

# Konka Group Co., Ltd.

## Report of the 1<sup>st</sup> 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 The quarterly report was examined and approved by the whole directors in the 4<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of the Company(voting by means of fax).

1.3 The financial report of this quarter was not audited.

1.4 Chairman of the Board of the Company Mr. Ren Kelei, Chief Financial Supervisor Mr. Yang Guobin and General Manager of Financial Department Mr. Ruan Renzong hereby confirm that the Financial Report of the 3<sup>rd</sup> 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	9,182,124,073.95	9,597,845,796.50	-4.33
Shareholders' equity (excluding minority equity)	3,214,480,213.69	3,193,928,132.53	0.64
Net assets per share	5.340	5.306	0.64
Net assets per share after adjustment	5.146	5.108	0.73
	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	131,078,965.19	131,078,965.19	291.30
Earnings per share	0.0341	0.0341	-17.43
Return on equity (%)	0.6390%	0.6390%	Decrease 0.1680percent
Return on equity after deducting non-recurring gains and losses (%)	0.6487%	0.6487%	Decrease 0.1242 percent

Items of non-recurring gains and losses	Amount
Non-operating income	538,045.67
Non-operating expenditure	(848,979.75)
Total	-310,934.08

## 2.2.2 Income statement

### Statement of Profit and Profit Distribution

Unit: RMB

Items	Jan. -Mar. 2005		Jan. -Mar. 2004	
	Consolidation	Company	Consolidation	Company
I. Income from core business	3,174,017,824.28	2,574,068,277.22	3,914,685,729.93	2,646,101,134.62
Less: cost of core business	2,705,675,964.00	2,193,193,393.90	3,327,693,251.64	2,259,426,076.29
Tax and surcharge of core business	249,454.27	37,423.02	262,191.99	39,299.57
II. Profit from core business	468,092,406.01	380,837,460.30	586,730,286.30	386,635,758.76
Add: profit from other business	6,638,096.63	1,023,430.83	4,310,417.78	2,045,285.54
Less: operating expense	363,705,022.45	242,158,246.08	446,555,788.09	306,612,425.35
Administrative expense	89,273,210.87	54,937,874.99	115,184,379.29	78,367,368.35
Financial expense	1,961,492.79	255,827.76	-1,648,016.56	-2,901,074.29
III. Operating profit	19,790,776.53	84,508,942.30	30,948,553.26	6,602,324.89
Add: investment earnings	-	-63,780,502.14	595,483.68	595,483.68
Subsidy income	-	-	-	-
Non-operating income	538,045.67	383,685.81	1,910,832.46	382,055.01
Less: non-operating expenditure	848,979.75	571,112.11	1,456,912.07	987,874.27
IV. Total profit	19,479,842.45	20,541,013.86	31,997,957.33	6,591,989.31
Less: income tax	823,865.56	-	3,959,212.64	-
Minority gains and losses	-1,865,702.52	-	3,254,058.25	-
Unoffset losses of subsidiaries	-19,334.45	-	-60,840.33	-
V. Net profit	20,541,013.86	20,541,013.86	24,845,526.77	6,591,989.31

## 2.3 Total shareholders at the end of the report period and particulars about shares held by the top ten shareholders of circulation share

Total shareholders at the end of report period	141,128 shareholders (including 126,681 shareholders of A-share and 14,447 shareholders of B-share)		
Particulars about shares held by the top ten shareholders of circulation share			
No.	Name of shareholders (full name)	Holding circulation shares at the period-end	Type (A-share, B-share, H-share or other)
1	Hong Kong China Travel Service (Group) Co., Ltd.	39,541,212	B-share
2	BUILD UNITED LIMITED	20,000,000	B-share
3	First Shanghai Securities Co., Ltd.	19,843,659	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	5,156,482	B-share
8	Minsheng Securities Co., Ltd.	2,878,622	A-share
9	Chuangli Development (Hong Kong) Co., Ltd.	2,568,800	B-share
10	China High-Tech Investment Group Co.	2,450,914	A-share

## 3. Discussion and Analysis of the Management

### 3.1 Brief analysis to the whole operating activities of the Company in the report period

In the report period, the Company implemented operation strategy of “exclusively in value operation and additionally in price operation” according to strategy arrangement at the

year beginning, continuously enlarged the power of developing new products and marketing management on the one hand, concentrated advantage resource and promoted new products unceasingly, ensured to keep the leading position in two industries of Color TV and Mobile of the Company; on the other hand, cautiously enhance and perfect inner work circulation, heightened management efficiency and inner management of the Company has been upgraded. However, due to fierier competition, price of home appliances products declined successively, income and profit of the Company has descended over same period of last year. In the report period, the Company realized main operation income totally amounting to RMB 3.174billion, decreased by 18.92% comparing with same period of pervious year; realized net profit amounting to RMB 20,541.01 thousand,declined by 17.33%over previous year.

In the report period, the Company solidified the leading position of in the field of color digital high visibility, strengthened the research and promotes of high technique and high additional value products, meanwhile, concentrated advantage resource to expand flat advantage, ensured the dragon position. The color TV industry of the Company basically kept its stable tendency, totally realized the sales income amounting to RMB 2.638 billion, occupancy kept ahead at home.

With the implementation of verification system of mobile produce, mobile industry at home countered barbaric fight hand-to-hand, merchants overseas and home fell over to get rid of the stale and bring birth the fresh, and life cycle of mobile has shortened; meanwhile, speeding-up of capacity of mobile market has slowed down, market supply exceeded demand, which exercised great influence on sales of mobile of the Company. In the report period, the Company's mobile sales have certain degree of decrease; sales price of part of products has descended, which resulted in disadvantage influence on achievement of the Company. In the report period, mobile business of the Company totally realized sales income amounting to RMB 0.485 billion, decreased by 53.21% comparing with same period of last 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	2,638,704,419.40	2,212,193,190.24	16.16
Communications	Mobile phones	485,297,076.04	441,772,040.25	8.97

### 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.-Mar. 2005		2004		Increase/decrease of proportion in total profit (+/-) (%)
	Amount	Proportion in total profit (%)	Amount	Proportion in total profit (%)	
Profit from core business	468,092,406.01	2402.96	1,969,402,208.42	1153.46	108.33
Profit from other business	6,638,096.63	34.08	30,349,951.96	17.78	91.68

Period expense	454,939,726.11	2335.44	1,866,124,997.13	1092.97	113.68
Investment earnings	-	-	36,688,998.49	21.49	-100
Net amount of non-operating income and expenditure	-310,934.08	-1.60	-39,655.87	-0.02	-79
Total profit	19,479,842.45	100.00	170,738,565.22	100.00	-

Explanation: 1. General gross ratio remained unchanged in the period, sales income descended relatively, cost ratio increased relatively, resulting in total profit amount decreased relatively, so as to main operation profit, other business profit and period expenses increased comparing with proportion of total profit amount.

2. Changes on proportion of other business profit mainly due to increase of repairing business and communication appreciation business.

3. Absolute value of net income or expenses of non-operating has not changed much; occupancy of total profit has changed so much because of few cardinal numbers of 2004.

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

Applicable                      Inapplicable

Mobile industry's competition was intensified; speeding-up of capacity of mobile market has slowed down, new manufactory unceasingly entered, market supply exceeded demand, resulting in downslide of mobile sales of the Company, so sales price depressed, In the report period, the income of the Company's mobile sales have great certain degree of decrease, main operation of mobile and its occupancy of general income has descended as following. Comparing with previous report period, proportion of color TV business occupied the business of the Company has increased by 83.13% from 70.61%, however, proportion of mobile business occupied the business of the Company has decreased by 15.29% from 26.81%.

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

Applicable                      Inapplicable

Gross ratio of mobile has descended comparing with 2004, mainly due to intensified market competition, the Company surrounded with sales to develop promotion and interests concession, sales price of part of products has descended, however, range of descend of mobile cost was few at the same time, resulting in gross ratio of single mobile has a large range of descend.

### 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.	16,455,231.40	20,916,242.00	1.04%
		Shenzhen Huali Packaging Trade Co., Ltd.	4,461,010.60		0.28%

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.  
Apr. 28, 2005**

KONKA GROUP CO., LTD.  
For the period ended Mar. 31, 2005  
Financial Report (for B shares)  
(Un-audited)

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3. Consolidated Cash Flow Statement

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**Chairman of the board:**

**Chief financial official :**

**Organizer :**

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

As of March 31, 2005

	March. 31, 2005	Dec. 31, 2004
	RMB ' 000	RMB ' 000
Non-current assets		
Fixed assets	1,373,561	1,387,288
Goodwill	989	989
Intangible assets	12,264	11,014
Interests in associates	40,796	35,159
Other investments	10,290	10,290
	1,437,900	1,444,740
Current assets		
Bank balances and cash	949,483	851,762
Inventories	2,890,402	3,580,777
Properties held for sale	4,172	4,172
Note receivables	3,212,949	2,933,652
Account receivables	491,132	571,016
Prepayments, deposits and other receivables	183,086	199,251
	7,731,224	8,140,630
Current liabilities		
Tax payable	(824)	(2,145)
Short-term bank loans	(39,545)	(48,149)
Note payables	(3,468,327)	(3,977,323)
Account payables	(1,441,649)	(1,271,053)
Other payables and accrued expenses	(738,323)	(821,192)
	(5,688,668)	(6,119,862)
Net current assets	2,042,556	2,020,768
Total assets less current liabilities	3,480,456	3,465,508

Chairman of the Board: Ren Kelei Chief Financial Officer: Yang Guobin Organizer: Ruan Renzong

Consolidated Balance Sheet (Con.)

As of March 31, 2005

	March. 31, 2005	Dec. 31, 2004
	<u>RMB ' 000</u>	<u>RMB ' 000</u>
Total assets less current liabilities	3,480,456	3,465,508
Long-term account receivables of financing lease		
Long-term bank loans	0	0
Deferred income	(13,490)	(13,490)
Other long-term liabilities	(10,499)	(10,499)
	<u>(23,989)</u>	<u>(23,989)</u>
Minority interests	(242,204)	(247,827)
	<u>3,214,263</u>	<u>3,193,692</u>
Shareholders' equity		
Share capital	601,986	601,986
Reserves	2,612,277	2,591,706
Shareholders' equity	<u>3,214,263</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.25,2004

Chairman of the Board:Ren kelei 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 March, 2005

	Jan. – Mar. 2005 RMB'000	Jan. – Mar. 2004 RMB'000
Turnover	3,174,018	3,914,686
Cost of sales	(2,705,676)	(3,327,693)
Gross profit	468,342	586,993
Other revenue	6,327	5,360
Distribution costs	(363,705)	(446,556)
Administrative expenses	(89,273)	(115,184)
Other operating expenses	(250)	(262)
Profit from operating activities	21,441	30,351
Finance costs	(1,961)	1,648
Share of profit of associated companies	0	0
	0	
Profit before taxation	19,480	31,999
Taxation	(824)	(3,959)
Profit before minority interests	18,656	28,040
Share of profit of minority interests	1,885	(3,193)
Net profit in the interim period of 2004	20,541	24,847
Retained profit at the year-beginning	(361,412)	(503,961)
Profit attributable to shareholders	(340,871)	(479,114)
Profit distribution:		
Transferring into reserves	-	0
Dividends	-	0
Issue of bonus shares	-	0
Retained profit at end of the interim period	(340,871)	(479,114)
Earnings/(loss) per share - basic	RMB 0.034	RMB 0.041

Chairman of the Board: Ren kelei 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 March, 2005

	Jan. – Mar. 2005
	RMB ' 000
Cash flow from operating activities	
Operating profit	20,541
Adjustment items:	
Depreciation of fixed assets	32,813
Amortization of intangible assets	1,283
Amortization of deferred expenditure	4,984
Loss on rejection or sale of fixed assets	262
Loss on disposal of properties held for sale	0
Interests income	1,961
Balance difference from foreign currency exchange	(279)
(Increase)/decrease in account receivables	(191,771)
(Increase)/decrease in inventories	690,375
Decrease in account payables	(430,194)
Income tax paid	824
Net cash inflow from operating activities	130,799
Investing reward and financing expenses	—
Interests received	440
Interests paid	(619)
Dividend paid	0
Cash outflow from investing reward and financing expenses	(179)
Investing activities	—
Purchases of fixed assets	(26,821)
Proceeds from disposal of fixed assets	96
Deferred expenses paid	0
Net cash inflow/ ( expenditure ) from acquisition of associates	2,400
Investment in associated company	0
Purchases of long-term investment	0
Net cash outflow from investing activities	(24,325)
Net cash outflow before financing activities	106,295

Chairman of the Board: Ren kelei Chief Financial Official: Yang Guobin Organizer: Ruan Renzong

## Consolidated Cash Flows Statement (Con.)

For the period from January to March, 2005

	Jan. – March. 2005
	RMB ' 000
Financing activities	
Additional bank loans	5,082
Repayment for bank loans	(13,656)
Expenditure of financing lease	0
Contribution from minority shareholders on formation of new subsidiary	0
Dividend paid to minority shareholders	0
Net cash inflow from financing activities	(8,574)
Cash and cash equivalents at beginning of the period	851,762
Cash and cash equivalents at end of the period	949,483
Net increase/(decrease) in cash and cash equivalents	97,721
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Analysis of balances of cash and cash equivalents	
Monetary funds	949,483
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Chairman of the Board: Ren kelei Chief Financial Official: Yang Guobin Organizer: Ruan Renzong