KONKA GROUP CO., LTD.
INTERIM REPORT 2006

KONKA GROUP CO., LTD.
CHAIRMAN OF THE BOARD: HOU SONGRONG
AUGUST 19, 2006

KONKA GROUP CO., LTD.
INTERIM REPORT 2006

Important Notice

The Board of Directors of KONKA GROUP CO., LTD. (hereinafter referred to as the Company), the Supervisory Committee, and all the directors, supervisors and senior executives 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 Interim Report has been examined and approved by the 16th meeting of the 5th Board of Directors of the Company. Independent Director Ms. Ma Liguang was out on business and she has entrusted Independent Director Mr. Ye Wu to attend the meeting and exercise the voting right on her behalf.

No director, supervisor or senior executive has declared that he or she cannot guarantee the authenticity, accuracy and completeness of this report, or that he or she has any objections.

After careful examination, the 7th meeting of the 5th Supervisory Committee believes that the Interim Report 2006 and its Summary have faithfully, accurately and completely reflected the financial status, business achievement, corporate administration and business development of the Company in the interim of 2006.

Chairman of the Board of the Company Mr. Hou Songrong, Chief Financial Officer Mr. Yang Guobin and Person in Charge of Accounting work Mr. Ruan Renzong hereby confirm that the Financial Report in the Interim Report is true and complete.

The Financial Report of the Interim Report of the Company has not been audited.

Contents

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. Hou Songrong
4. Secretary of Board of Directors: Mr. Xiao Qing
   Securities Affairs Representative: Mr. Xu Wenxiao
   Contact Address: Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen, P.R.C.
   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 and Hong Kong Ta Kung Pao, etc
   Internet Website Designated by CSRC for Publishing the Interim Report:
   http://www.cninfo.com.cn
   The Place Where the Interim 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: G 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, 2006**	**Dec. 31, 2005**	**Increase/decrease (%)**
Current assets	6,997,552,331.38	7,666,411,270.75	-8.72
Current liabilities	4,929,017,018.51	5,633,184,810.33	-12.50
Total assets	8,415,220,411.24	9,120,452,267.93	-7.73
Shareholders' equity (excluding minority interests)	3,243,038,176.29	3,211,212,304.03	0.99
Net assets per share	5.39	5.33	1.13
Net assets per share after adjustment	5.15	5.09	1.18
Items	**Jan. –Jun. 2006**	**Jan.-Jun.2005**	**Increase/decrease (%)**
Net profit	33,367,874.20	23,348,405.50	42.91
Net profit after deducting non-recurring gains and losses	35,165,155.52	24,249,002.69	45.02
Earnings per share	0.0554	0.0388	42.78
Return on equity	1.03%	0.73%	Up by 0.3 percentage points
Net cash flow arising out of operating activities	235,545,874.82	-172,455,799.24	236.58

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

Items of non-recurring gains and losses	Amount
Investment yield	-758,783.07
Non-operating income	2,102,386.97
Non-operating expense	3,140,885.22
Total	-1,797,281.32

3. Differences under CAS and IAS (Unit: RMB)

	Net assets	**Net profit**
According to IAS	3,245,554,969.84	33,675,035.03
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	10,492,500.00	---
4. Part of government subsidies classified as income	-1,498,750.00	-1,498,750.00
5. Cancellation and written-back of the moving expenses during the period of occurrence	---	---
6. Adjustment to losses of subsidiaries not made up	---	1,449,420.83
7. Debts not recoverable	---	---
8. Employees' welfare and bonus fund withdrawn	---	---
9. Goodwill written back	-579,543.55	-257,831.66
According to Business Accounting System	3,243,038,176.29	33,367,874.20

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

1. Ended June 30, 2006, the Company's total shares remained unchanged compared with that at the end of the last year.

2. Ended June 30, 2006, the Company has 125,139 shareholders, including 111,601 shareholders of A-share and 13,538 shareholders of B-share.

3. Shares held by shareholders

3.1 Statement on the share changes of the Company

Unit: share

	Before the change		Increase or decrease during the change (+, -)					After the change	
	Amount	Proportion (%)	Newly issued shares	Bonus shares	Shares transferred from public reserves	Others	Subtotal	Amount	Proportion (%)
I. Shares with restrictions on sales	174,952,900	29.06	-	-56,048,888	-	-	-56,048,888	118,904,012	19.75
1. Shares held by the State	-	-	-	-	-	-	-	-	-
2. Shares held by State-owned legal person	90,949,746	15.10	-	-38,557,154	-	-	-38,557,154	52,392,592	8.70
3. Shares held by other domestic investors	55,003,154	9.14	-	-11,452,649	-	-	-11,452,649	43,550,505	7.23
Including:									
Shares held by domestic legal person	55,000,000	9.14	-	-11,453,437	-	-	-11,453,437	43,546,563	7.23
Shares held by domestic natural person (shares held by senior executives)	3,154		-	+788	-	-	+788	3,942	
4. Shares held by foreign investors	29,000,000	4.82	-	-6,039,085	-	-	-6,039,085	22,960,915	3.81
Including:									
Shares held by foreign legal person	29,000,000	4.82	-	-6,039,085	-	-	-6,039,085	22,960,915	3.81
Shares held by foreign natural person	-	-	-	-	-	-	-	-	-
II. Shares without restrictions on sales	427,033,452	70.94	-	+56,048,888	-	-	+56,048,888	483,082,340	80.25
1. RMB ordinary shares	224,195,550	37.24	-	+56,048,888	-	-	+56,048,888	280,244,438	46.55
2. Domestically listed foreign shares	202,837,902	33.69	-	-	-	-	-	202,837,902	33.69
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total shares	601,986,352	100	-	-	-	-	-	601,986,352	100

3.2 Ended Jun. 30, 2006, particulars about shares held by the top ten shareholders and the top ten shareholders of circulation share:

Shares held by the top ten shareholders holding restricted shares and the restrictions:

Unit: Share

No.	Name of shareholders holding restricted shares	Amount of restricted shares held	Time for listing and trading	Amount of shares newly increased for listing and trading	Restrictions
1	OVERSEAS CHINESE TOWN GROUP COMPANY	52,392,592	Mar. 30, 2008	-	Note 1
2	ANHUI TIANDA ENTERPRISE GROUP CO., LTD	43,546,563	Mar. 30, 2008	-	Note 2
3	THOMSON INVESTMENTS GROUP LIMITED	22,960,915	Mar. 30, 2008	-	Note 3

Note: (1) Since the principal shareholder Overseas Chinese Town Group Company has paid some consideration for Anhui Tianda Enterprise Group Co., Ltd and Thomson Investments Group Limited, and Anhui Tianda Enterprise Group Co., Ltd and Thomson Investment Group Limited should repay this part of consideration to Overseas Chinese Town Group Company before their applications for the circulation of the A shares of Konka Group they hold, the A shares of the Company that Overseas Chinese Town Group Company actually may apply for circulation amount to 10.27% of the Company's A shares. Overseas Chinese Town Group Company has promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights. After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by Overseas Chinese Town Group Company through listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months.

(2) Since Overseas Chinese Town Group Company has paid 35% of the consideration for Anhui Tianda Enterprise Group Company, the shareholder holding non-circulating shares, and the latter has promised to repay this part of consideration to Overseas Chinese Town Group Company before the application for the circulation of the A shares of Konka Group held by Anhui Tianda Enterprise Group Company, the A shares of the Company that Anhui Tianda Enterprise Group Company actually may apply for circulation amount to 6.21% of the Company's A shares. Anhui Tianda Enterprise Group Company has promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights. After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by Anhui Tianda Enterprise Group Company through listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months.

(3) Since Overseas Chinese Town Group Company has paid 35% of the consideration for Thomson Investment Group Limited, the shareholder holding non-circulating shares, and the latter has promised to repay this part of consideration to Overseas Chinese Town Group Company before the application for the circulation of the A shares of Konka Group held by Thomson Investment Group Limited, the A shares of the Company that Thomson Investment Group Limited actually may apply for circulation amount to 3.27% of the Company's A shares. Thomson Investment Group Limited has promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights.

3.3 Shares held by the top ten shareholders and those held by the top ten shareholder holding non-restricted shares

Unit: share

Particulars about shares held by the top ten shareholders					
Name of Shareholder	Nature of shareholders	Proportion of the shares held (%)	Total number of shares held	Shares with restrictions on sales held	Number of shares pledged or frozen
OVERSEAS CHINESE TOWN GROUP COMPANY	State-owned legal person share (A share)	8.70	52,392,592	52,392,592	0
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	Domestic legal person shares (A share)	7.23	43,546,563	43,546,563	0
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	Circulating B share	4.79	28,810,660	0	Unknown
THOMSON INVESTMENTS GROUP LIMITED	Overseas legal person share (A share)	3.82	22,960,915	22,960,915	0
BUILD UNITED LIMITED	Circulating B share	3.33	20,079,900	0	Unknown
ABLEWELL INVESTMENTS LIMITED	Circulating B share	2.34	14,100,000	0	Unknown
FIRST SHANGHAI SECURITIES LIMITED	Circulating B share	1.98	11,941,282	0	Unknown
ANHUI DEVELOPMENT & INVESTMENT CO., LTD	Circulating A share	1.26	7,601,170	0	Unknown
NOMURA SECURITIES CO.,LTD.	Circulating B share	1.12	6,750,000	0	Unknown
MERRILL LYNCH PIERCE FENNER& SMITH INC	Circulating B share	0.99	5,975,926	0	Unknown

Particulars about shares held by the top ten shareholders holding shares without restrictions on sales		
Name of shareholders	Shares without restrictions on sales held	Type
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	28,810,660	Circulating B share
BUILD UNITED LIMITED	20,079,900	Circulating B share
ABLEWELL INVESTMENTS LIMITED	14,100,000	Circulating B share
FIRST SHANGHAI SECURITIES LIMITED	11,941,282	Circulating B share
ANHUI DEVELOPMENT & INVESTMENT CO., LTD	7,601,170	Circulating A share
NOMURA SECURITIES CO.,LTD.	6,750,000	Circulating B share
MERRILL LYNCH PIERCE FENNER& SMITH INC	5,975,926	Circulating B share
VALUE PARTNERS CHINA GREENCHIP FUND LTD	4,682,042	Circulating B share
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	3,805,850	Circulating B share
HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	3,743,323	Circulating B share
Explanation on associated relationship among the top ten shareholders or acting-in-concert	The principal shareholder Overseas Chinese Town Group Company neither has any related relationship with other shareholders, nor has joined in any consistent actions; it is not known whether the other shareholders have joined in any consistent action or have related relationships among them.	

3.4 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 legal person shares	Wholly State-funded company	Ren Kelei	May 1986	RMB 200,000	Development and operation of real estate and hotels; operation of tourism and relevant cultural industries; manufacture of electronics and supporting packing products.
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	Domestic ordinary legal person shares	Private enterprise	Ye Shiqu	August 2000	RMB 23,372.55	Plastic products, plastic machines, air-conditioner parts and optical fiber communication instruments, etc.

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 period-begin (share)	Shares held at the period-end (share)	Note
Hou Songrong	Chairman of the Board	Male	37	June 2004 – June 2007	0	0	
	President			June 2004 – June 2007			
Jian Di'an	Director	Male	56	June 2004 – June 2007	0	0	
Ye Shiqu	Director	Male	55	September 2005 – June 2007	0	0	
Huo Jun	Director	Female	39	September 2005 – June 2007	0	0	
Na Qinglin	Director	Male	38	September 2005 – June 2007	0	0	
Wei Qing	Director	Male	53	June 2004 – June 2007	0	0	
Xiao Zhuoji	Independent director	Male	72	June 2004 – June 2007	0	0	
Ye Wu	Independent director	Male	67	June 2004 – June 2007	0	0	
Ma Liguang	Independent director	Female	65	June 2004 – June 2007	0	0	
Dong Yaping	Chairman of the Supervisory Committee	Male	52	June 2004 – June 2007	0	0	
Wang Xiaowen	Supervisor	Female	36	June 2004 – June 2007	0	0	
Sha Gang	Supervisor	Male	41	June 2004 – June 2007	0	0	
Zeng Hui	Executive vice president	Male	45	November 2004 – June 2007	0	0	
Yang Guobin	CFO	Male	36	June 2004 – June 2007	0	0	
Wang Youlai	Vice president	Male	44	June 2004 – June 2007	2,640	3,300	
Huang Zhongtian	Vice president	Male	44	June 2004 – June 2007	514	642	
Chen Yuehua	Vice president	Male	42	November 2004 – June 2007	0	0	
He Jianjun	Vice president	Male	36	November 2005 – June 2007	0	0	
Xiao Qing	Secretary of the Board	Male	36	November 2005 – June 2007	0	0	

2. In the report period, no member of the Board or the Supervisory Committee was changed, nor did any senior executive like the president, vice president, CFO, or secretary of the Board, etc.

IX. Discussion and Analysis by the Management Team

(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), and belongs to the industries of electronics manufacture and telecommunication manufacture.

During the upper half-year of 2006, various works of the Company have been carried out according to the strategy of "value operation dominates and price operation supports". The Company has been incessantly advancing its product planning and R&D capacity, improving the product sales structure, tightening management in purchase, production and HR, etc. The Company has properly handled the relationship among creation, development, scale and profit, strengthened the construction of core capacity, and promoted the "masterpiece project, innovation project and quality project", so as to keep a comparatively leading position and sustainable and healthy development

In the report period, the sales revenue of the Company amounted to RMB 5.538 billion, up by 1.34% year-on-year; the net profit totaled RMB 33.37 million, up by42.91% year-on-year; and the earnings per share was RMB 0.0554, up by42.78% year-on-year.

1. Main work carried out during the upper half year of 2006

(1) Product R&D: The Company has further improved the R&D system, through the management of projects, incessantly uplifted the R&D management level, cut short the R&D time cost, stabilized the product quality, boosted the mass production and effectively guaranteed the on-market speed of new products.

(2) Marketing: Guided by the "flat panel, high digital" strategy, the Company has continuously improved the product sales structure of the Color TV business. The sales volume of high-end products has been on the rise and the sales structure has also been further improved. As to cell phones, the Company has made "super thin" as the differentiating point, integrated the "entertainment" brand concept, inherited the "masterpiece project" of konka, carried out integrated promotion for both series products and main

products, and has effectively boosted the sales of products.
(3) Purchase and outside cooperation: The Company has strengthened the management of the supply chain, further improved the purchase procedure, created new purchase management means and reduced purchase costs. By choosing strategic partners, etc, the Company has guaranteed the supply of key materials that are lacked in the upper-stream supply and ensured the production process; through strictly controlling inventories, etc, greatly minimized the risks of inventory depreciation; through improving standardization, strategic cooperation with suppliers and pushing the suppliers to get goods ready, etc, effectively cut the purchase costs.
(4) Production and quality control: The Company has improved its internal examination system and perfected the business procedures. Through establishing quality and techniques examination system, tightened the supervision over the various links of the production process and the track of trial materials, trained and strengthened the newly recruited staff and the incumbent employees with the quality consciousness, etc. The rolled yield has been stable and the product quality has also advanced steadily.
(5) Logistics and delivery: Through standardizing the transportation management and bid inviting work, etc, the Company has tried to overcome the negative factors including the skyrocketing oil prices, etc, and continued to maintain a high logistics service level while steadily reducing logistics costs. In the meantime, the Company has also promoted the improvement of logistics and integration of operations, so as to uplift the turnover of inventories, reduce inventories in various channels, minimize the cost occupation by inventories and improve the reaction speed of logistics service.
(6) Financial planning: The Company has improved its financial accounting level, advanced the accounting system, strengthened the predictions on the costs and financial results and guaranteed an appropriate market location for products; tightened regular analyses on the production, gross profit, financial status of branch companies, period expense and cash flow; further strengthened business planning and capital budget management, improved the supervision over the various links, advanced the compilation of business planning and the speed of analyses; tightened the implementation and track of the business plans and capital budgets and improved the capability in the implementation of business plans and capital budgets.
(7) After service: following the "service creation and service operation" principle, through management improving, service procedure perfecting, implementation capacity strengthening, service image uplifting and reaction speed advancing, the Company has tried to cut service costs and improve the satisfaction level from customers, so as to establish a good service reputation for Konka.
2. Operation achievement of the upper half year 2006
(1) Color TV business: during the upper half year of 2006, the income from color TV business totals RMB 3.471 billion. 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, and digital product has increased incessantly. The domestic market share of Konka color TVs has maintained its leading position.
(2) Cell phone business: The Company has laid emphases on the profit maximization, continued to increase the input into the advantageous market segment, introduced new products and increased the proportion of medium and high end cell phones. In the meantime, the Company has strictly promoted expense restricting and efficiency improving work, contributing to the large-margin increase of the gross profit ratio of each cell phone. In the report period, the sales revenue from the cell phone operation has amounted to RMB 836 million, about the same as the same period of last year, and the Company has successfully turned around from the loss-making status.
(3) Overseas business: The Company has established cooperation with large professional electric appliance chain stores, brand merchants, dealers and traders through various channels. In the meantime, the Company has also increased the sales proportion of high-end TVs, improved the incentive mechanism for salespersons, adjusted internal business structure, established customer-targeted business operation mode and international-market-oriented standardized business procedures, and uplifted the overseas business operation capacity; overseas cell phone business has come into existence, and the Company has developed businesses in countries and regions including the Caribbean, India, etc, and has cultivated and developed many strategic core customers. The development momentum is rather good. In the report period, the accumulated sales revenue from overseas businesses has amounted to RMB 893 million, up by 46.47% year-on-year.
In the next half year 2006, the Company will continue to carry on the "masterpiece project, innovation

project, quality project" as the main business axes, enterprise profit and brand value appreciation as the guide, differentiating competition as the base, upon the achievement made in the upper half year, spare no efforts to achieve the goals set for each operation and try to make breakthroughs in major operations.

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

Items	Jan.-Jun. 2006	Jan.-Jun. 2005	Increase/decrease (%) than that of the same period of last year
Income from core business	5,538,125,845.95	5,464,655,872.21	1.34
Cost of core business	4,563,603,618.42	4,657,609,399.45	-2.02
Profit from core business	973,543,560.72	806,407,715.55	20.73
Administrative expenses	227,407,171.23	159,190,336.83	42.85
Operating expenses	709,405,855.69	634,151,640.40	11.87
Financial expenses	5,945,774.79	4,567,078.44	30.19
Net profit	33,367,874.20	23,348,405.50	42.91
Net increase in cash and cash equivalents	170,807,498.61	-247,538,690.95	169.00
Items	**Jun. 30, 2006**	**Dec. 31, 2005**	**Increase/decrease proportion %**
Total assets	8,415,220,411.24	9,120,452,267.93	-7.73
Shareholders' equity	3,243,038,176.29	3,211,212,304.03	0.99
Accounts receivable	754,823,660.57	677,364,207.92	11.44
Fixed assets	1,288,540,313.56	1,331,027,501.62	-3.19
Retained profits	95,439,442.86	62,071,568.66	53.76

Explanation and analysis on the main changed items:

1. Due to the large-margin increase of domestically sold Color TVs and the gross profit of cell phone operation, the profit from main operations of the period has increased by 20.73% year-on-year;
2. The financial expense of the period has increased by 30.19% than the last period, mainly caused by the increase in the expense on interest and exchange loss;
3. Since the achievement in the cell phone industry has rebounded, the net profit made during the report period has increased by 42.91% than the same period of last year;
4. Due to the increase of the payment for goods received in the report period, the net cash flows of the report period has increased by 169% than the same period of last year;
5. Since the net profit of the report period amounted to RMB 33.37 million, the retained profit has increased by 53.76% than 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

1. Main operations classified according to industries and products Unit: RMB

Industries	Products	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/decease of cost (%)	Increase/decrease of gross profit ratio (%)
Electronics manufacture	Color TV	4,364,180,452.19	3,552,901,899.36	18.59	-2.87	-6.19	Up by 2..88 percentage points
Communication	Mobile phones (domestic sale)	835,632,274.32	692,613,428.73	17.12	-5.86	-12.22	Up by 6..01 percentage points
Others			338,313,119.44	318,088,290.33	5.98	303.98	Up by 2.92 percentage points

2. Main operations classified according to regions Unit: RMB

Regions	January – June 2006	January – June 2005	Increase or decrease year-on-year (%)
Mainland China	4,644,749,076.54	4,854,707,781.17	-4.32
Hong Kong and overseas regions	893,376,769.41	609,948,091.04	46.47
Consolidation of the Group	5,538,125,845.95	5,464,655,872.21	1.34

Note: there is no related transaction.

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

No shareholding company with earnings influencing over 10% of the net profit of the Company existed in the report period.

V. Significant Events

(I) The Company's administration

In the report period, the Company has steadily improved its corporate management structure, set and improved relevant systems and regulations to standardize 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 made at the Shareholders' General Meeting and Board of Directors has been carried out strictly.

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

The Company has no profit distribution or capitalization of public reserve into share capital in the interim.

(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

4.1 Important purchase, sales or reorganization of assets in the report period

In the report period, 13% equity of Anhui Konka Electronics Co., Ltd was transferred to the Company from Anhui Tianda Enterprise Group Co., Ltd. Except for this, the Company has no other important purchase, sales or reorganization of assets.

4.2 Ownership transfer of the assets purchased, sold or reorganized in the report period, as well as the transfer of the credits and liabilities involved

In the report period, the implementation of the agreement on the transfer of the 13% equity of Anhui Konka Electronics Co., Ltd to the Company from Anhui Tianda Enterprise Group Co., Ltd has been accomplished. The Company has begun to enjoy the shareholders' rights and interests of this part of equity as well as shoulder the relevant obligations.

(V) Material related transactions

1. Transactions with the controlling shareholder and its subsidiaries

(1) To meet the need of regular operating capital in 2006 and guarantee the stability and continuity of operating capital, the Company signed an Agreement of Credit Lines with the Shenzhen Branch of the Bank of China on Feb. 10, 2006, which stated that the Shenzhen Branch of the Bank of China would provide a comprehensive credit line amounting to RMB 4 billion. As required by the Shenzhen Branch of the Bank of China, Overseas Chinese Town Group provided RMB 4 billion guarantee for the credit line of the Shenzhen Branch of the Bank of China. To guarantee its assets security, Overseas Chinese Town Group has asked the Company to provide counter-guarantee amounting to RMB 4 billion with the Company's assets. The Company has negotiated with Overseas Chinese Town Group on the terms of the Counter-Guarantee Contract and has agreed to provide counter-guarantee to Overseas Chinese Town Group.

This proposal has been examined and approved at both the 13th meeting of the 5th Board of Directors and the Shareholders' General Meeting 2005, and when voting was carried out on this related transaction by the Board, related director Mr. Jian Di'an has withdrawn from the voting. All the other directors agreed the proposal unanimously and independent directors expressed approval through their independent opinions. When the proposal was examined at the Shareholders' General Meeting, the related shareholder Overseas Chinese Town Group waived its voting right on this proposal, and all the other shareholders present at the meeting approved the proposal by 100%.

For details of this related transaction, please refer to the Public Notice on the Resolutions of the 13th

Meeting of the 5th Board of Directors and on Providing Counter-Guarantee to the Related Party (Apr. 18, 2006; No.: 2006-13) and the Public Notice on the Resolutions of the Shareholders' General Meeting 2005 (Jul. 11, 2006; No.: 2006-23) published in Securities Times, China Securities Journal, Shanghai Securities News and Hong Kong Ta Kung Pao and on the Juchao Website (www.cninfo.com.cn).

Right now, the Counter-Guarantee Contract has not been officially signed; hence not officially valid.

(2) During the upper half year of 2006, 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, 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 "(5) Transactions with related companies" and "(6) 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	24,737,246.56	47,352,687.19	0.60%
		Mudanjiang Huali Packing Co., Ltd	4,982,830.68		0.12%
		Shenzhen Huali Packing & Trading Co., Ltd	17,632,609.95		0.43%

The Company published the Notice on the Estimation of Regular Related Transactions (Notice No.: 2006-18) 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 three related parties were basically in compliance with the estimation.

3. Other related transactions

The 15th meeting of the 5th Board of Directors has examined and approved the agreement on the related transaction of buying 13% equity of Anhui Konka Electronics Co., Ltd from Anhui Tianda Enterprise Group Co., Ltd. As assessed by China Qinxin Assets Appraisal Co., Ltd, the assessed value of this part of equity amounted to RMB 31,780,937.98, and the Company bought this part of equity according to the assessed value.

When voting was carried out on this proposal, related director Mr. Ye Shiqu had withdrawn from the voting, and the rest of the directors approved this proposal unanimously. This transaction had been approved by independent directors of the Company before the event, and after the examination and approval by the Board, the independent directors expressed opinions of approval.

For details on this related transaction, please refer to the Public Notice on a Related Transaction (No.: 2006-21) published by the Company in Securities Times, China Securities Journal, Shanghai Securities News and Hong Kong Ta Kung Pao and on the Juchao Website (www.cninfo.com.cn) on Jun. 9, 2006.

(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

Name of shareholder	Special commitments	Implementation of the commitments
OVERSEAS CHINESE TOWN GROUP COMPANY	(1) These three companies have promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights.	Up to now, no restricted shares have been listed, traded or transferred.
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	(2) After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by each company through listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months,	

THOMSON INVESTMENTS GROUP LIMITED	and not exceed 10 percent within 24 months.	

Apart from these, the Company and the shareholders holding 5% shares of the Company had no other commitments by the end of report period.

(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

1. Public Notice on the Resolutions of the Shareholders General Meeting on the Share Merger Reform; No.: 2006-08; time: Mar. 7, 2006;
2. Public Notice on the Implementation of the Share Merger Reform; No.: 2006-09; time: Mar. 28, 2006;
3. Public Notice on the Share Structure Changes of Konka Group Co., Ltd; No.: 2006-10; time: Mar. 30, 2006;
4. Public Notice on the Change of A-Share Stock Abbreviation; No.: 2006-11; time: Mar. 30, 2006.

The above public notices were published in Securities Times, Shanghai Securities News and China Securities Journal as well as 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	Way of repayment	Irregular capital occupation prohibited in the No. 56 Document or not
Shenzhen Konka Energy Techonology Co., Ltd	Subsidiary of the principal shareholder	Accounts receivable	1,130,000.00	0.00	0.00	1,130,000.00	Current funds	Monetary capital	No
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of the principal shareholder	Others receivable	1,219,543.74	900,868.61	833,452.61	1,286,959.74	Boarding rent and deposit	Settlement of boarding rent	No
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the principal shareholder	Others receivable	76,876.00	4,960.95	4,960.95	76,876.00	Deposit for property management	Settlement of property management charges	No
Shenzhen OCT Water and Power Company	Subsidiary of the principal shareholder	Others receivable	1,831,260.26	5,806,837.85	5,023,271.88	2,614,826.23	Prepayment of Water and power charges	Settlement 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	-	-	29,649,299.71	6,712,667.41	5,861,685.44	30,500,281.68	-	-	-

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, and the guarantee took up 0.36% of the Company's net assets. Apart from this, the Company provided no guarantees for other shareholding subsidiaries by Jun. 30, 2006, nor did it offer any external guarantees.

(XI) Pledges of assets

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 ㎡ (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.

VI. Financial Report

The 2006 interim financial report of the Company (unaudited) is attached at the back.

VII. Documents Available for Reference

1. Text of interim 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., 2006

Konka Group Co., Ltd.

(Incorporated in the People's Republic of China)

Report of financial statements
for the year ended June 30, 2006

Konka Group Co., Ltd.

(Incorporated in the People’s Republic of China)

Contents	**Pages**

Konka Group Co., Ltd.

Consolidated income statement for the year ended June 30, 2006

	Note	Jan.-Jun.,2006 RMB'000	Jan.-Jun.,2005 RMB'000
Turnover	5	5,538,126	5,464,656
Cost of sales		(4,564,582)	(4,658,248)
Gross profit		973,544	806,408
Other revenue	6	11,761	10,346
Distribution costs		(709,406)	(634,152)
Administrative expenses		(227,407)	(159,190)
Operating profit		48,492	23,412
Finance costs		(5,946)	(4,567)
Share of loss from associates		(501)	(312)
Profit before taxation	7	42,045	18,533
Income tax	8	(8,348)	(1,535)
Profit for the year		33,697	16,998
Attributable to :			
Equity holders of the parent		33,675	24,847
Share of results of minority interests		22	(7,849)
		33,697	16,998
Profit per share to equity holders of the parent - basic		RMB0.056	RMB0.041

The calculation of the basic earnings per share is based on the current year's profit of RMB33,675,000 (2005 – RMB24,847,000) attributable to the equity holders of the parent and on the existing number of 601,986,352 shares in issue during the year.

Konka Group Co., Ltd.

Consolidated balance sheet as at June 30, 2006

	Note	Jun. 30, 2006 RMB'000	Dec.31,2005 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,290,012	1,332,475
Land use rights – non-current portion	10	26,744	27,059
Goodwill	11	4,868	989
Intangible assets	12	17,061	19,928
Interests in associates	13	46,923	44,284
Other investments	14	17,290	10,290
		1,402,898	1,435,025
Current assets			
Land use rights – current portion	10	630	630
Inventories	15	2,856,185	3,385,558
Properties held for sale	16	4,172	4,172
Account receivables	17	753,694	676,234
Prepayments, deposits and other receivables	18	194,798	231,918
Note receivables	19	2,400,403	2,759,689
Cash and bank balances		799,967	629,160
		7,009,849	7,687,361
Total assets		8,412,747	9,122,386

(to be cont'd)

Konka Group Co., Ltd.

Consolidated balance sheet as at June 30, 2006

(cont'd)

	Note	Jun. 30, 2006 RMB'000	Dec.31,2005 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	20	601,986	601,986
Reserves		2,866,722	2,871,709
Equity attributable to equity holders of the parent		3,245,555	3,211,973
Minority interests		223,153	261,722
Total equity		3,468,708	3,473,695
Non-current liabilities			
Deferred income		8,994	10,493
Other long-term liabilities		21,614	20,179
		30,608	30,672
Current liabilities			
Tax Payable		9,065	4,536
Account payables		1,221,297	1,430,260
Other payables and accrued expenses		833,675	813,038
Note payables		2,831,394	3,342,185
Short-term bank loans	21	18,000	28,000
		4,913,431	5,618,019
Total liabilities		4,944,039	5,648,691
Total equity and liabilities		8,412,747	9,122,386

The financial statements on pages 1 to 32 were approved and authorized for issued by the board of directors on August 19, 2006 and are signed on its behalf by :

Director	**Director**

Konka Group Co., Ltd.

Consolidated statement of changes in equity for the year ended June 30, 2006

								Reserves		
	Share capital RMB'000	Capital reserves RMB'000	Surplus reserves RMB'000	Accumulated profit/(loss) RMB'000	Dividend reserve RMB'000	Exchange reserve RMB'000	Total reserves RMB'000	Attributable to equity holders of the parent RMB'000	Minority interests RMB'000	Total RMB'000
As at January 1, 2005	601,986	1,820,452	1,133,044	(361,412)	-	(378)	2,591,706	3,193,692	247,827	3,441,519
Profit for the year of 2005	-	-	-	19,552	-	-	19,552	19,552	13,861	33,413
Funds from discretionary surplus reserve to make good the accumulated loss	-	-	(375,757)	375,757	-	-	-	-	-	-
Appropriation to statutory surplus reserve	-	-	7,909	(7,909)	-	-	-	-	-	-
Increase in minority interests	-	-	-	-	-	-	-	-	34	34
Exchange difference from translation of foreign operations	-	-	-	-	-	(1,271)	(1,271)	(1,271)	-	(1,271)
As at December 31, 2005	601,986	1,820,452	765,196	25,988	-	(1,649)	2,609,987	3,211,973	261,722	3,473,695
Profit for the year of 2006	-	-	-	33,675	-	-	33,675	33,675	22	33,697
Increase in minority interests	-	-	-	-	-	-	-	-	(13,883)	(13,883)
Dividend paid to minority interests	-	-	-	-	-	-	-	-	(24,708)	(24,708)
Exchange difference from translation of foreign operations	-	-	-	-	-	(93)	(93)	(93)	-	(93)
As at June 30, 2006	601,986	1,820,452	765,196	59,663	-	(1,742)	2,643,569	3,245,555	223,153	3,468,708

According to the corporation law and relevant regulations of a joint stock limited company, the Company's specified profit should be classified as capital reserves, which include share premium, surplus on revaluation of property, plant and equipment and other investments, etc. Capital reserves are normally used for issue of new shares, or for write-off or permanent provision when foreign investments are revalued. Surplus reserves comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

The Company is required to transfer an amount of not less than 10% of the profit after making up the accumulated loss to statutory reserve until it is up to 50% of the registered share capital. Statutory reserve can be used to cover current year loss or for issue of new shares. The amount of statutory reserve to be utilized for issue of new shares should not exceed an amount such that the balance of the reserve will fall below 25% of the registered share capital after the issue of new shares. The Company is also required to transfer 5% of the profit after making up the accumulated loss to statutory public welfare fund. Statutory public welfare fund shall only be applied for the collective welfare of the Company's employees. Discretionary surplus reserve is applied in accordance with the shareholders' resolutions passed in the annual general meeting and can be used to make up the accumulated loss or for issue of new shares.

Konka Group Co., Ltd.

Consolidated cash flow statement for the year ended June 30, 2006

	Jan.- Jun. 2006	Jan.- Jun. 2005
	RMB'000	RMB'000
Cash flow from operating activities		
Operating profit	33,675	24,847
Adjustment items:		
Depreciation of fixed assets	67,712	68,286
Amortization of intangible assets	3,800	2,738
Amortization of deferred expenditure	4,656	9,107
Loss on rejection or sale of fixed assets	614	1,192
Loss on disposal of properties held for sale	0	1,181
Interests income	1,359	313
Government Subsidy income	0	(1,634)
Balance difference from foreign currency exchange	(510)	84
(Increase)/decrease in account receivables	372,244	291,549
(Increase)/decrease in inventories	485,538	719,895
Decrease in account payables	(742,400)	(1,291,465)
Income tax paid	8,348	1,535
Net cash inflow from operating activities	235,036	(172,372)
Investing reward and financing expenses		
Interests received	0	648
Interests paid	(1,452)	(1,128)
Dividend paid	0	
Cash outflow from investing reward and financing expenses	(1,452)	(480)
Investing activities		
Purchases of fixed assets	(32,347)	(45,014)
Proceeds from disposal of fixed assets	1,167	1,324
Deferred expenses paid	0	0
Net cash inflow/(expenditure) from acquisition of associates	0	8,431
Investment in associated company	0	0
Purchases of long-term investment	(7,714)	0
Net cash outflow from investing activities	(38,894)	(35,259)
Net cash outflow before financing activities	194,690	(208,111)

(to be cont'd)

Konka Group Co., Ltd.

Consolidated cash flow statement for the year ended June 30, 2006

(cont'd)

	Jan.- Jun. 2006	Jan.- Jun. 2005
	RMB'000	RMB'000
Financing activities		
Additional bank loans	0	5,082
Repayment for bank loans	(10,000)	(28,232)
Expenditure of financing lease	0	0
Contribution from minority shareholders on formation of new subsidiary	0	0
Dividend paid to minority shareholders	(13,883)	(16,278)
Net cash inflow from financing activities	(23,883)	(39,428)
Cash and cash equivalents at beginning of the period	629,160	851,762
Cash and cash equivalents at end of the period	799,967	604,223
Net increase/(decrease) in cash and cash equivalents	170,807	(247,539)
	=========	=========
Analysis of balances of cash and cash equivalents		
Monetary funds	799,967	604,223
	=========	=========

1. General information

Konka Group Co., Ltd. ("the Company"), formerly known as Shenzhen Konka Electronic Group Co., Ltd., obtained approval from Shenzhen Municipal People's Government to reorganize into a limited stock company in August 1991. On the approval of the People's Bank of China, Shenzhen Branch, the Company issued "A" shares and "B" shares, which have then been listed on the Shenzhen Stock Exchange. On August 29, 1995, the Company changed its name to Konka Group Co., Ltd.

The principal activities of the Company and its subsidiaries ("the Group") include the manufacture and sale of colour television, mobile phones, stereo recorders, hi-fi component systems, facsimile machines and telecommunication products, property development and investment holding.

2. Basis of preparation of the financial statements

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas :

- Goodwill (International Financial Reporting Standard 3);
- Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (International Financial Reporting Standard 3); and
- Initial direct costs incurred in relation to operating lease receivables (International Accounting Standard 17 (Revised)).

(a) The impact on goodwill

International Financial Reporting Standard 3 (IFRS 3) has been adopted for business combinations for which the agreement date is on or after March 31, 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisition during the 2004 and 2005 accounting periods. Therefore, the new Standard had no material impact on the Group's financial positions and operating results for the current and prior periods.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under International Accounting Standard 36 - Impairment of Assets (IAS 36) (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 20 years.

2. Basis of preparation of the financial statements (cont'd)

(a) The impact on goodwill (cont'd)

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after March 31, 2004, i.e. January 1, 2005, to goodwill acquired in business combinations for which the agreement date was before March 31, 2004. Therefore, from January 1, 2005, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

The Group had no amortization charge for the year.

(b) The impact on the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognized immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superceded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from January 1, 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

(c) The impact on initial direct costs incurred in relation to operating lease receivables

IAS 17 (as revised in 2003) requires initial direct costs incurred by a lessor in negotiating and arranging an operating lease to be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. However, the Group had no material initial direct costs incurred when negotiating and arranging the operating leases.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at June 30, 2006 and on the operating results for the year then ended are included in note 27 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention except for certain fixed asset items that are recorded at valuation less accumulated depreciation and accumulated impairment losses.

3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries (the "Group") made up to December 31 each year. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(a) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment and/or has the power to cast the majority of votes at meetings of the board of directors/management committee.

As at June 30, 2006, the Company held the following subsidiaries :

Name of the company	Place of incorporation/ registration	Registration capital '000	Percentage of interest held Direct %	Indirect %	Principal activities
Dongguan Konka Electronic Co., Ltd.	PRC	RMB200,000	100		-Production of TV sets, hi-fi, etc.
Konka Pacific Pty. Ltd. *	Australia	AUD1,000	100		-Sale of electronic products
Konka (U.S.A.) Ltd. *	U.S.A.	USD3,000	100		-Research and development
Hong Kong Konka Limited	Hong Kong	HKD500100	-		Trading of electronic products
Anhui Konka Electronic Co., Ltd.	PRC	RMB140,000	78		-Manufacture and sale of TV sets

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

Name of the company	Place of incorporation/ registration	Registration capital	Percentage of interest held Direct	Percentage of interest held Indirect	Principal activities
		'000	%	%	
Mudanjiang Konka Industrial Co., Ltd.	PRC	RMB60,000	60	-	Manufacture and sale of TV sets
Chongqing Konka Electronic Co., Ltd.	PRC	RMB45,000	60	-	Manufacture and sale of TV sets
Shenzhen Konka Visual Information Co., Ltd.	PRC	RMB15,000	60	-	Production of mould and System Engineering sub-contracting
Shenzhen Konka Electrical Co., Ltd.	PRC	RMB8,300	51	-	Manufacture and sale of electronic products
Shenzhen Konka Telecommunications Technology Co., Ltd.	PRC	RMB120,000	75	25	Manufacture and sale of mobile phones
Shenzhen Shushida Electronic Co., Ltd.	PRC	RMB42,000	75	25	Manufacture and sale of electronic products
Shenzhen Konka Communication Network Co., Ltd.	PRC	RMB30,000	75	25	Manufacture and sale of digital network products
Shenzhen Konka Precision Mould Co., Ltd.	PRC	RMB14,500	49	51	Production of mould
Shenzhen Konka Injected Plastic Manufactory Co., Ltd.	PRC	RMB9,500	49	51	Production of plastic products
Shanxi Konka Electronic Co., Ltd.	PRC	RMB69,500	45	15	Manufacture and sale of TV sets
Chongqing Qingjia Electronic Co., Ltd. **	PRC	RMB15,000	30	10	Manufacture and sale of electronic parts
Dongguan Konka Packaging Co., Ltd.	PRC	RMB10,000	-	100	Production of plastic products
Hong Din International Trade Limited	Hong Kong	HKD500	-	100	International trade
Hong Din Investment Development Limited	Hong Kong	HKD500	-	100	Investment holding
Indonesia Konka Trading Limited *	Indonesia	USD500	-	100	Trading

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

Name of the company	Place of incorporation/ registration	Registration capital '000	Percentage of interest held Direct %	Indirect %	Principal activities
Konka Electronics (India) Co., Ltd. *	India	USD1,160	-	70	Production of colour TV sets
Changshu Konka Electronic Co., Ltd.	PRC	RMB24,650	-	60	Manufacture and sale of electronic products
Chongqing Konka Automobile Co., Ltd.	PRC	RMB30,000	-	57	Manufacture and sale of automobile and parts
Boluo Konka Printed Co., Ltd.	PRC	RMB40,000	-	51	Manufacture and sale of electronic products
Anhui Konka Electrical Co., Ltd. **	PRC	RMB10,000	-	35	Manufacture and sale of electrical appliances

* The results and the financial position of these companies are not required to be consolidated because they have ceased the business.

** The Company has effective control over this company.

(b) Associates

An associate is a company in which the Company holds, directly or indirectly, not less than 20% and not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company.

Investments in associates are accounted for by equity method. Interests in associates are represented by the Group's share of their net assets, reduced by the impairment loss provision as considered necessary by the directors.

As at June 30, 2006, the Group held the associates as follows :

Name of the company	Place of registration	Percentage of interest held Direct %	Indirect %	Principal activities
Huadoushi Longfeng Properties Development Co., Ltd. *	Macau	50	-	Investment holding and property investment
Shenzhen OCT International Media Co., Ltd.	PRC	25	-	TV program production & distribution

3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

Name of the company	Place of registration	Percentage of interest held Direct	Indirect	Principal activities
		%	%	
Shenzhen Dekon Electronics Co., Ltd.	PRC	-	30	Manufacture & sale of electronic products
Shenzhen Konka Energy Technology Co., Ltd.	PRC	-	30	Manufacture & sale of electronic parts
Chongqing Jingkang Plastics Material Co., Ltd.	PRC	-	25	Production of moulds

* This company was jointly invested by the Group and other four companies for developing a property development project, namely " Huadoushi Furong Village". The project had not yet been commenced because the other four companies requested to withdraw their investment from this project and the local government had exchanged the land of this company's project. Since there was no progress on this project, the Group had provided impairment loss on the investment cost of this company.

4. Significant accounting policies

(a) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Their depreciation is provided using the straight-line method over the estimated useful lives, taking into account the estimated residual value of 10% of the cost or revalued amount, as follows :

Buildings	2.25%
Leasehold improvements	20%
Machinery and equipment	9%
Electronic equipment	18%
Motor vehicles	18%

Construction-in-progress represents the factory and office buildings under construction and is stated at cost. This includes costs of construction, machinery and furniture as well as interest charges and exchange differences arising from borrowings that are used to finance the construction during the construction period. No depreciation is provided on construction-in-progress prior to its completion. However, for construction-in-progress that are pending for further process and are functionally or technologically obsolete, their carrying amounts are reduced to their recoverable amounts by reference to the impairment loss.

(b) Land use rights

The cost of land use rights is amortized on a straight-line basis over the lease term.

4. Significant accounting policies (cont'd)

(c) Goodwill

Goodwill arising on the acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(d) Intangible assets

The cost of trademarks is amortized on a straight-line basis over its profit-generating period.

Technical know-how is measured initially at cost and is amortized on a straight-line basis over its estimated useful life, which is on average 5 years.

(e) Investments

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

4. Significant accounting policies (cont'd)

(e) Investments (cont'd)

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Other unlisted long-term investments with no reference to fair value are stated at cost less provision for diminution in value that is other than temporary.

(f) Inventories

Inventories are valued at the lower of cost (using weight-average method) and net realizable value. Cost comprises direct materials, direct labor cost and an appropriate portion of overheads. Net realizable value is calculated as the estimated selling price less all further costs of production and the related costs of marketing, selling and distribution.

(g) Properties held for sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realizable value is estimated by the directors based on prevailing market prices, on an individual property basis.

4. Significant accounting policies (cont'd)

(h) Account receivables

Account receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(i) Account payables

Accounts payable are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

(j) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

(l) Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's technical know-how development is recognized only if all of the following conditions are met :

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortized on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

4. Significant accounting policies (cont'd)

(m) Deferred income

Long-term government grants towards research and technical know-how development are recognized as income on a straight-line basis over the period of the grant.

(n) Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and the stage of completion of the transactions can be measured reliably :

i) Revenue from sales of goods is recognized when the risks and rewards of ownership of the goods are substantially transferred to customers.

ii) For properties held for sale, revenue is recognized on the execution of an unconditional binding sales agreement.

iii) Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

iv) Dividend income from investments is recognized when the shareholders' right to receive payments has been established.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(p) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

4. Significant accounting policies (cont'd)

(q) Foreign currency conversion

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated at the rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences that are attributable to the translation of foreign currency borrowings for the purpose of financing the construction of factory and office buildings, plant and machinery and other major fixed assets for periods prior to their being in a condition to enter into services are included in the cost of the fixed assets concerned. Other exchange differences are dealt with in the consolidated income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Renminbi at the rates of exchange prevailing as at the balance sheet date. The resulting translation differences are included in the exchange reserve.

(r) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4. Significant accounting policies (cont'd)

(r) Leasing (cont'd)

i) The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(s) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognized as an expense immediately.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment loss are credited to the income statement in the year in which the reversals are recognized.

(t) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. Significant accounting policies (cont'd)

(u) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax asset can be offset against tax liability only if the Group has a legally enforceable right to make or receive a single net payment and the Group intends to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

5. Business and geographical segments

	Jan.-Jun.,2006					Jan.-Jun.,2005				
	Colour TV RMB'000	**Mobile phone RMB'000**	**Others RMB'000**	**Elimination RMB'000**	**Consolidated RMB'000**	**Colour TV RMB'000**	**Mobile phone RMB'000**	**Others RMB'000**	**Elimination RMB'000**	**Consolidated RMB'000**
Income statement										
External sales	4,364,181	835,632	338,313	-	5,538,126	4,493,283	887,627	83,746	-	5,464,656
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
	4,364,181	835,632	338,313	-	5,538,126	4,493,283	887,627	83,746	-	5,464,656
Operating profit/(loss)	54,305	2,659	(8,472)	-	48,492	143,185	(99,704)	(20,069)		23,412
Finance costs					(5,946)					(4,567)
Share of loss from associates	(501)	-	-	-	(501)	(312)	-	-	-	(312)
Income tax					(8,348)					(1,535)
Minority interests					(22)					7,849
Profit to equity holders of the parent					33,675					24,847
Balance sheet										
Assets										
Segment assets	7,371,055	783,566	260,599	-	8,365,824	7,220,054	814,488	188,180	-	8,222,722
Interests in associates	46,923		-	-	46,923	34,732	-	-	-	34,732
Unallocated assets		-								
					8,412,747					8,257,454
Liabilities										
Segment liabilities	3,913,367	823,524	207,148	-	4,944,039	3,904,931	762,741	147,683	-	4,815,355
Unallocated liabilities										
					4,944,039					4,815,355

5. Business and geographical segments (cont'd)

The Group's operations are located in and outside the PRC. The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods :

	Jan.-Jun., 2006 RMB'000	Jan.-Jun., 2005 RMB'000
Inside PRC	4,644,749	4,854,708
Outside PRC	893,377	609,948
	5,538,126	5,464,656

6. Other revenue

	Jan.-Jun., 2006 RMB'000	Jan.-Jun., 2005 RMB'000
Dividend income	-	-
Income from government grant (*)	1,499	1,634
Profit on partial disposal of a subsidiary	-	-
Profit on disposal of an associate	-	-
Impairment loss on associates reversed	-	-
Loss on disposal of other investments	-	-
Income from raw material less cost	282	9,435
Income form scrap products less cost	6,495	-
Liabilities waived	-	-
Profit from disposal of properties to staff		
Other non-operating net incomes	3,485	(723)
	11,761	10,346

(*) The Group received government grant for research and technical know-how development that would be recognized as income on a straight-line basis over the period of the grant.

7. Profit before taxation

	Jan.-Jun., 2006 RMB'000	Jan.-Jun., 2005 RMB'000
Profit before taxation has been arrived at :		
After charging :		
Auditors 'remuneration	-	-
Directors 'emoluments		
Depreciation of property, plant and equipment	67,712	68,286
Amortization of land use rights	315	315
Loss on disposal of property, plant and equipment	614	955
Amortization of goodwill	-	-
Amortization of intangible assets	3,485	2,435
Loss on disposal of other investments		
Provision for inventory obsolescence	43,835	(6,302)
Inventories written off		
Provision for doubtful debts on account receivables	1,796	(596)
Provision for doubtful debts on other receivables	546	41
Interest expenses	3,851	3,259
Research and development expenditures	48,448	45,664
Rentals of land and buildings	6,792	8,443
Staff costs	135,693	140,322
And after crediting :		
Interest income		
Dividend income	5,000	5,118
Reversal for impairment loss on property, plant and equipment	-	-
Profit on partial disposal of a subsidiary	-	-
Profit on disposal of an associate	-	-
Reversal for doubtful debts on other receivables	2	1,369
Short-term bank loan waived	-	-
Other payables waived	-	-

8. Income tax

	Jan.-Jun., 2006 RMB'000	Jan.-Jun., 2005 RMB'000
PRC corporate tax	5,786	1,266
Hong Kong profits tax	2,562	269
	8,348	1,535

PRC corporate tax is determined by reference to the profit reported in the audited financial statements under PRC Accounting Standards, and after adjustments for income and expense items that are not assessable or deductible for income tax purposes. It is provided at the rates of 15% (2004 - 15%) on the estimated assessable income for companies established in Shenzhen and 33% (2004 - 33%) for other PRC companies. Hong Kong profits tax is calculated at 17.5% (2004 - 17.5%) of the estimated assessable profits for the year.

(cont'd)

9. Property, plant and equipment

	Buildings RMB'000	Leasehold improvement RMB'000	Machines & equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Constructions-in-progress RMB'000	Total RMB'000
Cost/Valuation							
As at January 1, 2006	895,425	6,537	692,916	624,950	59,429	32,235	2,311,492
Increase	968	519	29,346	10,571	3,944	3,045	48,393
Decrease	(7,023)		(9,262)	(3,162)	(4,480)	(11,932)	(35,859)
Reclassifications							
Ended June 30, 2006	889,370	7,056	713,000	632,359	58,893	23,348	2,324,026
Accumulated depreciation							
As at January 1, 2006	(167,361)	(5,090)	(365,107)	(402,626)	(38,833)	0	(979,017)
Increase	(11,479)	(494)	(42,609)	(14,416)	(2,838)	0	(71,836)
Decrease	2,479		8,335	1,837	4,188	0	16,839
Reclassifications							
Ended June 30, 2006	(176,361)	(5,584)	(399,381)	(415,205)	(37,483)	0	(1,034,014)
Net book value							
Ended June 30, 2006	713,009	1,472	313,619	217,154	21,410	23,348	1,290,012
Ended December 31, 2005	728,064	1,447	327,809	222,324	20,596	32,235	1,332,475

The Group's certain property, plant and equipment with a net book value of RMB58,190,000 have been pledged to secure general banking facilities granted to the Group.

In preparation for the reorganization of the Company into a Sino-foreign joint stock limited company, the Company's property, plant and equipment as at July 31, 1991 were revalued on an open market value basis by Zhonghua (Shenzhen) Certified Public Accountants, a registered valuer in Shenzhen. The surplus of RMB29,203,000 arising from the revaluation was capitalized as share capital.

10. Land use rights

	2006 RMB'000	2005 RMB'000
Cost/Valuation		
As at beginning of the year	31,326	31,326
Reclassifications	8,094	8,094
As at end of the year	39,420	39,420
Accumulated amortization		
As at beginning of the year	(3,637)	(3,007)
Charged for the year	(315)	(630)
Reclassifications	(8,094)	(8,094)
As at end of the year	(12,046)	(11,731)
Net book value	27,374	27,689
Classified as current portion	(630)	(630)
Classified as non-current portion	26,744	27,059

The Group's certain land use rights with a net book value of RMB4,314,000 have been pledged to secure general banking facilities granted to the Group.

11. Goodwill

	2006 RMB'000	2005 RMB'000
Cost		
As at beginning of the year	3,217	3,217
Increase	3,879	-
As at end of the year	7,096	3,217
Accumulated amortization		
As at beginning of the year	(2,228)	(2,228
Charged for the year	-	-
	-	
As at end of the year	(2,228)	(2,228
Net book value	4,868	989

12. Intangible assets

	Trademarks RMB'000	Technical know-how RMB'000	Total RMB'000
Cost			
As at January 1, 2005	1,562	23,860	25,422
Additions	47	14,417	14,464
Transfer to prepayments			
As at December 31, 2005	1,609	38,277	39,886
Additions	28	590	618
As at June 30, 2006	1,637	38,867	40,504
Accumulated amortization			
As at January 1, 2005	(852)	(13,556)	(14,408)
Charged for the year 2005	(165)	(5,385)	(5,550)
Transfer to prepayments			
As at December 31, 2005	(1017)	(18,941)	(19,958)
Charged for the year 2005	(74)	(3,411)	(3,485)
As at June 30, 2006	(1,091)	(22,352)	(23,443)
Net book value			
As at June 30, 2006	546	16,515	17,061
As at December 31, 2005	592	19,336	19,928

13. Interests in associates

	2006 RMB'000	2005 RMB'000
Share of net assets	51,642	52,142
Impairment loss provision	(2,797)	(2,797)
Amounts due from associates	1,130	1,130
Amounts due to associates	(3,052)	(6,191)
	46,923	44,284

14. Other investments

	2006 RMB'000	2005 RMB'000
Unconsolidated subsidiaries, balances due	136,567	136,567
Impairment loss provision	(136,567)	(136,567)
	-	-
Unlisted shares, at cost	8,885	1,885
Impairment loss provision	(1,400)	(1,400)
	7,485	485
Listed share, at cost *	9,805	9,805
	17,290	10,290

* The market value of these listed shares is not generally available.

15. Inventories

	2006 RMB'000	2005 RMB'000
Raw materials	1,230,848	1,416,730
Work-in-progress	264,675	198,685
Finished goods	1,630,641	1,996,287
	3,126,164	3,611,702
Provision for inventory obsolescence	(269,979)	(226,144)
	2,856,185	3,385,558

16. Properties held for sale

	2006 RMB'000	2005 RMB'000
King Yuan Building – cost b/f and cost c/f	4,172	4,172

17. Account receivables

	2006 RMB'000	2005 RMB'000
Amount receivables	893,561	814,306
Provision for doubtful debts	(139,867)	(138,072)
	753,694	676,234

As at June 30, 2006, the aging of amount receivables is analyzed as follows :

	2006 RMB'000	2005 RMB'000
Within one year	682,263	605,465
Over one year but within two years	23,006	20,970
Over two years but within three years	7,727	7,552
Over three years	180,565	180,319
	893,561	814,306

18. Prepayments, deposits and other receivables

	2006 RMB'000	2005 RMB'000
Advance payments	27,715	53,457
Prepayments	61,017	76,721
Other receivables	113,276	108,314
	202,008	238,492
Provision for doubtful debts	(7,210)	(6,574)
	194,798	231,918

19. Note receivables

	2006 RMB'000	2005 RMB'000
Bills receivable	109,434	135,862
Promissory notes issued by banks	2,287,041	2,594,001
Promissory notes issued by debtors	3,928	29,826
	2,400,403	2,759,689

20. Share capital

	2006 RMB'000	2005 RMB'000
Registered, issued and paid-up		
"A" shares of RMB1 each	399,148	399,148
"B" shares of RMB1 each	202,838	202,838
	601,986	601,986
"A" shares, listed and tradable	280,244	224,199
"B" shares, listed and tradable	202,838	202,837
	483,082	427,036
Listed but temporarily not tradable	118,904	174,950
	601,986	601,986

The "A" and "B" shares carry equal rights with respect to the distribution of the Company's assets and profits, and rank pari passu in all other respects. The "A" shares are held by PRC investors with settlement in Renminbi, whereas "B" shares are held by both PRC investors and foreign investors, and are settled in Hong Kong dollars.

21. Short-term bank loans

	2006 RMB'000	2005 RMB'000
Bank loans, secured	18,000	28,000

22. Analysis of financing

	Bank loans RMB'000	Other long-term liabilities RMB'000	Minority interests RMB'000
As at beginning of the year	28,000	20,179	261,722
Net cash inflow/(outflow) from financing	(10,000)	1,435	-
Increase in minority interests	-	-	(24,708)
Dividend paid to minority shareholders	-	-	(13,883)
Share of results of minority interests	-	-	22
As at June 30, 2006	18,000	21,614	223,153

23. Commitments

As at June 30, 2006, the Group did not have any material commitments under non-cancellable operating leases and capital expenditures.

24. Contingent liabilities

At June 30, 2006, the Group did not have any significant contingent liabilities.

25. Post balance sheet event

The Company's Extraordinary General Meetings were held from March 2 to March 6, 2006 pursuant to which resolutions for the proposed share reform were passed. The proposal stipulated that as at the effective date of the share reform, each shareholder of listed and tradable "A" share with name registered in the register of shareholders could be entitled 2.5 shares for every 10 shares on hand. As a result, the shareholders of listed but temporarily not tradable shares would compensate to such "A" share shareholders in the total entitlement of 56,049,676 shares.

26. Related party transactions

During the year ended June 30, 2006, the Group had certain material transactions with related parties with details as follows :

		Jan.-Jun.,2006 RMB'000	**Jan.-Jun.,2005 RMB'000**
Overseas Chinese Town Holdings Co.	Operating lease paid	4,318	3,795
Shenzhen Dekon Electronics Co., Ltd.	Purchase of merchandises	29,727	35,798
Shanghai Huali Packaging Co., Ltd.	Purchase of merchandises	24,737	33,486
Mudanjiang Huali Packaging Co., Ltd.	Purchase of merchandises	4,983	7,591
Shenzhen Huali Packaging Co., Ltd.	Purchase of merchandises	17,633	13,825

27. Impact on results attributable to shareholders and net asset value as reported by the PRC Certified Public Accountants

	Profit Attributable to shareholders RMB'000	Net asset value RMB'000
As reported by PRC Certified Public Accountants	33,368	3,243,038
Adjustments to conform to IFRS :		
Prior year adjustment on capital reserves	-	(6,978)
Prior year adjustment on surplus reserves	-	17,909
Accumulated losses of subsidiaries	(1,449)	-
Government grant transfer from capital reserves as 'deferred income	-	(10,492)
Removal expenditures written-back		-
Government grant recognized as income	1,499	1,499
Transfer of welfare funds recognized as expense	-	-
Goodwill written-back	257	579
Other payables waived by subsidiaries' creditors	-	-
As restated in conformity with IFRS	33,675	3,245,555

28. Financial instruments

Financial assets of the Group include cash and bank balances, note receivables, account receivables, prepayments, deposits and other receivables. Financial liabilities include bank loans, note payables, account payables, other payables, accrued expenses, deferred income and other long-term liabilities.

(a) Credit risk

Cash and bank balances : Substantial amounts of the Group's cash balances are deposited with Bank of China, China Merchants Bank, Shenzhen Development Bank, Industrial and Commercial Bank of China, Construction Bank of China and Agricultural Bank of China.

Account receivables : The Group does not have a significant exposure to any individual customer or counterpart. The major concentrations of credit risk arise from exposures to a substantial number of account receivables that are mainly located in the PRC.

28. FINANCIAL INSTRUMENTS (CONT'D)

(b) Fair value

The fair value of financial assets and financial liabilities is not materially different from their carrying amount.

The carrying value of short-term bank loans and other long-term liabilities is estimated to approximate its fair value based on the borrowing terms and rates of similar loans.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties on matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

29. Language

The translated English version of financial statements is for reference only. Should any disagreement arise, the Chinese version shall prevail.