong Kong	HK\$ 0.5 million	100%	-	Import& export of mechanical and electrical products and electronic products
Anhui Konka Electronics Co., Ltd.	China	RMB 140 million	65%	-	Color TV sets
Mudanjiang Konka Industrial Co., Ltd.	China	RMB 60 million	60%	-	Color TV sets
Chongqing Konka Electronics Co., Ltd.	China	RMB 45 million	60%	-	Color TV sets
Shenzhen Konka Video System Engineering Co., Ltd.	China	RMB 15 million	60%	-	Manufacture and processing of mold products

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

(continued)

3. Basis of Consolidated Statements (continued)

(a) Subsidiaries (continued)

<u>Name of Companies</u>	<u>Registration place</u>	<u>Registered capital</u>	<u>Proportion of shares held</u>		<u>Principal business</u>
			<u>Direct</u>	<u>Indirect</u>	
Shenzhen Konka Electrical Appliances Co., Ltd.	China	RMB 8.30 million	51%	-	Electronic equipment
Shenzhen Konka Communications Technology Co., Ltd.	China	RMB 120 million	75%	25%	Mobile communication products
Shenzhen Shushida Electronics Co., Ltd.	China	RMB 42 million	75%	25%	Video products and relevant accessories
Shenzhen Konka Information Network Co., Ltd.	China	RMB 30 million	75%	25%	Digital network products
Chongqing Qingjia Electronics Co., Ltd.	China	RMB 15 million	50%	10%	Electronic tuner and high frequency heads
Shenzhen Konka Sophisticated Mold Manufacture Co., Ltd.	China	RMB 14.50 million	49%	51%	Various molds
Shenzhen Konka Plastic Products Co., Ltd.	China	RMB 9.50 million	49%	51%	Plastic products
Shaanxi Konka Electronics Co., Ltd.	China	RMB 69.50 million	45%	15%	Color TV sets
Chongqing Konka Electronics Co., Ltd. **	China	RMB 15 million	30%	10%	Electronic tuner
Dongguan Konka Packing Materials Co., Ltd.	China	RMB 10 million	-	100%	Plastic products
Kangdian International Trading Co., Ltd.	Hong Kong	HK\$ 500,000	-	100%	International trade
Kangdian Investment Development Co., Ltd.	Hong Kong	HK\$ 500,000	-	100%	Shareholding and investment
Konka Trading (Indonesia) Co., Ltd. *	Indonesia	US\$ 500,000	-	100%	Trade
Konka Electronics (India) Co., Ltd.*	India	RMB 1.16 million	-	70%	Color TV sets
Changshu Konka Electronics Co., Ltd.	China	RMB 24.65 million	-	60%	Production and sales of electronic products
Boluo Konka Printed Circuit Board Co., Ltd.	China	RMB 40 million	-	51%	Production and sales of electronic products
Anhui Konka Electrical Appliances Co., Ltd. **	China	RMB 10 million	-	35%	Production and sales of electrical appliances

* Such companies have closed business through approval and therefore are not consolidated this year.

** The Company is the actual controller of that company.

(b) Associates

Associates refer to the companies whose equity is directly or indirectly held by the Company by over 20% but below 50% as long term investment and the Company is entitled to exert material influence upon their financial and operational decisions.

The associates' operation results and reserves attributable to the Company are stated in the consolidated profit and loss statement and consolidated reserve. The Group's investment in the associates is stated on the consolidated balance sheet based on the net assets of the associates attributable to the Group less the provision for deterioration as the board of directors thinks necessary.

The Company's associates as at June 30, 2005 are listed in Note 11 of this financial report.

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

(Continued)

4. Summary of Accounting Policies

(a) Fixed Assets and Depreciation

Fixed assets (with construction-in-process) are stated based on the costs or the revaluated value less the depreciation. The initial value includes costs and all the expenses in connection with purchase and installation of such fixed assets and the expenses, such as costs of maintenance after the fixed assets are put into application are charged in the gain/loss statement of the very period. In case increase of expenses may bring about financial benefit to the Company, such expenses should be capitalized and stated in the initial value of fixed assets.

Depreciation of fixed assets is calculated based on the service life by means of straight-line method after deduction of the estimated residual value (10% of the cost or re-estimated value) with the details as follows:

Land use right	Based on the specified service life
Housing & building	2.25%
Fixing up of property rented	20%
Machines & equipment	9%
Electronic equipment	18%
Motor vehicle	18%

Value of fixed assets includes interest expense and exchange balance arising from financing of building works with loans for buildings, machines and furniture costs and in the construction period.

Gain and loss confirmed on the profit and loss statement at the time of selling or rejecting fixed assets refer to the balance between the income from sale and the book value of the related assets.

If the recoverable amount of fixed assets is lower than their book value due to continuously falling market price, backward technology, out-of-date equipment, damage or long term idleness, reserve for devaluation of fixed assets shall be provided based on the balance of the recoverable amount and the book value of the fixed assets.

(b) Construction-in-progress

Construction-in-progress refers to factory, office building and equipment in construction which are all stated based on the original value without depreciation provided until the building works has been completed and the fixed assets are applicable. The original value includes the straight cost, loan costs and relevant direct costs of the works.

(c) Goodwill

The goodwill arising from acquisition of subsidiaries, associates or joint ventures is the amount of the costs of such acquisition exceeding the fair value of the net assets acquired amortized in average over 10 years by the straight-line method.

In selling subsidiaries, associates or joint ventures, the concerned part of the goodwill attributable to the Company but not yet amortized is stated on the profit and loss statement of the very period at the time of calculation of the income or loss resulted from the sales.

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

(continued)

4. Summary of Accounting Policies (continued)

(d) Intangible assets

The cost for registration of foreign trademark is amortized in average over the earning period by means of the straight-line method based on the predicted service life.

The cost for patent and special technology is amortized in average over five years by means of the straight-line method.

(e) Other Investments

The long-term investment is stated based on the cost less the non-temporary provision for devaluation. The short-term investment is stated based on the lower of the cost and market value or net realizable value.

(f) Inventories:

Inventories are stated based on the cost (calculated based on the weighted average cost method) and the net realizable value. Costs of finished products and products in process include those of raw materials, direct manpower, and the production expenses attributable. The net realizable value is calculated based on the net value of the estimated sales price less all the costs of further production and the costs in connection with promotion, sales and distribution.

(g) Property to be sold

Property to be sold is stated based on the lower of the costs and net realizable value. Costs include all the costs of the land attributable to the property and the building. The net realizable value is determined based on the standard of the individual property by the Board of Directors according to the market price at the time.

(h) Deferred income

Deferred income refers to the long term financial support supplied by the government to the Group for research and development of new technology. The recognizable income is calculated every year based on the financing year by means of the straight-line method.

(i) Cash equivalent

Cash equivalent refers to the short-term investment with high liquidity due within three months commencing from the date of purchase and convertible into the known cash amount at any time less the bank advance repayable within three months commencing from the very day when the advance is made.

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

(Continued)

4. Summary of Accounting Policies (continued)

(j) Income recognition

When the economic benefit of income may possibly belong to the Group and can be reliably measured, income is recognized based on the following standards:

- i) For the sale of goods, income is recognized when significant risks and rewards of ownership have been transferred to the buyers. The Group maintains neither managerial involvement nor actual control over the goods sold;
- ii) For the sale of property, income is recognized when unconditional sales contract duly executed with legal force has been confirmed;
- iii) Interest income is recognized based on time proportions;
- iv) Dividend is recognized when the shareholders are entitled to collect the dividend.

(k) Financing lease contract

All the lease contracts in which most risks and return involved in the possession of the assets have been transferred to the Group are stated as financing lease contracts. The assets involved in the financing lease contract are transferred into capital based on the fair value at the time of acquisition; the principal part in the lease contract unpaid is the Group's liability. Financing cost refers to the difference between the total amount undertaken in the lease contract and the fair value in the asset acquisition and is deducted in the profit and loss statement within the lease term based on the practical conditions.

(l) Foreign currency translation

The Company takes RMB as the standard currency for bookkeeping. Any transaction in foreign currency is translated into RMB based on the exchange rate as of the first day of the month when the transaction takes place. The monetary assets and liabilities calculated based on foreign currency is translated into RMB based on the exchange rate as of the balance sheet date. The exchange difference arising from borrowings in foreign currency for purchase/construction of office building, factory building, machines and equipment as well as other principal fixed assets is stated in the costs prior to delivery of the concerned fixed assets for application. Other exchange differences are stated on the profit and loss statement of the very period.

At the time consolidation, the financial report of overseas subsidiaries prepared with foreign currency as the standard currency should be restated in RMB after conversion and the balance produced from conversion is transferred into the reserve for foreign currency conversion.

(m) Devaluation

At various settlement days, the Group may jointly review the book value of its assets so as to decide whether there is any clue to show the loss from devaluation of assets. If such clue does exist, it is necessary to estimate the amount recoverable from the relevant assets so as to determine the degree of loss arising from the devaluation. If it is impossible to estimate the amount recoverable from some assets, the Group shall estimate the amount recoverable from the cash business created from the relevant assets.

If the amount recoverable from the assets is estimated less than the book value, the book value of the relevant assets should be reduced to the recoverable amount. Any devaluation arising therefrom shall be recognized as expenses on real time basis.

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

(Continued)

4. Summary of Accounting Policies (continued)

(m) Devaluation (continued)

If loss from devaluation is reversed immediately afterwards, the book value of the relevant assets shall increase to the revised estimated recoverable amount. However, the book value after the increase must not exceed the book value of the supposed relevant assets without any loss from devaluation in previous years. Income is recognized when the loss from devaluation is reversed.

(n) Reserves

Reserve is recognized when the Group when the Group may lose the economic benefit reasonably estimated arising from the exiting statutory or constructive duties due to the past events.

(o) Tax

Tax is the total amount of the income tax payable and the deferred taxes of the very period.

The income tax of the very period is worked out according to the taxable profit of the very year. Taxable profit is different from the net profit stated on the profit and loss statement. This is because it has not been stated in the taxable income or expenses which can offset taxes in other years and even excludes non-taxable items or the items which cannot offset taxes. The Group's income tax bearing assets or liabilities are calculated according to the tax rate specified on the balance sheet day or actually specified.

The deferred taxes are the estimated payable or recoverable taxes arising from the balance between the book amount of assets and liabilities in the financial report and the corresponding taxes basis used for calculating profit taxable. Deferred taxes are calculated by the balance sheet approach. In usual cases, all the deferred income tax liabilities arising from temporary difference of tax taxable should be recognized while the assets with deferred income tax can be recognized when only future taxable profit can be sufficiently used to offset temporary difference. If such temporary difference arises from the initial recognition of other asset and liabilities in goodwill (or negative goodwill) or some transaction which neither affect taxable profit nor accounting profit (except merge of enterprises), such deferred income tax assets and liabilities shall not be recognized.

For the investment in the subsidiaries and associates as well as the taxable temporary difference arising from the equity in the joint venture may be recognized as deferred income tax liabilities, but except such case that the Group is able to control the reverse of these temporary differences and the temporary difference may not be possibly reversed in the foreseeable future.

The book value of the deferred income tax assets is verified on each balance sheet day when there will be no longer sufficient taxable income in future to reserve partial or total deferred income tax assets; the deferred income tax assets are deducted based on the part that cannot be reversed. Deferred income tax is calculated based on the income tax rate used in the very period when the relevant assets are estimated to be realized or the relevant liabilities are expected to be paid off. The deferred income tax may be stated in the income statement unless it is related to the items which are directly stated in the equity. In such a case, the deferred income may also be treated as equity item.

The deferred income tax assets and liabilities can only be mutually offset when income tax related to them is collected by the same tax authority and the Group plans to settle its income tax assets and liabilities of the very period with the net amount.

KONKA GROUP COMPANY LIMITED

Notes to Financial Report

Ended June 30, 2005

(Continued)

5. Businesses and Region Division

The Group's businesses are located in Main Land China and Hong Kong respectively. The following tables make analysis based on the regions of the Group's sales market without consideration of the origin of commodities:

	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Mainland China	4,854,708	6,328,983
Hong Kong	<u>609,948</u>	<u>539,615</u>
	<u><u>5,464,656</u></u>	<u><u>6,868,598</u></u>

6. Other income

	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Net investment income	(1	185)
Subsidy income (*)	1,634	6,155
Selling part of premium equity of underling company		
Selling premium equity of affiliated company		
Selling non-listed company investment losses		
Income from transfer of material, less the costs	9,435	1,298)
Net other operating income	<u>722</u>	<u>6,285</u>
Total	<u><u>10,346</u></u>	<u><u>13,553</u></u>

(*) The Group lists the supporting fund for the national key technical innovation projects as its income by means of the straight line method and the amount of amortization in the report period is RMB 1,499 thousand and the other subsidies in the period amount to RMB 135 thousand.

7. Taxes

	1 st Half Year of 2005 in RMB '000	1 st Half Year of 2004 in RMB '000
Chinese business income tax	1,266	6,158
Hong Kong profit tax	<u>269</u>	<u>1,560</u>
Total	<u><u>1,535</u></u>	<u><u>7,718</u></u>

The Group could withdrawal provision for tax after derating income and expenses of income tax according to premium adjusted by legal financial report, income tax in 2005 was withdrew as per 15% of payable tax premium made by the Company established in Shenzhen China, other companies outside Shenzhen was withdrew as per 33%. Hong Kong income tax was withdrew as per 17.5% of payable tax premium made in Hong Kong in 2005

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Ended December 31, 2005

(continued)

8. Fixed assets

	Land use right RMB'000	Housing and buildings RMB'000	Fitting up of rented property RMB'000	Machines & equipment RMB'000	Electronic equipment RMB'000
Cost or estimated value					
Ended January 1, 2005	31,326	864,655	5,788	638,451	595,061
Increase		10,225	635	20,400	10,803
Decrease	-			(7,477)	(8,091)
Reclassification	-		-		
Ended June 30, 2005	31,326	874,880	6,423	651,374	597,773
Accumulated depreciation					
Ended January 1, 2005	(3,007)	(145,208)	(3,296)	(327,588)	(355,486)
Increase	(315)	(10,627)	(854)	(25,713)	(29,992)
Decrease	-			4,560	7,913
Ended June 30, 2005	(3,322)	(155,835)	(4,150)	(348,741)	(377,565)
Net book value					
Ended June 30, 2005	28,004	719,045	2,273	302,633	223,778
Ended December 31, 2004	28,319	719,447	2,492	310,863	239,575

The Group holding numbers of fixed assets with original book value amounting to RMB 66,274,000 has been pledged to bank in order to obtain bank loan of the Group.

The above evaluation occurred in the time of preparing and reorganizing limited company, fixed assets owned by the Company on Jul. 31, 1991 was re-evaluated by Shenzhen Zhonghua CPAs as per public market price on that very day, balance rising from evaluation amounting to RMB 29,203,000 has transferred into share equity.

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Ended June 30, 2005

(continued)

9. Goodwill

	RMB'000	RMB'000
Costs		
Ended January 1, 2005 and June 30, 2005		3,217
Accumulated amortization		
Ended January 1, 2005	(2,228)	
Amortization in this period	<u>(161)</u>	
Ended June 30, 2005		<u>(2,389)</u>
Net book value		
Ended January 1, 2005		<u><u>828</u></u>
Ended December 31, 2004		<u><u>989</u></u>

10. Intangible assets

	Foreign trademark registration RMB'000	Patent and proprietary technology RMB'000	Total RMB'000
Cost			
Ended January 1, 2005	1,562	23,860	25,422
Increase		7,663	7,663
Transfer into long-term expenses to be apportioned	<u> </u>	<u> </u>	<u> </u>
Ended June 30, 2005	<u>1,562</u>	<u>31,523</u>	<u>33,085</u>
Accumulated amortization			
Ended January 1, 2005	(852)	(13,556)	(14,408)
Amortization in this period	(95)	(2,339)	(2,434)
Transfer into long-term expenses to be apportioned	<u> </u>	<u> </u>	<u> </u>
Ended June 30, 2005	<u>(947)</u>	<u>15,859</u>	<u>16,842</u>
Net book value			
Ended June 30, 2005	<u><u>615</u></u>	<u><u>15,664</u></u>	<u><u>16,243</u></u>
Ended December 31, 2004	<u><u>710</u></u>	<u><u>10,304</u></u>	<u><u>1,1014</u></u>

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Notes to Financial Report

Ended June 30, 2005

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11. Equity attributable in associates

	2005 RMB'000	2004 RMB'000
Net value taken in the asset	52,663	55,375
Reserve for devaluation	(11,188)	(11,188)
Account receivable from the associates	1,130	1,130
Account payable to the associates	(7,873)	(10,158)
Total	34,732	35,159

The Group's associates ended June 30, 2005 are listed as follows:

Name of companies	Registration place	Proportion of shares held		Principal business
		Direct	Indirect	
Huadu Longfeng Property Co., Ltd.*	Macao	50%	-	Investment by shareholding and real estate development
Shenzhen OCT International Media Co., Ltd.	Mainland China	25%	-	Production and issuing of TV programs
Shenzhen Dekang Electronics Co., Ltd.	Mainland China	-	30%	Production and sales of electronic products;
Shenzhen Konka Energy Technology Co., Ltd.	Mainland China	-	30%	New mobile energy products
Chongqing Jingkang Plastic Products Co., Ltd.	Mainland China	-	25%	Manufacture and processing of mould products

* The said company belongs to cooperated company jointly invested by the Group and other 4 companies, mainly engaged in development of Furong Holiday of Hudu City. The other 4 companies asked to quit from cooperate enterprise, and local government want to change the land originally owned by the said company, so the project of property development of the said company made no progress yet, the Group could take back investment and withdrawal provision for depreciation amounting to RMB 11,188,000.

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Notes to Financial Report
Ended June 30, 2005

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12. Other Investment

	June 2005 RMB'000	2004 RMB'000
Credit investment in non-consolidated subsidiaries	136,567	136,567
Reserve for devaluation	<u>(136,567)</u>	<u>(136,567)</u>
	<u>-</u>	<u>-</u>
Non-listed shares, cost value	1,885	1,885
Reserve for devaluation	<u>(1,400)</u>	<u>(1,400)</u>
	<u>485</u>	<u>485</u>
Listed shares, cost value*	<u>9,805</u>	<u>9,805</u>
Total	<u><u>10,290</u></u>	<u><u>10,290</u></u>

* The market value of the above listed shares is not easy to be recognized.

13. Inventories

	June, 2005 RMB'000	2004 RMB'000
Raw materials	1,280,001	1,551,927
Products in process	88,676	113,212
Finished products	1,661,994	2,091,729
Reserve for price falling of inventories	<u>(169,788)</u>	<u>(176,091)</u>
Total	<u><u>2,860,883</u></u>	<u><u>3,580,777</u></u>

14. Property to be sold

	June, 2005 RMB'000	2004 RMB'000
Jingyuan Building - Original value at year-begin and year-end	4,172	4,172

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Notes to Financial Report

Ended June 30, 2004

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15. Accounts receivable

	June, 2005 RMB'000	2004 RMB'000
Accounts receivable	670,701	690,817
Reserve for bad debt	(119,205)	(119,801)
Total	551,496	571,016

Ages of the accounts receivable as at the report day are analyzed as follows:

	June, 2005 RMB'000	2004 RMB'000
Within a year	480,173	493,906
Within over 1 year but below 2 years	9,595	13,328
Within over 2 years but below 3 years	16,589	18,752
Over 3 years	164,344	164,831
Total	670,701	690,817

16. Advances, margins and other receivables

	June, 2005 RMB'000	2004 RMB'000
Advances	51,718	49,570
Expenses to be apportioned	48,217	38,451
Other receivables	107,984	115,656
		203,677
Reserve for bad debt	(3,098)	(4,426)
Total	204,821	199,251

17. Note receivable

	June, 2005 RMB'000	2004 RMB'000
Letter of credit	4,296	127,634
Bank acceptance	2604,177	2,806,018
Total	2,608,473	2,933,652

Numbers of bank acceptance held by the Group has been pledged to bank in order to obtain bank loan.

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Notes to Financial Report
Ended June 30, 2005

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18. Short-term investment

	June, 2005 RMB'000	2004 RMB'000
Bank loan – without mortgage	-	-
Bank loan – with mortgage	25,000	48,149
Total	25,000	48,149

19. Share Capital

	June, 2005 RMB'000	2004 RMB'000
Registered, issued and paid up:		
A-shares at the price of RMB 1 per share	399,148	399,148
A-shares at the price of RMB 1 per share	202,838	202,838
	601,986	601,986
Negotiable A shares, listed	224,199	224,199
Negotiable B shares, listed	202,837	202,837
	427,036	427,036
Shares not negotiable for time being	174,950	174,950
	601,986	601,986

For the Company's assets, profit distribution and all other aspects, both A-shares and B-shares enjoy the same right. A-shares are held by the investors in Mainland China and settled with RMB in transactions; B-shares are held by the investors outside Mainland China and settled with Hong Kong dollars in transactions.

20. Cash circulation in fund raising activities

	Other long-term liabilities RMB'000	Bank loans RMB'000	Minority shareholders' equity: RMB'000
Opening balance	10,499	48,149	247,827
Net amount flow-in/flow-out rising from financing activities	-	(23,149)	-
Affiliated company transferring part of equity so increase minority shareholder parts	-	-	
Dividend distributed to minority shareholders	-	-	(16,278)
Selling part of equity premium of affiliated company	-	-	-
Profit distributable to minority shareholders	-	-	(8,527)
Balance at period-end	10,499	25,000	223,022

KONKA GROUP COMPANY LIMITED
Notes to Financial Report
Ended June 30, 2005

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21. Undertakings

Ended June 30, 2005, the Group had no significant irrevocable operating lease contract and capital undertakings.

22. Contingent Liabilities

Ended June 30, 2005, the Group had no contingent liabilities.

23. Transactions with related companies

The related businesses between the Group, OCT Group Company (the Company's principal shareholder) and its subsidiaries ended June 30, 2005 are summarized as follows:

		1st Half Year of 2005 RMB'000	1st Half Year of 2004 RMB'000
OCT Group Company	Payment of water, electricity fee and property management fees	3,795	4,718
Shenzhen Dekang Electronics Co., Ltd.	Purchase of goods	35,798	34,138
Shanghai Huali Packing Co., Ltd.	Purchase of goods	33,486	33,375
Shenzhen Huali Packing Trading Co., Ltd.	Purchase of goods	13,825	27,491

KONKA GROUP COMPANY LIMITED
Notes to Financial Report

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24. Financial Report Audited by Chinese Certified Public Accountants Adjusted according to the International Financial Report Standards
Influence of net gain and loss and net asset value

	Profit distributable to shareholders RMB'000	Net asset value RMB'000
Financial report audited by the Chinese certified public accountants	23,348	3,211,597
Prior period adjustment of capital public reserve		(6,978)
Prior period adjustment of surplus public reserve		17,909
Accumulated loss not made up to the subsidiaries transferred to minority shareholders' equity		10,437
Governmental financial support transferred to deferred income from capital public reserve		(13,523)
Moving expenses used in occurred period write-off		(2,318)
Partial governmental financial support stated as income	1,499	1,499
Reserve for depreciation of affiliated company		-
No need paid debts of underling company		-
Restated according to international financial report standards	25,140	3,218,623

25. Financial Instruments

The Group's financial assets include bank balance and cash, short term investment, notes receivable, accounts receivable, advance payments, margin and other receivables; The financial liabilities include short term bank loan, notes payable, accounts payable, other payables, accrual expenses, deferred income and other long term liabilities.

(a) Credit risks

Bank balance and cash: The Group deposits its funds mainly with Bank of China, China Merchants Bank, Shenzhen Development Bank, China Industrial and Commercial Bank, China Construction Bank and China Agricultural Bank.

Accounts receivable: The Group's accounts receivable from its customers or transaction involve no significant risks. The main credit risks are from the same region where big amount of accounts receivable are involved, namely Mainland China

(b) Fair Value

There is no significant difference between the fair value and the book value in bank balance and cash, notes receivable, advance payment, margin, other receivables, short term bank loan, accounts payable, other payables, accrued expenses, deferred income and other long term liabilities.

In calculation bank loan interest according to the similar articles with close repayment term, the book value of the Group's short term bank loan and other long term liabilities are very close to the fair value.

Fair value refers to the estimation according to the relevant market information within a specific period of time. This estimate is subjective in respect of nature and involve unidentified factors and quite a lot of judgment. Therefore, it cannot be regarded as careful calculation. Change in any consumption may significantly affect the aforesaid estimate.

26. Other Point for Attention

This consolidated financial report is prepared in both Chinese and English. The English version is provided only for reference. If there is any discrepancy between the two versions, the Chinese version shall prevail.