Konka Group CO., Ltd
Annual Report 2005

Chairman of the Board: Hou Songrong

Apr. 25, 2006

Contents

Section I Important Notice

The Board of Directors, the Supervisory Committee as well as the directors, supervisors and senior executives of Konka Group Co., Ltd (hereinafter referred to as "the Company") hereby confirm that there are no false records, misleading statements or significant omissions in this report, and will shoulder any individual or joint responsibility concerning the authenticity, accuracy and completeness of the content.

This Annual Report and its Summary have been examined and approved by the 14th meeting of the 5th Board of Directors of the Company. Independent Director Mr. Xiao Zhuoji was away on a business trip, but he had entrusted Independent Director Mr. Ye Wu to attend the meeting and exercise the voting rights on his behalf.

After examining these files, the 7th meeting of the 5th Supervisory Committee of the Company believed that this Annual Report 2005 and its Summary could faithfully, accurately and completely reflect the financial status, the operation achievements, corporate governance and business development during the year 2005.

No director, supervisor or senior executive declared that he/she could not guarantee the authenticity, accuracy and completeness of the content in this Annual Report.

Shenzhen Dahua Tiancheng Certified Public Accountants has provided a standard unqualified Auditors' Report for the Company.

Chairman of the Board Mr. Hou Songrong, C.F.O. Mr. Yang Guobin and the person in charge of accounting work Mr. Ruan Renzong hereby declare that they can guarantee the authenticity and completeness of the Financial Report in this Annual Report.

Section II Company Profile

1. Legal Name of the Company:

In Chinese: ? ? ? ? ? ? ? ? ? ?

Abbreviation: ? ? ? ?

In English: KONKA GROUP CO., LTD.
Abbreviation: KONKA GROUP
2. Registered (Office) Address: Overseas Chinese Town, Nanshan District, Shenzhen
Postal Code: 518053
Internet Website of the Company: http://www.konka.com
E-mail: szkonka@konka.com
3. Legal Representative of the Company: Chairman of the Board Mr. Hou Songrong
4. Secretary of the Board of Directors: Mr. Xiao Qing
Securities Affairs Representative: Mr. Xu Wenxiao
Contact Address: Secretariat of the Board, Konka Group Co., Ltd, Overseas Chinese Town, Nanshan District, Shenzhen, China
Tel.: (86) 755-26608866
Fax: (86) 755-26600082
E-mail: szkonka@konka.com
5. Newspapers Chosen for Disclosing the Information of the Company:
China Securities Journal, Securities Times and Hong Kong Ta Kung Pao, etc
Internet Website Designated by CSRC: http://www.cninfo.com.cn
Place Where the Annual Report Is Prepared and Placed: Secretariat of the Board of Directors
6. Stock Exchange Listed on: Shenzhen Stock Exchange
Short Form of the Stock: G Konka - A, Shen Konka - B
Stock Code: 000016, 200016
7. Initial Registration Date: Oct. 1, 1980
Place: Shenzhen
8. Registration Number of Corporate Legal Person's Business License: QGYSZ Zi No. 100476
9. Registration Number of Tax: 440301618815578
10. Certified Public Accountants Engaged by the Company:
Domestic: Shenzhen Dahua Tiancheng Certified Public Accountants
Address: Room 1102-1103, 11/F, Tower B, Union Plaza, No. 5022, Binhai Av., Futian District, Shenzhen
International: K.C.OH & Company Certified Public Accountants
Address: 8/F., New Henry House, No. 10, Ice House Street, Central, Hong Kong

Section III. Accounting Data and Business Highlights

I. Major accounting data of the report period

Unit: RMB

Item	Amount
Total profit	40,001,831.16
Net profit	71,898,947.59
Net profit after deducting non-recurring gains and losses	64,186,579.21
Profit from main operations	1,883,466,317.97
Profit from other operations	26,498,445.26
Operating profit	32,649,410.68
Investment yield	7,236,702.20
Subsidy income	2,808,979.03
Net non-operating income or expense	-2,693,260.75
Net cash flows arising from operating activities	-101,374,782.62
Net increase or decrease of cash and cash equivalents	-222,602,066.98

II. Main financial indicators of the recent three years

Item	2005	2004	Increase / decrease this year compared with the last year (%)	2003	
				After the adjustment	Before the adjustment
Income from main operations (RMB’000)	11,455,891.61	13,362,521.90	-14.27	12,806,466.1	12,806,466.1
Net profit (RMB’000)	71,898.95	140,726.70	-48.91	99,145.5	101,071.0
Net profit after deducting non-recurring gains and losses (RMB’000)	64,186.58	101,953.60	-37.04	96,142.2	98,067.8
Earnings per share fully diluted (RMB)	0.119	0.234	-48.96	0.165	0.168
Earnings per share weighted average (RMB)	0.119	0.234	-48.96	0.165	0.168
Return on equity (%)	2.24	4.41	-2.17	3.25	3.31
Net cash flows per share arising from operating activities (RMB)	-0.168	-0.621	72.88	0.584	0.584
Item	At the end of 2005	At the end of 2004	Increase / decrease this year compared with the last year (%)	At the end of 2003	
				After the adjustment	Before the adjustment
Total assets (RMB’000)	9,120,452.27	9,597,845.80	-4.97	9,634,588.10	9,637,375.70
Assets-liability ratio (%)	61.99	64.13	-3.34	65.90	65.88
Shareholders’ equity (excluding minority interests) (RMB’000)	3,211,212.30	3,193,928.10	0.54	3,050,731.80	3,053,519.40
Net assets per share (RMB)	5.334	5.306	0.53	5.068	5.072
Net assets per share	5.085	5.108	-0.45	4.890	4.895

after adjustment					

III. Supporting Statement of the Income Statement in the report period

Profit of the report period	Return on equity (%)		Earnings per share (RMB)	
Profit from main operations	58.653	59.317	3.129	3.129
Operating profit	1.017	1.028	0.054	0.054
Net profit	2.239	2.264	0.119	0.119
Net profit after deducting non-recurring gains and losses	1.999	2.021	0.107	0.107

IV. Non-recurring gains and losses deducted and amounts involved

Unit: RMB

Nature or content	Amount before deducting the influence of income tax	Amount after deducting the influence of income tax
Government subsidy income	2,737,413.84	2,723,923.84
Write-back of the depreciation reserves for long-term equity investments	8,390,933.40	8,390,933.40
Non-operating income	3,969,193.55	3,851,336.60
Non-operating expense	-6,662,454.30	-6,334,386.11
Amount influenced by minority interests	-919,439.35	-919,439.35
Total	7,515,647.14	7,712,368.38

V. Change of shareholders' equity in the report period

Unit: RMB

Item	Amount at the beginning of the period	Increase during this period	Decrease during this period	Amount at the end of the period
Share capital	601,986,352.00	-	-	601,986,352.00
Capital reserve	1,857,581,465.15	1,207,260.92	-	1,858,788,726.07
Surplus reserve	1,115,134,973.70	248,768,814.29	616,617,067.77	747,286,720.22
Including: statutory welfare fund	240,860,222.78	-	240,860,222.78	-
Retained profit	-375,756,844.99	447,655,792.58	9,827,378.93	62,071,568.66
Difference of foreign currency translation	-378,469.29	-	1,270,813.69	-1,649,282.98
Accumulated losses of subsidiaries not made up	-4,639,344.04	-52,632,435.90	-	-57,271,779.94
Total shareholders' equity	3,193,928,132.53	644,999,431.89	627,715,260.39	3,211,212,304.03

Explanations:

1. The capital public reserve had increased in the report period. Since Mudanjiang Konka, a unit calculated according to the equity method, had increased capital reserve for reasons such as being unable to repay the accounts payable, etc, and the Company had increased the capital reserve correspondingly according to its equity proportion.

2. The retained profit had increased, because according to the resolutions of the Shareholders'

General Meeting 2004, the Company had used discretionary surplus reserve to make up all the losses of RMB 375,756,844.99 that had not been made up, and also the Company had made a profit of RMB 71,898,947.59 in the report period.

3. The discretionary surplus reserve had decreased because the Company had used discretionary surplus reserve to make up all the losses of RMB 375,756,844.99 that had not been made good as according to the resolutions of the Shareholders' General Meeting 2004.

4. The foreign currency translation difference had arisen out of different exchange rates at different periods.

5. The Company had engaged K.C.OH & Company Certified Public Accountants as the overseas Certified Public Accountants. Differences in net assets and net profit in the financial report compiled in accordance with international accounting standards are as follows: Unit: RMB

	Net assets	Net profit
According to International Accounting Standards	3,211,972,515.92	19,552,507.13
1. Prophase adjustment to capital reserve	6,978,000.00	0.00
2. Prophase adjustment to surplus reserve	-17,909,000.00	0.00
3. Government subsidy transferred from deferred income into capital reserve	13,490,000.00	0.00
4. Part of government subsidy listed as income	-2,997,500.00	-2,997,500.00
5. Liabilities of affiliated companies with no need to repay listed as income	0.00	-1,207,260.92
6. Assets depreciation of associated companies	-321,711.89	-321,711.89
7. Adjustment to the losses of subsidiaries not made up	0.00	57,271,779.94
8. Cancellation of moving expense during the period of the occurrence	0.00	-2,317,654.09
9. Welfare and reward fund withdrawn for employees	0.00	1,918,787.42
According to the Business Accounting System	3,211,212,304.03	71,898,947.59

Section IV. Changes in Share Capital and Particulars about Shareholders

I. Change in shares

Change in shares ended Dec. 31, 2005 Unit: share

Item	Amount at the beginning of the period	Increase / decrease during this change (+/-)						Amount at the end of the period
		Right shares	Bonus shares	Shares transferred from capital reserve	Newly issued shares	Others	Subtotal	
I. Non-circulating shares								
1. Promoters' shares	174,949,746	-	-	-	-	-	-	174,949,746
Including:	-	-	-	-	-	-	-	-
State shares	174,949,746	-	-	-	-	-84,000,000	-84,000,000	90,949,746
Domestic legal person shares		-	-	-	-	55,000,000	55,000,000	55,000,000
Foreign legal person shares	-	-	-	-	-	29,000,000	29,000,000	29,000,000
Others	-	-	-	-	-	-	-	-
2. Raised legal person shares	-	-	-	-	-	-	-	-
3. Internal	16,708	-	-	-	-	-13,554	-	3,154

employee shares (senior executives)								
4. Preference shares or others	-	-	-	-	-	-	-	-
Total non-circulating shares	174,966,454	-	-	-	-	-13,554	-	174,952,900
II. Circulating shares								
1. RMB ordinary shares	224,181,996	-	-	-	-	13,554	-	224,195,550
2. Domestically listed foreign shares	202,837,902	-	-	-	-	-	-	202,837,902
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
Total circulating shares	427,019,898	-	-	-	-	13,554	-	427,033,452
III. Total shares	601,986,352	-	-	-	-	-	-	601,986,352

Explanations:

1. The legal shares had changed due to the equity ownership transfer: ① On Apr. 30, 2005, Overseas Chinese Town Group Corporation transferred the Company's 29 million state-owned legal person shares (taking up 4.82 percent of the Company's total share capital) held by it to Thomson Investment Group Limited. After the recognition by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, relevant ownership transfer procedures had been finished and those shares had been recognized as targeted legal person foreign legal person shares. ② On Jul. 27, 2005, Overseas Chinese Town Group Corporation transferred the Company's state-owned legal person shares totaling 55 million (taking up 9.14 percent of the Company's total share capital) to Anhui Tianda Enterprise (Group) Co., Ltd. After the recognition by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, relevant ownership transfer procedures had been finished and those shares had been recognized as promoter domestic legal person shares.

2. Internal employee shares had changed, because after leaving their positions half a year in the report period, some of the senior executives of the Company applied for circulating of their shares.

II. Issuance and listing of shares

As approved by CSRC, 139,036,499 unlisted foreign shares of the Company were transferred into listed foreign share for circulation in 2001. The said shares were listed for trade in Shenzhen Stock Exchange dated June 21, 2001.

There exists no unlisted inner employee's share except for 3,154 shares held by senior executives.

III. Particulars about shareholders

1. Ended Dec. 31, 2005, the Company had totally 136,020 shareholders, including 121,568 ones of A-share and 14,452 ones of B-share.

2. Particulars about shares held by the top ten shareholders

Full name of Shareholders	Increase / decrease in the report year	Shares held at the period-end	Proportion (%)	Type of shares (circulating or non-circulating)	Number of shares pledged/ frozen	Nature of shareholders (state-owned or foreign shareholder)
OVERSEAS CHINESE TOWN GROUP CORPORATION	-84,000,000	90,949,746	15.10%	Non-circulating A share	0.00	State-owned shareholder
ANHUI TIANDA ENTERPRISE (GROUP) CO., LTD	55,000,000	55,000,000	9.14%	Non-circulating A share	0.00	Non-state-owned shareholder
THOMSON INVESTMENTS GROUP LIMITED	29,000,000	29,000,000	4.82%	Non-circulating A share	0.00	Foreign shareholder
	-3,484,226	15,515,774	2.58%	Circulating B share	Unknown	Foreign shareholder
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	0	39,541,212	6.57%	Circulating B share	Unknown	Foreign shareholder
BUILDUNITED LIMITEDERCE	20,079,900	20,079,900	3.32%	Circulating B share	Unknown	Foreign shareholder
ABLEWELL INVESTMENTS LIMITED	14,100,000	14,100,000	2.34%	Circulating B share	Unknown	Foreign shareholder
NOMURA SECURITIES CO.,LTD	6,750,000	6,750,000	1.12%	Circulating B share	Unknown	Foreign shareholder
MERRILL LYNCH PIERCE FENNER & SMITH INC	444,900	5,975,926	0.99%	Circulating B share	Unknown	Foreign shareholder
NO. 1 SHANGHAI SECURITIES CO., LTD	3,904,880	3,904,880	0.65%	Circulating B share	Unknown	Foreign shareholder
CHUANGLI DEVELOPMENT HONG KONG CO., LTD	2,568,800	2,568,800	0.43%	Circulating B share	Unknown	Foreign shareholder

3. Particulars about shares held by the top ten shareholders of circulating shares

Full name of Shareholders	Increase / decrease in the report year	Shares held at the period-end	Proportion (%)	Type of shares (circulating or non-circulating)	Number of shares pledged/ frozen	Nature of shareholders (state-owned or foreign shareholder)
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	0	39,541,212	6.57%	Circulating B share	Unknown	Foreign shareholder
BUILDUNITED LIMITEDERCE	20,079,900	20,079,900	3.32%	Circulating B share	Unknown	Foreign shareholder
THOMSON INVESTMENTS GROUP LIMITED	-3,484,226	15,515,774	2.58%	Circulating B share	Unknown	Foreign shareholder
ABLEWELL INVESTMENTS LIMITED	14,100,000	14,100,000	2.34%	Circulating B share	Unknown	Foreign shareholder
NOMURA SECURITIES CO.,LTD	6,750,000	6,750,000	1.12%	Circulating B share	Unknown	Foreign shareholder
MERRILL LYNCH PIERCE FENNER & SMITH INC	444,900	5,975,926	0.99%	Circulating B share	Unknown	Foreign shareholder

NO. 1 SHANGHAI SECURITIES CO., LTD	3,904,880	3,904,880	0.65%	Circulating B share	Unknown	Foreign shareholder
CHUANGLI DEVELOPMENT HONG KONG CO., LTD	2,568,800	2,568,800	0.43%	Circulating B share	Unknown	Foreign shareholder
CHINA HI-TECH INVESTMENT GROUP CORPORATION	0	2,550,914	0.42%	Circulating A share	Unknown	Others
TOYO SECURITLES ASIA LIMITED-A/C CLIENT.	-115,760	1,652,756	0.27%	Circulating B share	Unknown	Foreign shareholder

4. Explanation on associated relationship or consistent action among the top ten shareholders and the top ten shareholder of circulation share:

(1) Among the top ten shareholders, the shares held by Overseas Chinese Town Group Corporation, the principal shareholder, are non-circulating shares. In the report period, the Company's shares held by it had changed, and the reasons are as follows:

① On Apr. 30, 2005, Overseas Chinese Town Group Corporation transferred the

Company's 29 million state-owned legal person shares (taking up 4.82 percent of the Company's total share capital) held by it to Thomson Investment Group Limited. After the recognition by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, relevant ownership transfer procedures had been finished. After this ownership transfer, Overseas Chinese Town Group Corporation still held the Company's state-owned legal person shares totaling 145,949,746, taking up 24.10 percent of the Company's total share capital. Therefore, Overseas Chinese Town Group Corporation remained as the principal shareholder of the Company.

② On Jul. 27, 2005, Overseas Chinese Town Group Corporation transferred the

Company's state-owned legal person shares totaling 55 million (taking up 9.14 percent of the Company's total share capital) to Anhui Tianda Enterprise (Group) Co., Ltd. After the recognition by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, relevant ownership transfer procedures had been finished. After this ownership transfer, Overseas Chinese Town Group Corporation still held the Company's state-owned legal person shares totaling 90,949,746, taking up 15.10 percent of the Company's total share capital. Therefore, Overseas Chinese Town Group Corporation remained as the principal shareholder of the Company.

(2) Shares held by Anhui Tianda Enterprise (Group) Co., Ltd had changed due to the Company's shares transferred to it by Overseas Chinese Town Group Corporation.

(3) Thomson Investments Group Limited held both the Company's non-circulating shares and circulating B shares. The non-circulating shares were transferred to it by Overseas Chinese Town Group Corporation, while the circulating B shares were bought at the second-grade market.

(4) Except for Overseas Chinese Town Group Corporation, Thomson Investments Group Limited and Anhui Tianda Enterprise (Group) Co., Ltd, all the other shareholders were social public shareholders, and the shares held by them were circulating shares. The shares held by them had changed due to trade at the second-grade market.

(5) There was no related relationship between the principal shareholder Overseas Chinese Town Group Corporation and the other shareholders, and they had not joined in any concerted action. It is unknown whether the other shareholders had joined in any concerted action or had any related relationships among them or not.

5. Particulars about legal person shareholders holding over 5% of total shares of the Company

Name	Type of shares held	Type of enterprise	Legal representative	Date of foundation	Registered capital (RMB'0000)	Main operations
Overseas Chinese Town Group Corporation	Domestic legal person's shares	State-owned wholly-funded company	Ren Kelei	May 1986	RMB 200,000	Industry, tourism, real estate, finance and commerce, etc
Anhui Tianda Enterprise (Group) Co., Ltd	Domestic legal person's shares	Private enterprise	Ye Shiqu	August 2000	RMB 233,725,500	Plastic products, plastic machinery, air-conditioner parts and components and fiber-optic communication equipment
Thomson Investments Group Limited	Foreign legal person shares and circulating B shares	Foreign enterprise	Didier Trutt	November 2004	USD 5.00	Investment
Hong Kong China Travel Service (Group) Co., Ltd.	Circulating B shares	State-owned foreign corporation	Che Shujian	October 1985	HKD 700,000	Tourism, industrial investment, infrastucture construction, real estate, hotel management, passenger-cargo transportation and import & export trade

IV. Holding shareholder and actual controller of the Company

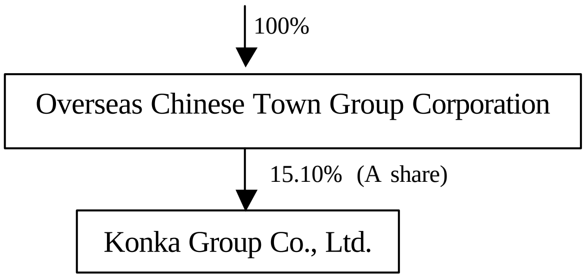
1. Holding shareholder and actual controller

In the report period, the holding shareholder and actual controller of the Company remained unchanged, both being Overseas Chinese Town Group Corporation. Shares of the Company held by it had not been pledged, entrusted or frozen.

Overseas Chinese Town Group Corporation was a large-scale state-owned enterprise, which had been founded in 1985 by the approval of the State Council and belonged to one of the central enterprises of State-owned Assets Supervision and Administration Commission of the State Council. Its legal representative was Mr. Ren Kelei. Overseas Chinese Town Group Corporation had a registered capital of RMB 0.2 billion, and owned 14 secondary enterprises, among which the Company and Shenzhen Overseas Chinese Town Holding Company (hereinafter referred to as OCT Holding, stock code: 000069) were two companies listing in domestic.

2. The property rights and control relationship between the actual controller and the Company

State-owned Assets Supervision and
Administration Commission of the State



3. Particulars about legal person shareholders holding over 10 percent (including 10 percent)

Except for Overseas Chinese Town Group Corporation, the Company had no other legal person shareholders holding over 10 percent shares (including 10 percent).

Section V. Particulars about Directors, Supervisors, Senior Executives and Employees

I. Particulars about supervisors, directors and senior executive

1. Basic information

Name	Title	Sex	Age	Office term	Note
Hou Songrong	Chairman of the Board	Male	37	Jun. 2004-Jun. 2007	
	President			Apr. 2004-Apr. 2007	
Jian Di’an	Director	Male	56	Jun. 2004-Jun. 2007	
Ye Shiqu	Director	Male	55	Sep. 2005-Jun. 2007	
Huo Jun	Director	Female	39	Sep. 2005-Jun. 2007	
Na Qinglin	Director	Male	38	Sep. 2005-Jun. 2007	
Wei Qing	Director	Male	53	Jun. 2004-Jun. 2007	
Xiao Zhuoji	Independent director	Male	72	Jun. 2004-Jun. 2007	
Ye Wu	Independent director	Male	67	Jun. 2004-Jun. 2007	
Ma Liguang	Independent director	Female	65	Jun. 2004-Jun. 2007	
Dong Yaping	Chairman of the Supervisory Committee	Male	52	Jun. 2004-Jun. 2007	
Wang Xiaowen	Supervisor	Female	36	Jun. 2004-Jun. 2007	
Sha Gang	Supervisor	Male	41	Jun. 2004-Jun. 2007	
Zeng Hui	Executive Vice President	Male	45	Nov. 2004-Apr. 2007	
Yang Guobin	C.F.O.	Male	36	Apr. 2004-Apr. 2007	
Wang Youlai	Vice President	Male	44	Apr. 2004-Apr. 2007	
Huang Zhongtian	Vice President	Male	44	Apr. 2004-Apr. 2007	
Chen Yuehua	Vice President	Male	42	Nov. 2004-Apr. 2007	
He Jianjun	Vice President	Male	36	Nov. 2005-Apr. 2007	
Xiao Qing	Secretary of the Board	Male	36	Nov. 2005-Jun. 2007	

Particulars about directors and supervisors taking positions in shareholding units:

Name	Name of Shareholding Company	Title in Shareholding Company	Office term	Drawing the remunerations and subsidies from the

				Company or not (Yes / No)
Jian Di'an	Overseas Chinese Town Group Corporation	Vice-president	Dec. 2001 till now	No
Ye Shiqu	Anhui Tianda Enterprise (Group) Co., Ltd	Chairman of the Board	1992 till now	No
Wei Qing	Hong Kong China Travel Service (Group) Co., Ltd.	General Manager of Hotel Management Company	2000 till now	No
Dong Yaping	Overseas Chinese Town Group Corporation	Vice Chairman of Party Committee and concurrently Vice-president	Jul. 2000 till now	No
Wang Xiaowen	Overseas Chinese Town Group Corporation	Assistant to the President, CFO	Oct. 2000 till now	No
Na Qinglin	BUILD UNITED LIMITED	Management cooperation partner	May 2000	No

2. Main work experiences of the current directors, supervisors and senior executives and other full-time or part-time positions taken by them in units other than the shareholding units

(1) Directors

Mr. Hou Songrong, Vice Chairman of the Board, President and Secretary of the Party Committee, was born in 1968; male; Han nationality; Master Degree, Economist. He successfully took the posts of Factory Director of Shenzhen Zhongqiao Industrial Co., Ltd., Business Manager of Investment and Development Dept. in Overseas Chinese Town Group Corporation, Deputy General Manager and General Manager of Shenzhen Overseas Chinese Town Xingqiao Industrial Company, and Vice-president, standing Vice-president and Vice Secretary of the Party Committee in Konka Group Co., Ltd.

Mr. Jian Di'an, director, was born in 1949; male; the Uigur nationality; College degree, Senior Accountant. He successfully took the posts of Assistant General Manager of Shenzhen Overseas Chinese Town Economic Development General Company and General Manager of Windows of the World Co., Ltd. Now he acts as Vice-president of Overseas Chinese Town Group Corporation, Chairman of the Board and concurrently General Manager of Shenzhen Overseas Chinese Town Sanzhou Investment Co., Ltd. and Director of Overseas Chinese Town Real Estate Company.

Ye Shiqu: director; male; Han nationality; born in January 1950; college education background; senior economist; founder of Anhui Tianda Group, Chairman of the Board of Anhui Tianda Group Company from 1992 till now; elected as nation model worker of agriculture and the national excellent township entrepreneur during the 3rd and 4th round before.

Huo Jun: director; female; Han nationality; born in 1966; MBA of KELLOGG Management School of Northwest University in America; used to work at CLSA of France, BNP Paribas, Merrill Lynch, and international investment banks like Banque Nationale de Paris, etc, and engage in investment banking operation; now the Chief of Research at Da Cheng Fund Management Co., Ltd.

Na Qinglin: director; male; Man nationality; born in 1967; MBA of Owen Management School of Vanderbilt University and University of Utah; work experiences: 1995-1997, engaged in investment banking work at Salomon Brothers

Inc.; 1997-2000, engaged in investment banking work at Salomon Smith Barney as Vice President of investment bank in Asia-Pacific and Australian regions; 2000 till now, a co-founder and management cooperation partner at Mingda Risk Investment Company.

Mr. Wei Qing, Director, was born in 1952; the Han nationality; Master Degree. He successfully took the posts of Division Chief of Enterprise Management Division, Division Chief of Trade Coordination Division in Shenzhen Municipal People's Government Economic Development Bureau, Secretary-General of Shenzhen Enterprise Management Association and Chinese-Foreign Enterpriser Association, Deputy General Manager and General Manager of Enterprise Management Dept. in Hong Kong China Travel Service (Group) Co., Ltd. and General Manager of Investment and Planning Management Dept. in Hong Kong China Travel Service (Group) Co., Ltd.. Now he acts as General Manager of Hotel Management Co., Ltd. in Hong Kong China Travel Service (Group) Co., Ltd.

(2) Independent directors

Mr. Xiao Zhuoji, was born in 1933, who graduated from economics department of Renmin University of China with graduate student in 1959. He now acts as Member of the National Committee of CPPCC, Professor and Doctorial Tutor of Economic College of Beijing University, and enjoys the government allowance. He has published 12 main works such as "XIAO ZHU JI Selections", "XIAO ZHU JI Anthology", "Re-epistemic Socialism", "Series of Chinese Macro Economy" and "Chinese Economic Hot Topic Perspective", and mainly edited over 20 works such as "Book of Securities Practice", "Guide to Practice of Securities Laws", "Analysis and Forecast of Financing Market" and "Analysis and Forecast of Economic Situation", and issued several hundred studies, and awarded several Economics Prize.

Mr. Yewu, was born in 1938, who graduated from wireless department of Tsinghua University, Visiting Scholar of George Washington University. He now acts as Professor and Doctorial Tutor of Electron and Information College of South China University of Technology, and enjoys the government allowance, Standing Director of Guandong Province Electron Institute and Director of Guangdong Province Communication Institute. He has issued studies approaching one hundred, the topic of scientific research presided over and attended by him awarded several the Scientific Research Prize from China Consumer Electron Institute and Guangdong High Education Bureau.

Ms. Ma Liguang, was born in 1940, who graduated from North Jiaotong University with the major of economic management. She successfully took the posts of Standing Vice Dean of China Travel College of and Deputy Director of Accounting Department of Management College of Jinan University, Professor of Accounting, Master's Tutor. She obtained qualification of CPA (non-certified). She now acts as Vice Chairman of Guangdong Province Accounting Association. She has issued awardable financial and accounting studies over ten and several works.

(3) Supervisors

Mr. Dong Yaping, Chairman of the Supervisory Committee, was born in 1953; the Han nationality; Education of College, Senior Political Engineer. He successfully took the posts of Division Chief of Foreign Affairs Supervision Department and Financial Supervision Department in Ministry of Supervision, Division Chief of Personnel Supervision Department in Office of Overseas Chinese Affairs of the State Council and Standing Director of Hua An Property Insurance Co., Ltd. He now acts as Vice-president of Overseas Chinese Town Group Corporation and Chairman of the Supervisory Committee of Overseas Chinese Town Holding Co., Ltd.

Ms. Wang Xiaowen, Supervisor, was born in 1969; the Han nationality; Bachelor Degree. She successfully took the posts of Director and CFO of Shenzhen Overseas Chinese Town Industrial Development Co., Ltd. and Executive General-supervisor of Office of President in Overseas Chinese Town Group Corporation. Now she acts as CFO in Overseas Chinese Town Group Corporation and Chairman of the Board in Shenzhen Overseas Chinese Town Investment Co., Ltd.

Mr. Sha Gang, Supervisor, was born in 1964; the Hui nationality; Bachelor Degree, Senior Engineer. He successfully took the posts of Deputy Director and Director of Computer Room of Channel 841 of Sinkiang Administration of Radio Film and Television, Deputy Division Chief and Division Chief of Technology Division of Sinkiang Administration of Radio Film and Television and Deputy General Manager of Shenzhen Overseas Chinese Town Xingqiao Industrial Company. Now he acts as Deputy General Manager of the Digital Network Department of the Company.

(4) Other senior executives

Mr. Zeng Hui, Standing Vice-president, was born in Nov. 1960; CPC member; the Han nationality; Master of Belgium University of Mons-Hainaut, Engineer. He successfully took the posts of Principal of Secretariat of Office of Dean in Changsha Railway University, Director of Overseas Chinese Town Xinqiao Industrial Development Co., Ltd., Deputy General-supervisor of HR Dept. of Overseas Chinese Town Group Corporation, General-supervisor of HR Dept. of Overseas Chinese Town Group Corporation, Chairman of the Board of Overseas Chinese Town Xinqiao Industrial Development Co., Ltd.

Mr. Yang Guobin, Chief Financial Officer, was born in 1969; the Han nationality; Member of CPC; Bachelor Degree, CPA. He successfully took the posts of Deputy General Manager of Financial Dept. in Overseas Chinese Town Group Corporation.

Mr. Wang Youlai, Vice-president, was born in 1961; the Han nationality; Member of CPC, Graduate Student, Engineer. He successfully took the posts of Business Manager of Quality Dept. of Konka Group Co., Ltd., Assistant General Manager of Konka Group Co., Ltd.

Mr. Huang Zhongtian, Vice-president, was born in 1961; the Han nationality; Member of CPC, Education of College. He successfully took the posts of Head of production line of Konka Group Co., Ltd., Business director and Manager of Marketing Company of Konka Group Co., Ltd. and Assistant General Manager of Konka Group Co., Ltd.

Mr. Chen Yuehua, Vice-president, was born in Sep. 1963; the Han nationality; Bachelor of Southeast University; Senior Engineer. He successfully took the posts of Designer and Business Manager of Technology Development Center of Konka Group Co., Ltd., General Manager of Development Center, General Manager of Office of

President, General Manager of Dongguan Konka Electronics Co., Ltd. and Deputy General Manager of Multimedia Enterprise Dept. and General Manager of Development Center of Konka Group Co., Ltd.
Mr. He Jianjun, Vice President, was born in 1969; the Han nationality; Member of CPC; Bachelor degree; Bachelor of Science; Economist. He successfully took position as Deputy Director of Secretariat of the Board, Deputy General-supervisor and General-supervisor of Strategic Development Dept and Secretary of the Board.
Xiao Qing: Secretary of the Board; male; Han nationality; born in 1969; Bachelor degree; Bachelor of Economics; economist; used to be General Manager at the Central Office of City Credit Cooperation in Ya'an district of Sichuan, and Senior Vice President of Top Group; joined Konka Group in 2004, successively as Business Assistant to the President at the President Office, Deputy Chief of the Strategic Development Department and Chief of Investment & Development Center.

II. Remunerations during 2005
(1) The Company had not paid directors (excluding independent directors) or supervisors any remunerations or subsidies. The total remunerations paid to the top three directors that enjoyed the highest amounts totaled RMB 150,000, i.e. the total remunerations for the three independent directors. Subsidies for the independent directors of the Company were RMB 50,000 a year (not including tax). Other treatment for independent directors: trip expenses that occurred when they went to attend the Board meetings or Shareholders' General Meetings, and the expenses that occurred while they were performing their duties as stipulated in the Articles of Association, all these could be reported for deletion.
(2) The Board of Directors determined the remuneration of independent directors and senior executives, and referred to the following aspects: ① scope of jobs and responsibility shouldered; ② actual profit status of the Company; ③ remuneration level in the same industry and same area.
(3) Change of shares held by directors, supervisors and senior executives and their remunerations

Name	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reasons for the change	Total amount of remunerations drawn from the Company in the report period (RMB ’0000)
Hou Songrong	0	0	-	33.6
Jian Di’an	0	0	-	0
Ye Shiqu	0	0	-	0
Huo Jun	0	0	-	0
Na Qinglin	0	0	-	0
Wei Qing	0	0	-	0
Xiao Zhuoji	0	0	-	5.00
Ye Wu	0	0	-	5.00
Ma Liguang	0	0	-	5.00
Dong Yaping	0	0	-	0
Wang Xiaowen	0	0	-	0
Sha Gang	0	0	-	16.92
Zeng Hui	0	0	-	21.60
Yang Guobin	0	0	-	20.16
Wang Youlai	2,640	2,640		20.16
Huang Zhongtian	514	514	-	20.16
Chen Yuehua	0	0	-	20.16
He Jianjun	0	0	-	20.16
Xiao Qing	0	0	-	25.68
Total	3154	3154	-	213.6

Note: Since Worker Supervisor Mr. Sha Gang had concurrently taken the position of Assistant to the Chief of HR Center, he had received reward for the year 2005; being Chief of the Investment & Development Center during Jan. 1, 2005 and Nov. 11, 2005, Secretary of the Board Mr. Xiao Qing had received the reward for that period, but no reward had been paid to him for the period after he became Secretary of the Board.

(4) Particulars about directors and supervisors not drawing remunerations from the Company

Name of directors and supervisors received no payment from the Company	Whether they drew the payment or allowance from the shareholding company or no (Yes / No)
Jian Di’an, Ye Shiqu, Wei Qing, Na Qinglin, Dong Yaping, Wang Xiaowen	They drew payment or allowance from shareholding company, where they took the position.

III. The Company had elected and changed senior executives including directors, vice presidents and secretary of the Board, etc, with details as follows:

As deliberated at the 10th meeting of the 5th Board of Directors of Konka Group Co., Ltd, it was approved that Mr. Ye Shiqu, Ms. Huo Jun and Mr. Na Qinglin would replace Mr. Ren Kelei, Mr. Wang Ruquan and Mr. Ni Zheng as directors of the Company.

As deliberated at the 12th meeting of the 5th Board of Directors of Konka Group Co., Ltd, it had been decided that Mr. He Jianjun would be engaged as Vice President of Konka Group Co., Ltd and in the meantime he would leave the position of Secretary of the Board, while Mr. Xiao Qing would succeed him as Secretary of the Board.

IV. Particulars about employees at the end of the report period

Company	Shenzhen headquarters	Branch companies	Mudanjiang Konka	Shannxi Konka	Anhui Konka	Chongqing Konka	Dongguan Konka	Konka mould	Anhui Electronic Appliance	Boluo Konka	Changshu Konka	Chongqing Qingjia.	Total
Number	2886	5591	756	1388	3235	434	3185	1190	418	212	436	393	20124

Structure of employees in Shenzhen headquarter

Classification	Production personnel	Salesperson	Technician	Financial personnel	Administrative personnel	Bachelor degree or above	Doctor	Master	Bachelor
Number	956	141	595	163	1031	1156	13	216	927
Proportion	31.27%	4.61%	19.46%	5.33%	33.73%	37.81%	0.43%	7.06%	30.32%

Section VI. Administrative Structure

I. Corporate management

The Company continually improved the administration Structure of corporation and standardize the Company's operation strictly in accordance with Company Law, Securities Law, the Code of Corporate Governance for Listed Companies in China and the relevant laws and regulations promulgated by CSRC and Shenzhen Stock Exchange, as well as the spirit of establishing modern enterprise system and safeguarding investors' rights and interests since its foundation. The Shareholders' General Meeting of the Company had formulated the Articles of Association, Rules of Procedure of the Shareholders' General Meeting, Rules of Procedure of the Board of Directors and Rules of Procedure of the Supervisory Committee, and the management team of the Company had also formulated regulations and systems such as the President and Work Rules for President, and Internal Control System, etc. In accordance with the requirements in the normative documents on corporate management issued by the CSRC, the Company's corporate management structure is as follows:

1. Shareholders and Shareholders' General Meeting

All the important events of the Company that need to be decided by the Shareholders' General Meeting will be submitted to the Shareholders' General Meeting for deliberation, and information disclosure on these events must be faithful, accurate and complete and in time. The related transactions of the Company all follow the principles of being fair and square. Signing of agreements all abides by the principles of being equal, self-willing, equivalent and rewarding, and the content of the agreements will be clear and concrete. In the meantime, the Company will make full disclosure on the events that should be disclosed and the pricing principles according to relevant laws and regulations, so as to ensure all shareholders' rights to know.

2. Relationship between the holding shareholder and listed company

The behavior of the Company's holding shareholder was normative. The holding shareholder exercised the right of investor according to the regulations of the Articles of Association of the Company, and did not intervene in the Company's decision-making and operating activities directly and indirectly, and did not harm the benefit of the Company and other shareholders. The Company was independent from the holding shareholder in personnel, assets, finance, organization and business; and the operating activities of the Company's Board of Directors and Supervisory Committee and internal organization were independent.

3. Directors and the Board of Directors

The Board of Directors was responsible for the shareholders' general meeting. The Board exert its rights according to the Articles of Association of the Company and authorized by the shareholders' general meeting; the number, election and composing of the Board were in compliance with the requirement regulated in the Articles of Association of the Company; every director of the Company knew the rights, obligation and responsibility, and could study and know the relevant laws and regulations, and carefully and responsibly attended the Board meeting and shareholders' general meeting; the Board of Directors set down the Rule of Procedure of the Board of Directors according to Administration Rules of Listed Companies and performed seriously in line with it; the holding and discussion of the Board meeting had the completely record and files of resolutions and proposals for keeping; the resolutions of the Board meeting implemented the information disclosure timely.

4. Supervisors and the Supervisory Committee

The number of supervisors in the Supervisory Committee and the member composition has been in accordance with the Company Law. Right now, the Supervisory Committee has 3 supervisors, of which 1 was elected by workers' representatives. The Supervisory Committee of the Company has established the Rules of Procedure of the Supervisory Committee, and, according to the spirit of being responsible for all shareholders of the Company, it has conducted effective supervision over the finance of the Company as well as the Board of Directors and senior executives of the Company.

5. The achievements evaluation and encouragement mechanism

The management team was responsibility for the Board of Directors. The engagement, and dismissal of the management team were open and transparent, which was compliance with the relevant laws and regulations and regulations of the Articles of Association; the remuneration of the management team was perform in public according to the regulations.

The Company is actively starting to establish scientific, fair and transparent achievements evaluation and encouragement mechanism for directors, supervisors and senior executives based on original achievements evaluation and encouragement mechanism, which cause the Company's management system healthiness and efficiency.

6. Relations with the relevant beneficiaries

The Company could give enough respect to the legal rights and interests of the banks and other creditors, employees, consumers, suppliers, and the communities, etc. In future, the Company will pay more attention to the welfare, environment protection, public welfare cause, etc of the communities and its social responsibilities while seek for sustainable development and maximization of shareholders' interests.

7. Information disclosure and transparency

The Company has been paying enough attention to the outward information disclosure. Secretary of the Board is the person special for the information disclosure and handling visits of shareholders. The Company can actively support the work of the Secretary of the Board strictly according to the laws, regulations and Articles of

Association. As to the events needed to be disclosed as according to relevant laws, regulations and Articles of Association, the Company has made full disclosure according to the principle of being faithful, accurate, complete and punctual, so as to ensure that all shareholders have equal opportunity to get the information.

II. Performance of the Independent Directors

The Company established the System of Independent Director in accordance with the Guidelines Opinion on Establishing Independent Director in Listed Companies. The number of the Company's independent directors took the 1/3 of total amount of the Board of Directors. Independent directors exercised their rights according to the relevant regulations, and submitted proposal and issued Independent Opinion on the corresponding matters, which ensured scientific and fair decision-making. Independent directors brought the initiative of them into full play in respect of maintenance of the whole benefit and the legal rights of the middle and small shareholders.

Name of Independent Directors	Times of attending the Board meeting in this year	Presence by oneself (Times)	Entrusted presence (Times)	Absence (Times)	Notes
Xiao Zhuoji	7	7	0	0	
Ye Wu	7	7	0	0	
Ma Liguang	7	7	0	0	

In the report period, all independent directors of the Company could actively fulfill their duties and responsibilities endowed by laws, regulations and Articles of Association, attend all the Board meetings in person and express independent opinions on issues including engaging senior executives and related transactions, etc. In the report period, Independent directors worked in line with the actively and responsible attitude, and proposed the pertinent suggestion to the Company in respect of operating and management. In the report period, the Company's independent directors did not propose the objection on proposals of the Board meetings and proposals of other meetings.

III. The Company's "Five Separations" from the holding shareholder

Particulars about the Company's "Five Separations" from the holding shareholder in respect of business, personnel, assets, organization and finance:

1. In respect of personnel: The Company was independent in the management of labor, personnel and salaries. The holding the post of directors, supervisors and senior executives was implemented according to the relevant laws and regulations.

2. In respect of assets: The Company had independent operating and complete asset; and strictly divided ownership between the Company and the holding shareholder. There existed no situation that the holding shareholder occupied capital and assets of listed company.

3. In respect of organization: The Company established shareholders' general meeting, the Board of Directors, the Supervisory Committee and the Management Team completely according to the relevant of Company Law and Administration Rules of Listed Company. The Company has complete administration structure of corporation. The office organization and production location completely divided from the holding

shareholder.
4. In respect of finance: The Company has established independent financial department, and established independent accounting settlement system and financial management system. The Company has independent bank account.
5. In respect of business: The products operated by the Company have completed marketing network. There existed no competition in the same trade between the Company and the holding shareholder.
The Company completely separated from the holding shareholder in personnel, assets, organization and finance and business and realized business independence, personnel independence, complete assets, organization perfect and finance independence.

IV. The achievements evaluation and encouragement mechanism for Senior Executives
In order to cause senior executives perform their responsibility in better and safeguard the long-term benefit of the Company and shareholders, the Company continually researched and reformed the standard and procedure of achievements evaluation and the relevant encouragement and binding mechanism. The Company established evaluation and encouragement mechanism; and bound the work of senior executives according to the Details Rule of President and President Work and every material work systems. At the same time, the Company determined the remuneration of senior executives through basic annual salary plus floating bonus based on the year-end assessment as well as accomplishment of targets so as to invigorate work enthusiasm of senior executives. Performance of senior executives was assessed by the Board of Directors, and supervised by the Supervisory Committee.

Section VII. Particulars about Shareholders' General Meeting

In the report period, the Company had held 2 Shareholders' General Meetings:
I. Shareholders' General Meeting 2004 of Konka Group Co., Ltd was held at 9:30 a.m. on Jun. 30, 2005 at the meeting room on the 5th floor of office building of the Shenzhen Overseas Chinese Town Group Corporation, China. 10 shareholders (agencies) had attended the meeting, representing 231,251,414 shares, i.e. 38.41 percent of the Company's total share capital 601,986,352. The meeting had been in conformity with the Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Ren Kelei presided at the meeting. Following resolutions had been examined and approved through ballots at the meeting:
1. Examined and approved the Work Report 2004 of the Board of Directors;
2. Examined and approved the Work Report 2004 of the Supervisory Committee;
3. Examined and approved the Auditors' Report 2004 of the CPAs
4. Examined and approved the Proposal on the Profit Distribution Plan for 2004;
5. Examined and approved the Proposal on Making up Losses;
6. Examined and approved the Proposal on Engaging Auditing Agencies and Auditing Expenses;

7. Examined and approved the Proposal on Purchasing Responsibility Insurance;
8. Examined and approved the Proposal on Revising the Articles of Association.

II. Provision Shareholders' General Meeting 2005 of Konka Group Co., Ltd was held at 9:30 a.m. on Sep. 27, 2005 at the central meeting room of Shenzhen OCT Konka Group Co., Ltd, China. 9 shareholders (agencies) had attended the meeting, representing 225,245,320 shares, i.e. 37.42 percent of the Company's total share capital 601,986,352. The meeting had been in conformity with the Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Hou Songrong presided at the meeting. Following resolutions had been examined and approved through ballots at the meeting:
Mr. Ye Shiqu, Ms. Huo Jun and Mr. Na Qinglin had been elected as directors to the 5th Board of Directors of the Company to succeed Mr. Ren Kelei, Mr. Wang Ruquan and Mr. Ni Zheng. Mr. Ren Kelei, Mr. Wang Ruquan and Mr. Ni Zheng would not be the Company's directors any more.
Public notices on the resolutions of the aforesaid Shareholders' General Meeting were published in China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao on Jul. 1, 2005 and Sep. 28, 2005, as well as on the designated internet website http://www.cninfo.com.cn.

Chapter 8 Report of the Directors

I. Main operation condition of the company within the report period
A. Main operation conditions within the report period
The company is mainly engaged in the production and sales of color TVs, digital mobile phones and accessories (such as high frequency heads, moulds, injection molds and packaging materials, etc.). Currently, it belongs to the electronics manufacturing and communication manufacturing industry.
In 2005, the two main businesses of the company were both faced with severe operation environments. The domestic color TV market began to reshuffle and panel TV showed a strong market potential. The cell phone market, on one hand, fell into the vicious cycle of price war and on the other hand, was filled with smuggled goods and inferior brands. The market share of domestic brands decreased rapidly. The home appliance chain stores expanded fast and the channel structure had taken revolutionary changes. The end market competition became increasingly fierce and the profit room for the manufacturers was squeezed. Confronting the severe market challenges, under the leadership of the board of directors and by adhering to the shareholder interest maximization principle, the company had timely proposed and promoted the value management strategy, reduced enterprise accounting unit, promoted internal transaction system, implemented business restructuring and function integration, adopted expenditure-saving, efficiency-increasing and consumption-lowering measures, promoted administration streamlining and right decentralization and end-user service activities, effectively consolidated its management basis and enhanced its competitive edge.

1. Sales revenue: influenced by foreign brands and black-listed brands, the cell phone business of the company in 2005 declined to a great extent, which had imposed relatively great influence on the sales of the company. The total sales revenue of the company in 2005 was RMB11.456 billion Yuan, which was 14.27% lower than that of 2004. The overseas sales was RMB 1.479 billion Yuan, which was an 17.05% increase over that of 2004. The sales revenue of color TVs was RMB 7.867 billion Yuan, similar as that of 2004 and the sales revenue of cell phones was RMB 1.695 billion Yuan Yuan, 52.70% lower than that of 2004.

2. Profit condition: Influenced by the market environment, the cell phone business of the company suffered great loss, which also influenced the company's profit condition. The net profit of the company in 2005 was RMB71.8989 million Yuan, which was a 48.9% decrease than that of 2004, of which the cell phone business loss was RMB 0.194billion Yuan.

3. Market performance: ① The color TV business mainly focused on the increase of the high-end product sales. According to the statistics of China Market Monitor Co., Ltd., the sales volume and market share of Konka color TV was ranked No. 1 in the industry ② The "Bojing" panel concept was specified and the image of Konka was raised ③ In respect of cell phone, the "Film and audio entertainment, Happy China" market strategy was successfully implemented and the pioneering image of Konka in the segmented market was set up ④ The overseas business had shown a strong momentum through the development of strategic customer and enhanced R & D and sales of high-end products ⑤ Emerging businesses: the refrigerator business increased greatly and the automobile electronics business had started and attained certain progresses in respect of market development.

B. Main work conducted within the report period

1. Making plan for future strategic development and integrating core concepts of enterprise culture

Confronting the competition situation of the slowing-down of the industry growth speed and the industry reform caused by technological advancement, the company started the making of the future three-year strategic development plan and stipulated the standard work flow and file templates. The strategic planning files for the whole group and each business unit had all been completed. The objective was clarified, the measures were feasible and the resource allocation was reasonable. Now the strategies are being implemented.

In addition, the company had conducted systematic investigation and trimming on the current condition of its enterprise culture. On this basis, considering its strategic demand, the company also summed up and proposed the core concept of the enterprise culture "Create Excellent Konka, Fulfill Our Dreams".

2. Reducing accounting unit and promoting internal transaction system among business units

In 2005, the company made new reforms on its operation of all kinds of businesses, reduced the accounting unit, established independent divisions according to business types and in the meanwhile set up the internal transaction system among all the divisions in the self-management and self-supporting approach so as to increase the decision efficiency and reaction speed of all kinds of businesses, which could facilitate the development of the businesses and establishment of the external operation platform and the faster attaining of centralized advantage in some steps of the supplier chain. Up to now, the internal transaction system among the business units has been set up and operated gradually.

3. Actively implementing administration streamlining and right decentralization and providing all-for-end-user service

During the administration streamlining and right decentralization process, on one hand, the steps influencing the approval efficiency were reduced, the redundant approval was simplified and approval efficiency was enhanced through the in-depth trimming and study of the existing approval flow, on the other hand, on the premise of strict planning and budget control and based on the well controlled management risks and capital risks, power was decentralized, reaction speed of the end-user business units was increased and information publicity, post auditing and financial supervision were strengthened and "Decentralized power, enhanced responsibility, proper supervision and clear award and punishment" was implemented. In addition, considering their own functional characteristics, the functional units of all levels drew up and proposed a series of specific commitments and measures serving the end-users and customers and publicized them to the business units and sales departments in the quantitative or commitment manners so as to provide high efficiency support and excellent services for the end-user units.

4. Perfecting product R&D progress tracking system and promoting the advancement of R&D levels

In 2005, the company's product R&D progress tracking system was further perfected to ensure the product progress and achieve the improvement of R&D capabilities. According to the implementation condition, the target for the R&D of products in the three financial seasons in 2005 was basically completed. Certain projects were even completed excessively or ahead of schedule, which made important contribution to the sales tasks of the three key sales seasons and the whole year.

In 2005, the quantity R&D programs of color TV was 418 and programs assessed was 345 while programs under way was 73. In respect of cell phone R&D, the R&D tasks for 59 domestic products and 9 export products had been completed. The 3G cell phone of Konka also achieved its calling function.

5. Conducting expenditure-saving and efficiency-improving campaign in an all-round way and effectively controlling the operation cost

The company had conducted expenditure-saving and efficiency-improving work in all units of the whole group, set targets for the quarterly and monthly expenditure-saving and efficiency-improving of all business units and functional departments and made relevant award and punishment plans. In the meanwhile, the company had formed the quality inspection team in order the prevent quality accidents due to expenditure-saving and efficiency-improving.

Judging from the phase result, the target for the general implementation effect was achieved. The cost control of the functional departments of the group was relatively rational, the cost control target of color TV raw materials, the processing cost control target of each manufacturing sub-companies and the cell phone raw materials and cost target were basically achieved. In 2005, the color TV material cost and cell phone material cost were lowered by 10% and 20% compared to figures of the previous year and the period expense of cell phone was lowered by RMB 100 million Yuan.

6. Starting the model project plan and improving the appearance of products

The company has started the model project plan in the color TV and cell phone business fields. As the first batch products of the model project, the 29 series panel TV, A8 CRT TV and D163 Cell phone are now in the technological improvement phase, of which, D163 Cell phone was awarded China Industry Innovative Design Golden Medal.

In addition, the company also strengthened its flow management and construction in 2005. It had also set up the management framework for enterprise operation, standardized obligations and responsibility designation of the procurement system, established the regional auditing bodies, implemented the QM (quality management) system and perfected the three-stage framework of human resources, conducted Party Member Progressiveness Education and themed enterprise culture activities, conducted consolidated and effective work in all aspects and attained good effects.

(III) Income from the Principal Business and Profit Composition

Sector/ products		Income from principal business (in RMB '000)			Costs of principal business (in RMB '000)			Gross profit rate (%)		
		2005	2004	Increase / Decrease (%)	2005	2004	Increase / Decrease (%)	2005	2004	Increase / Decrease
Color TV	Domestic market	7,866,597.52	8,171,484.60	-3.73	6,348,235.86	6,841,904.10	-7.22	19.30	16.27	3.03
	Foreign market	1,478,861.34	1,263,442.00	17.05	1,347,299.74	1,154,570.50	16.69	8.90	8.62	0.28
	Total	9,345,458.86	9,434,926.60	-0.95	7,695,535.60	7,996,474.60	-3.76	17.65	15.25	2.40
Communication	Mobile phone	1,694,717.41	3,582,864.60	-52.70	1,491,378.31	3,071,528.50	-51.45	12.00	14.27	-2.27
Others		415,715.33	344,730.60	20.59	384,126.14	323,672.00	18.68	7.60	6.11	1.49
Total		11,455,891.61	13,362,521.90	-14.27	9,571,040.05	11,391,675.0	-15.98	16.45	14.75	1.70

(IV) Analysis on the major financial indicators

1. The gross profit ratio of color TV had increased by a large margin, mainly because the average sales prices had been stable, and the Company had effectively cut raw materials, contributing to the decrease of product costs. The gross profit ratio of mobile phone had decreased a little, mainly because the market competition had been hot and the Company had launched marketing activities to expand scale and increase market shares.

2. The net profit had decreased by a large margin, mainly because the mobile phone operation of the Company had made great losses due to the overall sluggish status of the domestically-made cell phone industry, exerting a negative influence on the

Company's overall profit-making status.
3. Cash capital had decreased by a large margin, mainly because there had been lots of commodity funds paid and increase of investment in fixed assets, etc.
4. The investment yield had decreased by a large margin compared with the last period, mainly because of the great losses made by the subsidiary Shenzhen Konka Communication Technology Co., Ltd in the report period.
5. The financial expenses had increased a lot in the report period, mainly because of bank deposit decrease in the report period, thereby decrease of interest income.

II. Operation and Performances of the Principal Subsidiaries and Holding Companies
(1) Shenzhen Konka Communications Technology Co., Ltd.
With its equity directly and indirectly held by the Company by 100% and registered capital of RMB 120 million, KONKA Communications is engaged in the business of developing, producing and selling digital mobile communication equipment and mobile phone products. At the end of the report period, the company's total assets were RMB 850,397,658.38, the sales income in 2005 was RMB 1,694,717,412.72 and net profit was RMB -193,760,965.26.
(2) Dongguan KONKA Electronics Co., Ltd.
With registered capital of RMB 200 million, Dongguan KONKA is one of the Company's solely owned subsidiaries, and is engaged in production and operation of color TV and acoustic products, etc. At the end of the report period, the company's total assets were RMB 407,906,838.62, the sales income in 2005 was RMB 179,533,128.10 and net profit was RMB -12,544,111.35.
(3) Mudanjiang KONKA Industrial Co., Ltd.
With its equity held by the Company by 60% and registered capital of RMB 60 million, Mudanjiang KONKA is engaged in production and operation of color TV. At the end of the report period, the company's total assets were RMB 121,730,561.36, the sales income in 2005 was RMB 70,008,082.64 and net profit was RMB -601,929.15.
(4) Shaanxi KONKA Electronics Co., Ltd.
With its equity held by the Company by 60% and registered capital of RMB 69.5 million, Shaanxi KONKA is engaged in production and operation of color TV. At the end of the report period, the company's total assets were RMB 137,677,929.47, the sales income in 2005 was RMB 150,889,114.27 and net profit was RMB 5,079,785.47.
(5) Anhui KONKA Electronics Co., Ltd.
With its equity held by the Company by 65% and registered capital of RMB 140 million, Anhui KONKA is engaged in production and operation of color TV. At the end of the report period, the company's total assets were RMB 393,184,055.44, the sales income in 2005 was RMB 440,750,587.44 and net profit was RMB 5,023,584.23.
(6) Chongqing KONKA Electronics Co., Ltd.
With its equity held by the Company by 60% and registered capital of RMB 45 million, Chongqing KONKA is engaged in production and operation of color TV. At

the end of the report period, the Company's total assets were RMB 88,499,464.53, the sales income in 2005 was RMB 51,258,064.46 and net profit was RMB 311,199.91.

III. Major Suppliers and Customers

The total purchase amount from the top five suppliers was RMB 3,091,489,925.28, accounting for 36.30% of the Company's total purchase amount. The total sales revenue from the top five distributors was RMB 740,030,076.30, accounting for 6.46% of the Company's total sales amount.

IV. Operation Problems, Difficulties and Solutions

1. Flat-Panel TV pricing is still dropping

Solution proposal: facing price-dropping situation, company get the core technology gradually through product technological innovation reinforcement. Company improved high-end products management system and layout, to make sure new product come to market speedy. Expanding flat-panel TV business scale through transverse and lengthways integrated supply chain, improve research and development ability and well-classify marketing management, implement diversification marketing tactic and promotion tactic. Reinforce of company distribution channel and customer service network, make cost and expense control, and establish a positive defense system in order to face price fight.

2. Mobile industry competition and performance down

Solution proposal: (1) establish a comprehensive evaluation system, major evaluation index will be around "profit". Make a complete set of evaluation system for branch profit, sales revenue, channel stack turn over, and main cell phone model, which made an ultimate innovation for branch management thinking, increase evaluation content to the profit result, make branch operator must take the management responsibility, and insure a balance operation way for branch development. (2) Carry out "Cut expenditure and staff, increase efficiency" policy. Make an expenditure quarto and controlling request to branch expenditure, cut down fixed expense, and put these measures into action step by step. To that branch with high expenditure and weak operation, will execute "shaping plan", supervise branch cut expenditure and staff, raise efficiency by check and ratify expenditure quarto.

V. Investments of the Company

1. In the report period, the Company raised no funds through share offering and had no material investments

2. Projects Invested with Funds not Raised through Share Offering

The Company had no significant projects invested with non-raised proceeds in the report period.

VI. Financial Position

Unit: RMB'000

Item	At the end of 2005	At the end of 2004	Increase / decrease (%)	Major reasons for the change
Total assets	9,120,452.30	9,597,845.80	-4.97	Decrease of current assets
Net accounts receivable	677,364.20	572,145.50	18.39	Change of part of the sales policies
Net inventories	3,385,558.30	3,580,777.40	-5.45	Control over inventories strengthened
Net long-term investment	64,475.70	59,639.00	8.11	Appreciation of investments with depreciation reserves withdrawn before
Net fixed assets	1,298,792.50	1,291,943.70	0.53	Investment increase infixed assets
Long-term liabilities	20,179.10	10,499.10	92.20	Increase of special accounts payable
Shareholders' equity	3,211,212.30	3,193,928.10	0.54	Net profit made
Item	**2005**	**2004**	**Increase / decrease (%)**	**Major reasons for the change**
Profit from main operations	1,883,466.30	1,969,402.20	-4.36	Decrease of the sales income from the mobile phone operation, decrease of gross profit ratio
Net profit	71,898.90	140,726.70	-48.91	Decrease of profitability of the mobile phone operation

VII. Management plan in the new year

2006 operation environments analysis

2006, macro environment is favorable in domestic market, as well as oversea market, but there is still some uncertainty, especially under the pressure from resource price rising and exchange rate change.

1. TV market keeping stable rising trend, high-end TV will develop very quickly, Flat-Panel TV will following speedy develop tendency in 2005. At the same time, digital TV will has a big jump, along with China launch the digital TV standard and Cable Digital TV speedy development. But price will be drop quickly with high-end product selling scale enlarge, profit margin will be narrow down. And TV industry is still has some uncertainty for the Flat-Panel TV is not a mature industry, which will bring a bigger risky to company, so risky management should be concerned.

2. Mobile industry competition will still in incandescent status. Industry loss caused by price fight in these two years, will push major enterprises come into rational competition from unreasoning fight. While, 3G-operation standard and business-oriented phase is coming, which will create a new industry developing opportunity and a new market space to mobile producers. But 2006 market is still grimness, foreign brands are still aggressive, license plate sent out from government will still rise, parallel import and stick-brand product from "gray market" will still flooding in the market, which will bring bad impact to company development.

(II) Management plan in 2006

1. Management policy in 2006

To execute management strategy in 2006, company will put three projects into priority: quality project, perfect project and innovation project.

Quality project: product quality is a systematic problem, which influence a whole produce chain from marketing, research, produce, sale and after service, involved every process, so company must take a systematic improvement.
Perfect project: company will emphasize product out-looking design and application optimization while core technology improving.
Innovation project: this project will focus on product innovation, marketing innovation and management system innovation.

2. Management target:
(1) Flat-panel business: company will regard flat-panel business into strategically and enlarge resource input. Promote business develop according to domestic market and oversea market supported and coordinated each other, reach a good profit and turn over.
(2) International business: under the good risky control situation, speed up business expansion, especially to strategitic clients and strategitic market expansion, finish international business overall arrangement in the coming three years.
(3) Mobile business: company will increase mobile business research investment, committed to a mobile producer with a product competition as a main competition.
(4) CRT TV business: further increase investment of high-end product produce layout, establish a business operation model to a world leading OEM TV producer.
(5) Multi-media marketing business: catch digital TV and flat-panel TV market opportunity; raise sales structure and sales revenue quickly. And optimize brand resource, reinforce system management, improve operation efficiency, enhance terminal building, make multi-media marketing system become an excellent home appliances distribution platform.
(6) White home appliances business: increase resource input, and finish production capacity layout.
(7) Fitting business: improve product and service quality, develop new product, import new technology and explore new market.
(8) New business: electronic business related from automobile, digital-network product, visualized message product, travel product, would enhance new product research based on 2005, keeping benefit as a management principle, standard management, improve system, expand distribution channel, push business development.

3. Key task in 2006

(1) Making technological strategy program and competition ability rising program
Based on whole technological strategy, design a three-year technological strategy and competition ability rising program, make sure of which predictable technology and competition ability rising program need input resource in the coming three years.
(2) Establish long-term incentive system
Company will work out long-term incentive system for different levels this year, which will fully express company management idea that skeleton staff is company

business partner, while, it will also embody that long-term incentive principle, benefit-oriented and profit-oriented, risky-taking and vitrification principle.

(3) Reinforce brand promotion and public affair promotion.

(4) Reinforce talent training and development

One is talent training, and the other is talent development. First, establish a channel, let a group of talent could growing quickly; and second is enhance daily evaluation and management to ranking, push staff improve themselves consciously; the third is all level ranking should recommend talent and training them with objectives; the last is execute rotational ranking system, improve management ranking ability quickly, strengthen service conscious and work coordination.

(5) Perfect operation management system around Group plan and control to all departments

First, perfect planning and authority management system with quarter or financial year unite. Group will confirm all departments operation plan, expenditure budget and major operation tactic every quarter or financial year, and give fully authority to department under planed budget and time.

Second, establish information vitrification system for business control.

Third, reinforce risky forecast system management.

Storage management will be the first measure. Company will set several key turns over index for storage, and each index has upper limit and lower limit, if one of them out, warning message will be send out. And second is accounts receivable management. Establish a file to every dealer who got loan from company, and supervise to key index which will be involved risky, and each index has upper limit and lower limit, if one of them out, warning message will be send out. At the same time, for different warning take different controlling measure. The last point is all process quality control management, group will supervise major product quality index timely.

The fourth, perfect business module information establishment, improve decision-making, analysis and control ability by using information system.

VIII. Routine work of the Board of Directors

1. Meetings held in the report period and content of the resolutions

In the report period, the Board of the Company held 7 meetings in total, i.e. the 6th, 7th, 8th, 9th, 10th, 11th and 12th meeting of the 5th Board of Directors. Details of the meetings and resolutions made are as follows:

The 6th meeting of the 5th Board of Konka Group Co., Ltd was held on the morning of Apr. 15, 2005 (Friday) at Shenzhen Overseas Chinese Town Group Corporation. Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Apr. 4, 2005. 9 directors should have attended the meeting, and actually 8 did. Director Jian Di'an was on a business trip, and he had entrusted Chairman of the Board Mr. Ren Kelei to attend the meeting and exercise voting on his behalf. All supervisors of the Supervisory Committee and some of the Company's senior executives also joined the meeting. Chairman of the Board Mr. Ren Kelei presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, following resolutions had been examined and approved:

(1) Examined and approved the Annual Report 2004 of the Company and the Summary;

(2) Examined and approved the Profit Distribution Plan for 2004;

(3) Examined and approved the Preplan of Making up Losses with Capital Reserve;

(4) Examined and approved the Preplan of Profit Distribution for 2005;

(5) Examined and approved the Proposal on Changing Securities Affairs Representative;

The 7th meeting of the 5th Board of Konka Group Co., Ltd was held on Apr. 28, 2005. The 1st Quarterly Report 2005 had been examined and approved through voting by fax.

The 8th meeting of the 5th Board of Konka Group Co., Ltd was held on the morning of May 27, 2005 (Friday) at Shenzhen Overseas Chinese Town Group Corporation. Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on May 17, 2005. 9 directors should attend the meeting, and actually all 9 did. All supervisors of the Supervisory Committee and some members of the Company's management team also joined the meeting. Chairman of the Board Mr. Ren Kelei presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, following resolutions had been examined and approved:

(1) Examined and approved the Work Report 2004 of the Board of Directors;

(2) Examined and approved the Proposal on Engaging Auditing Agencies and Auditing Expenses;

(3) Examined and approved the Proposal on Purchasing Responsibility Insurance;

(4) Examined and approved the Proposal on Revising the Articles of Association;

(5) Examined and approved the Proposal on Convening the Shareholders' General Meeting 2004.

The 10th meeting of the 5th Board of Konka Group Co., Ltd was held on the afternoon of Aug. 25, 2005 (Thursday) at Shenzhen Overseas Chinese Town Group Corporation. Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Aug. 10, 2005. 9 directors should have attended the meeting, and actually all 9 did. All supervisors of the Supervisory Committee and some of the Company's senior executives also joined the meeting. Chairman of the Board Mr. Ren Kelei presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, following resolutions had been examined and approved:

(1) Examined and approved the Semi-Annual Report 2005 and the Summary of the Company;

(2) Examined and approved the Proposal on Changing the Chairman of the Board of

Directors;
(3) Examined and approved the Proposal on Changing Part of the Directors;
(4) Examined and approved the Proposal on Purchasing and Transforming the Refrigerator Production Line of Ankang Electric Appliances Company;
(5) Examined and approved the Proposal on Convening the Provision Shareholders' General Meeting 2005.

The 11th meeting of the 5th Board of Konka Group Co., Ltd was held on Oct. 24, 2005. The 3rd Quarterly Report 2005 had been examined and approved through voting by fax.

The 12th meeting of the 5th Board of Konka Group Co., Ltd was held on the morning of Nov. 9, 2005 (Wednesday) at Shenzhen OCT Konka Group Co., Ltd. Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Oct. 26, 2005. 9 directors should have attended the meeting, and actually all 9 did. Chairman of the Board Mr. Hou Songrong presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, the Board decided to remove Mr. He Jianjun from the position of Secretary of the Board and engage him as Vice President of Konka Group Co., Ltd, while Mr. Xiao Qing was engaged to succeed Mr. He Jianjun as Secretary of the Board of Konka Group Co., Ltd.

Resolutions of the aforesaid 7 Board meetings were published in China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as the internet website designated www.cninfo.com.cn and the website of the Company www.konka.com on Apr. 16, 2005, Apr. 29, 2005, May 28, 2005, Aug. 26, 2005, Oct. 25, 2005 and Nov. 10, 2005 respectively.

2. Implementation of the resolutions of the Shareholders' General Meeting by the Board
The Board of Directors had dutifully implemented the resolutions of the Shareholders' General Meeting: carried out the work of making up losses with capital reserve, changing part of the directors, and revising the Articles of Association.

IX. Profit distribution or capitalization of capital reserve plan for the report period
In 2005, the retained profit of the Company at the end of the period totaled 62,071.57 RMB'000Calculated according to the total share capital of 601,986,352 shares at the end of the period, the retained profit per share was RMB0.1031.
According to the Company Law and the Articles of Association, the 14th meeting of the 5th Board of Directors of the Company had decided after careful deliberation that the profit distribution plan for 2005 would be not to distribute any dividend nor capitalize any public reserve.
Since the Company will still face fierce market competition in 2006, it needs to reserve some capital against business risks. Hence no cash profit distribution preplan

has been proposed.
This plan still needs the approval of the Shareholders' General Meeting.
In the opinion of the Company's independent directors, the profit distribution preplan of the Company complied with relevant provisions of the Company Law and the Articles of Association of the Company and did not harm the interests of middle and small shareholders.

X. Special explanations on the capital current with related parties and external guarantees
1. Explanation on the implementation of the Notice on Problems of Standardizing the Capital Current between Listed Companies and Related Parties and the External Guarantees of Listed Companies (CSRC [2004] No. 56 Document):
Full text of the special explanation given by the CPAs on the capital occupations by the controlling shareholder and other related parties is as follows:

Special Explanation on the Capital Occupations by the Controlling Shareholder and Other Related Parties of Konka Group Co., Ltd

SH (2006) ZSZ No. 111

CSRC Shenzhen Securities Regulatory Bureau and Shenzhen Stock Exchange,
We, as the CPAs auditing the Accounting Statements 2005 of Konka Group Co., Ltd (hereinafter referred to as Konka Group), hereby present this Special Explanation on the relevant issues concerning the capital occupations by the controlling shareholder and other related parties of Konka Group in accordance with the Notice on Problems of Standardizing the Capital Current between Listed Companies and Related Parties and the External Guarantees of Listed Companies (CSRC [2004] No. 56 Document) issued by the CSRC. The Attachment I of this Special Explanation has been prepared according to the requirement of the Work Memorandum on Information Disclosure – 2006 No. 2: Requirements on the Disclosure and Report of the Capital Occupations by the Controlling Shareholders and Other Related Parties as well as the Clearing Plan.
We have noticed that the overall capital occupations of the Listed Company by the related parties of Konka Group Co., Ltd are as follows:
1. By Dec. 31, 2005, the balance of the capital of the Listed Company occupied by related parties totaled RMB 31,849,300.
2. Irregular capital occupations of the Listed Company are as follows:
(1) The balance of the irregular capital occupations by related parities totaled RMB 0, and the balance of capital occupations remained unchanged compared with that the beginning of the period.
(2) Neither the principal shareholder (or the actual controller) nor any of the enterprises controlled by it had occupied the capital of the Listed Company irregularly.
This Special Explanation has been provided by us on the requirements of the CSRC and its Branch institution as well as the Shenzhen Stock Exchange, and it cannot be applied for other uses. Should any consequences be generated due to inappropriate

application, it will have nothing to do with the CPAs and the accounting agency that have conducted this business.

Shenzhen Dahua Tiancheng Certified Public Accountants
China Shenzhen

Chinese CPA: Wu Jianhui
Chinese CPA: Chen Baohua
Apr. 25, 2006

2. Statement on the capital occupations by the controlling shareholder and other related parties in 2005

Type of the occupier	Name of the occupier	Relationship between the occupier and the Listed Company	Accounting item calculated by the Listed Company	Balance of capital occupied at the beginning of 2005	Accumulated amount occupied in 2005	Accumulated amount repaid in 2005	Balance of capital occupied at the end of 2005	Reasons for the occupation	Nature of occupation
Controlling shareholder, actural controller and their affiliated enterprises									
Subtotal	-	-	-	250.15	976.46	913.84	312.77	-	-
The big shareholder and its controlled legal person	Shenzhen OCT Real Estate Co., Ltd	Subsidiary of the controlling shareholder	Other accounts receivable	104.61	25.78	8.44	121.95	Rent for dorm and deposit	Operating occupation
	Shenzhen OCT Property Management Co., Ltd	Subsidiary of the controlling shareholder	Other accounts receivable	7.69	0.60	0.60	7.69	Deposit for property management charges	Operating occupation
	Shenzhen Special Economic Zone Water and Power Company	Subsidiary of the controlling shareholder	Other accounts receivable	137.85	950.08	904.80	183.13	Advance payment of water and power charges	Operating occupation
Related persons and their affiliated enterprises									
Subsidiaries and affiliated companies of the Listed Company									
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-

II. The special explanation and independent opinions of independent directors on the guarantees provided by the Company and its implementation of the Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties issued by CSRC (ZJH 2004 No. 56 Document of CSRC).

According to the requirements of the Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties issued by CSRC (ZJF (2004) No. 56 Document), we examined and verified the guarantees provided by Konka Group Co., Ltd. ("the Company") and carefully read 2005 auditor's report and the Special Statement on Fund Occupation by the Controlling Shareholder and Related Parties of Konka Group Co., Ltd. issued by Shenzhen Dahua Tiancheng Certified Public Accountants. Independent directors unanimously held the following opinion: In the report period, the fund transfer between the Company and its related parties was normal and in small amount. The accounting treatment was reasonable and conservative. As of December 31, 2005, the Company did not provide any guarantee to others, operated in a standardized way and did not violated the requirements of ZJF (2004) No. 56 Document.

Independent directors: Xiao Zhuoji, Ma Liguang and Ye Wu

XII. Other matters

1. Public Notice on Transfer of State-owned Legal Person's Share Obtaining Replay of SASAC: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Feb. 1, 2005 for details (announcement number: 2005-01).
2. Public Notice on Transfer of State-owned Legal Person's Share Obtaining Replay of Ministry of Commerce: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Mar. 21, 2005 for details (announcement number: 2005-02).
3. Public Notice on the Change in Shareholding of Shareholders: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Mar. 31, 2005 for details (announcement number: 2005-03).
4. Public Notice on Forecasting of Routine Related Transaction: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Apr. 18, 2005 for details (announcement number: 2005-06).
5. Public Notice on Progress of Equity Transfer (Block Trade of Hong Kong OCT): Refer to

the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Apr. 29, 2005 for details (announcement number: 2005-**03**).

6. Public Notice on Progress of Equity Transfer: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Jul. 28, 2005 for details (announcement number: 2005-12).

7. Public Notice on Related Transaction: Refer to the public notice published by the Company in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao on Aug. 26, 2005 for details (announcement number: 2005-15).

8. The Company chose China Securities Journal and Ta Kung Pao as the newspapers for information disclosure.

Section IX. Report of the Supervisory Committee

I. Work of the Supervisory Committee

In the report period, the 5th Supervisory Committee of the Company held 4 meetings in total, i.e., the 3rd, 4th, 5th and 6th meeting of the 5th supervisory committee The particulars of the meetings and resolutions are as follows:

The 4th meeting of the 5th Supervisory Committee of the Company was held in Shenzhen OCT Group Corporation on the morning April 15, 2005 (Friday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law of the Articles of Association of the Company. Upon full discussion, the meeting examined and unanimously approved the Annual Report 2004 and its Summary.

The 6th meeting of the 5th Supervisory Committee of the Company was held in Shenzhen OCT Group Corporation on the morning May 27, 2005 (Friday). The notification of this meeting was sent to all supervisors by means of e-mail, written form and fax on May 17, 2005. 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law of the Articles of Association of the Company. Upon full discussion, the meeting examined and unanimously approved Work Report 2004 of the Supervisory Committee.

The resolutions of the above 2 meetings of the supervisory committee were published in the newspapers designated by CSRC, i.e., China Securities Journal, Securities Times, Shanghai Securities News and Ta Kung Pao, designated website www.cninfo.com.cn respectively on

April 16, 2005 and May 28, 2005.

II. Independent Opinions of the Supervisory Committee

1. The operation of the Company according to law

In 2005, the operation of the Company complied with relevant laws and regulations including the Company Law, the Securities Law and Listing Rules and provisions of the Articles of Association of the Company. The Company's directors and senior executives implemented resolutions of shareholders' general meetings and board meetings, worked diligently and constantly improved internal control system. The Company's directors and senior executives neither violated laws national laws and regulations and the Articles of Association of the Company nor harmed the interests of the Company when they performed their duties.

2. Inspection of the financial status of the Company

The supervisory committee seriously and carefully inspected the Company 's financial system and financial position and held the opinion that the financial report of the Company for 2004 truly reflected its financial position and operating results and the standard unqualified auditing opinions issued by Shenzhen Dahua Tiancheng Certified Public Accountants were objective and fair.

3. Utilization of raised proceeds of the Company

The Company did not raise proceeds in the recent three years. The investment projects utilizing the proceeds previously raised are completely the same with those promised in the prospectus.

4. Acquisition and disposal of assets by the Company

In the report period, the transaction price of equity sale of the Company was reasonable and no insider trading was found. The interests of middle and small shareholders were fairly considered and no loss of the Company's assets was found.

5. Related transactions

(1) The Company was involved in related transactions with the subsidiaries of the controlling shareholder of the Company, including the paying of property management fee water and electricity expenses, land use fee and purchase of goods, which were all fair transactions and carried out at normal market price. The related transactions did not harm the interests of the Company and its other shareholders.

(2) In the report period, the Company transferred its equity of Mudanjiang Huali Packing Co., Ltd. to Shenzhen Huali Packing Trade Co., Ltd., which belongs to related transaction; there existed related transaction of assets transfer with Anhui Tianda. Making procedure of contract

of the above related transaction was in compliance with Stock Listing Rules of Shenzhen Stock Exchange and procedure regulated in the domestic laws and rules, the price was fair and reasonable, which did not harm the interests of medium- and small shareholders, and was fair and reasonable for the Company and all shareholders.

(3) In the report period, the Company was not involved in joint external investment with related parties.

Section X. Important Events

I. Material lawsuits and arbitration

In the report year, the Company had no significant lawsuits or arbitrations.

II. Significant acquisitions, takeovers and mergers

The Company was not involved in any significant acquisition, takeover or merger in the report year.

III. Significant related transactions

1. In 2005, the Company was involved in the related transactions with the subsidiaries of the controlling shareholder of the Company (OCT Group Corporation), including the paying of payment property management fee, water and electricity expenses, land use fee and purchas e of goods, which were all fair transactions and carried out at normal market price. The related transactions did not harm the interests of the Company and its other shareholders. Refer to "(3) Transactions with related companies" and "(4) Current accounts with related companies" of Note 6 to the financial statements in the financial report for details.

2. Related transactions concerning routine operation

Type of related transaction	Further classification according to product or labor service	Related parties	Total amount		Proportion taking up the amount of the same kind of transactions
Purchase of raw materials	Raw materials of packing	Shanghai Huali Packing Co., Ltd.	56,144,264.90	95,650,255.70	0.56%
		Shenzhen Huali Packing Trade Co., Ltd.	27,614,666.59		0.27%
		Mudanjiang Huali Packing Co., Ltd.	11,891,324.21		0.12%

The Company has published the Forecasting Public Notice on Routine Related Transaction (public notice No. 2005-06) in Securities Times, Shanghai Securities News, China Securities Journal and Ta Kung Pao and Internet website designated by CSRC http://www.cninfo.com.cn on Apr. 19, 2005. In the report period, the pricing base, transaction price, transaction amount and settlement methods of raw material purchased by the Company from Shanghai Huali Packing Co., Ltd. was basically in compliance with the forecasting; the Company additionally exploited other suppliers of color TV raw materials in order to distribute purchase risk, at the same time, purchase price of color TV raw materials reduced, which resulted in transaction amount of raw materials of packing purchased actually by the Company from Shenzhen Huali Packing Trade Co., Ltd. occurred a quite difference with the forecasting; Mudanjiang Huali Pacing Co., Ltd. is a supplier that the Company exploited in August 2005, thus the Company did not make the forecasting.

IV. Significant contracts and their performance

(1) In the report period, the Company did not hold in trust, contract for or lease the assets of other companies nor did other companies hold in trust, contract for or lease the assets of the Company.

(2) In the report period, the Company did not provide guarantees to others.

(3) In the report period, the Company did not entrust others with money management.

V. Commitments

The Company or any shareholder holding over 5% of the total shares of the Company did not disclose any commitment on the designated newspapers and websites in the report year.

VI. Certified public accountants' firm and remuneration

As examined and adopted at the annual shareholders' general meeting 2004, the Company engaged Shenzhen Dahua Tiancheng Certified Public Accountants to be responsible for 2005 audit of the Company. So far, this firm has provided audit services to the Company for five consecutive years.

In 2005, the Company paid financial audit fee of RMB 0.35 million for A shares to Shenzhen Dahua Tiancheng Certified Public Accountants, as well as RMB 0.45 million for B shares to K. C. OH & Company Certified Public Accountants.

VII. About share merger reform of the Company

In accordant with the spirit of Several Opinions on Promoting Reform and Opening-up and Steady Development of Capital Market promulgated by the State Council and the Administrative Method of Share Merger Reform for Listed Companies, in order to perfect corporate governance, protect the legal rights and interests of investors and form effective incentive mechanism, the Company’s nontradable shareholders proposed share merger reform plan on Jan. 23, 2006. Through reiterative communication with tradable shareholders, the Company finally determined share merger reform plan at the rater of 2.5 shares for every 10 shares, the said plan was approved at the shareholders’ general meeting related with share merger reform held from Mar. 2, 2006 to Mar. 6, 2006. The Company’s share merger reform has been implemented on Mar. 30, 2006. At present, the Company has completed task of share merger reform.

The key points of share merger reform are as follows:

1. The shareholders of tradable A shares could obtain the consideration at rate of 2.5 shares for every 10 tradable A shares.

2. 35% of consideration need performed by Anhui Tianda Enterprise (Group) Co., Ltd. and Thomson Investment Group Limited, shareholders holding nontradable shares, was paid in

advanced by OCT Group Corporation (the first largest shareholder of the Company) instead of them. Anhui Tianda Enterprise (Group) Co.,Ltd. and Thomson Investment Group Limited promised that they must refund all shares to OCT Group Corporation that OCT Group Corporation paid in advance instead of them before listing for trade of Konka Stock A held by them.

3. All shareholders of nontradable shares promised that no trading and transfer of nontradable shares held by them may be taken with 24 months as of the date when the shares obtained circulation right in A market; after expiration of the aforesaid undertaking, the every shareholder of nontradable shares could sale original nontradable shares through listing and trading on Stock Exchanges, but proportion of number of shares could be sold in total shares of the Company shall not exceed 5 percent within 12 months, as well as exceed 10 percent within 24 months.

VIII. Other Important Events

In the report period, the Company and its directors and senior executives were not punished by securities regulatory authority.

Section XI. Financial Report

I. Auditors' Report

Auditors' Report

SH (2006) GSZ No. 035

Shareholders of Konka Group Co., Ltd:

We have audited the Consolidated Balance Sheet ended Dec. 31, 2005, the Consolidated Income and Profit Distribution Statement 2005 and the Consolidated Cash Flow Statement 2005 of Konka Group Co., Ltd (hereinafter referred to as the Company). While it is the responsibility of the management team of the Company to compile these accounting statements, our responsibility is to express opinions on these accounting statements based upon our auditing work.

We have arranged and carried out our auditing work in accordance with the independent auditing rules for Chinese CPAs, so as to make sure with reason whether or not there exist no significant report errors. Our auditing work includes checking based upon sampling the evidences that support the amounts in the accounting statements and disclosure, commenting on the accounting policies adopted by the management team during the compilation of these accounting statements and the important accounting estimations made by them, and commenting on the overall reflection of these accounting statements. We believe that our auditing work has provided fairly reasonable base for us to express opinions.

We believe that the aforesaid accounting statements have been in conformity with the

Business Accounting Standards and Business Accounting System issued by the State, and that they fairly and squarely reflected the Company's financial situation ended Dec. 31, 2005 and the business achievements and cash flows of the Company in 2005 in all crucial aspects.

Shenzhen Dahua Tiancheng Certified Public Accountants

China Shenzhen Chinese CPA:Wu Jianhui

Chinese CPA:Chen Baohua

Apr. 25, 2006

II. Financial Report (attached at the back)

Section XI. DOCUMENTS FOR REFERENCE

(I) Accounting statements carried with the signatures and seals of legal representative, CFO and person in charge of accounting.

(2) Originals of domestic and overseas auditor's report carried with the seal of Certified Public Accountants, the signature and seal of certified public accountants.

(3) Originals of all documents and manuscripts of public notices disclosed on the newspapers designated by CSRC in the report period.

(4) Other relevant materials.

Board of Directors of

Konka Group Co., Ltd.

Apr. 26, 2006

Konka Group Co., Ltd.

(Incorporated in the People's Republic of China)

Report of the auditors and financial statements
for the year ended December 31, 2005

Konka Group Co., Ltd.

(Incorporated in the People's Republic of China)

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Report of the auditors to the members of

Konka Group Co., Ltd.

(Incorporated in the Peoples' Republic of China)

We have audited the accompanying balance sheet of Konka Group Co., Ltd. as of December 31, 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong : April 22, 2006

Konka Group Co., Ltd.

Consolidated income statement for the year ended December 31, 2005

	Note	2005 RMB'000	2004 RMB'000
Turnover	5	11,455,892	13,362,522
Cost of sales		(9,572,425)	(11,393,120)
Gross profit		1,883,467	1,969,402
Other revenue	6	39,210	75,252
Distribution costs		(1,419,200)	(1,471,606)
Administrative expenses		(445,364)	(391,716)
Operating profit		58,113	181,332
Finance costs		(12,353)	(7,033)
Share of loss from associates		(833)	(1,738)
Profit before taxation	7	44,927	172,561
Income tax	8	(11,514)	(11,593)
Profit for the year		33,413	160,968
Attributable to :			
Equity holders of the parent		19,552	142,549
Share of results of minority interests		13,861	18,419
		33,413	160,968
Profit per share to equity holders of the parent - basic		RMB0.032	RMB0.237

The calculation of the basic earnings per share is based on the current year's profit of RMB19,552,000 (2004 - RMB142,549,000) 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 December 31, 2005

	Note	2005 RMB'000	2004 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,332,475	1,358,969
Land use rights – non-current portion	10	27,059	27,689
Goodwill	11	989	989
Intangible assets	12	19,928	11,014
Interests in associates	13	44,284	35,159
Other investments	14	10,290	10,290
		1,435,025	1,444,110
Current assets			
Land use rights – current portion	10	630	630
Inventories	15	3,385,558	3,580,777
Properties held for sale	16	4,172	4,172
Account receivables	17	676,234	571,016
Prepayments, deposits and other receivables	18	231,918	199,251
Note receivables	19	2,759,689	2,933,652
Cash and bank balances		629,160	851,762
		7,687,361	8,141,260
Total assets		9,122,386	9,585,370

(to be cont'd)

Konka Group Co., Ltd.

Consolidated balance sheet as at December 31, 2005

(cont d)

	Note	2005 RMB 000	2004 RMB 000
Equity and liabilities			
Capital and reserves			
Share capital	20	601,986	601,986
Reserves		2,609,987	2,591,706
Equity attributable to equity holders of the parent		3,211,973	3,193,692
Minority interests		261,722	247,827
Total equity		3,473,695	3,441,519
Non-current liabilities			
Deferred income		10,493	13,490
Other long-term liabilities		20,179	10,499
		30,672	23,989
Current liabilities			
Tax payable		4,536	2,145
Account payables		1,430,260	1,271,053
Other payables and accrued expenses		813,038	821,192
Note payables		3,342,185	3,977,323
Short-term bank loans	21	28,000	48,149
		5,618,019	6,119,862
Total liabilities		5,648,691	6,143,851
Total equity and liabilities		9,122,386	9,585,370

The financial statements on pages 2 to 33 were approved and authorized for issued by the board of directors on April 22, 2006 and are signed on its behalf by :

Director **Director**

Konka Group Co., Ltd.
Consolidated statement of changes in equity for the year ended December 31, 2005

	Share capital RMB'000	Reserves: 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, 2004	601,986	1,820,452	1,133,044	(503,961)	-	(128)	2,449,407	3,051,393	237,966	3,289,359
Profit for the year of 2004	-	-	-	142,549	-	-	142,549	142,549	18,419	160,968
Increase in minority interests	-	-	-	-	-	-	-	-	5,002	5,002
Dividend paid to minority interests	-	-	-	-	-	-	-	-	(13,560)	(13,560)
Exchange difference from translation of foreign operations	-	-	-	-	-	(250)	(250)	(250)	-	(250)
As at December 31, 2004	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

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 December 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flow from operating activities		
Operating profit before taxation	44,927	172,561
Adjustment items :		
Interest income	(7,488)	(11,993)
Dividend income	-	(595)
Income from government grant	(2,997)	(2,997)
Short-term bank loan waived	-	(4,500)
Other payables waived	(1,207)	(473)
Interest expenses	4,456	7,227
Depreciation of property, plant and equipment	139,540	146,808
Loss on disposal of property, plant and equipment	1,815	1,978
Reversal for impairment loss on property, plant and equipment	(260)	-
Amortization of land use rights	630	630
Amortization of goodwill	-	322
Amortization of intangible assets	5,550	3,295
Profit on partial disposal of a subsidiary	-	(112)
Share of results from associates	833	1,738
Profit on disposal of an associate	-	(357)
Reversal for impairment loss on associates	(8,391)	-
Loss on disposal of other investments	-	364
Provision for inventory obsolescence	50,053	35,502
Inventories written off	27,040	-
Provision for doubtful debts on account receivables	18,271	18,165
Provision/(reversal) for doubtful debts on other receivables	2,148	(2,135)
Net operating cash inflow before movements in working capital	274,920	365,428
Exchange reserve movement	(1,271)	(250)
(Increase)/decrease in inventories	118,126	(446,198)
Increase in account receivables	(123,489)	(255,964)
Increase in prepayments, deposits and other receivables	(34,815)	(33,824)
Decrease in note receivables	173,963	232,796
Increase in account payables	159,207	38,342
Decrease in other payables and accrued expenses	(7,012)	(434,720)
Increase/(decrease) in note payables	(635,138)	193,501
Cash paid for operations	(75,509)	(340,889)
Interest paid	(4,391)	(7,227)
Corporate and profits tax paid	(9,123)	(19,167)
Net cash outflow from operating activities	(89,023)	(367,283)

(to be cont'd)

Konka Group Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2005

(cont'd)

	Note	2005 RMB'000	2004 RMB'000
Net cash outflow from operating activities		(89,023)	(367,283)
Investing activities			
Interest received		7,488	11,993
Dividend received		-	595
Purchases of property, plant and equipment		(120,738)	(158,948)
Proceeds from disposal of property, plant and equipment		6,137	22,249
Purchases of intangible assets		(14,464)	(7,285)
Decrease of investment in associates		2,400	-
Repayments to associates		(3,967)	(4,030)
Proceeds from disposal/return of other investments		-	1,136
Decrease in short-term investments		-	1,243
Net cash outflow from investing activities		(123,144)	(133,047)
Financing activities			
Finance lease obligations repaid		-	(1,875)
Bank loans raised/(repaid)	22	(20,149)	24,604
Other long-term liabilities raised	22	9,680	5,915
Increase/(decrease) in minority interests	22	34	(8,446)
Net cash inflow/(outflow) from financing activities		(10,435)	20,198
Decrease in cash and cash equivalents		(222,602)	(480,132)
Cash and cash equivalents as at beginning of year		851,762	1,331,894
Cash and cash equivalents as at end of year		629,160	851,762

Analysis of cash and cash equivalents

		2005 RMB'000	2004 RMB'000
Cash and bank balances		629,160	851,762

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 bsses. 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. The charge in 2004 was RMB322,000.

(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 December 31, 2005 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 December 31, 2005, the Company held the following subsidiaries :

Name of the company	Place of incorporation/ registration	Registration capital	Percentage of interest held Direct	Indirect	Principal activities
		'000	%	%	
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	HKD500	100	-	Trading of electronic products
Anhui Konka Electronic Co., Ltd.	PRC	RMB140,000	65	-	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	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 System Engineering Co., Ltd.	PRC	RMB15,000	60	-	Production of mould and 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 December 31, 2005, 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.

i) 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)

ii) 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

	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	9,566,275	1,693,656	195,961	-	11,455,892	9,526,590	3,573,713	262,219	-	13,362,522
Inter-segment sales	3,748,258	1,062	219,754	(3,969,074)	-	3,985,231	9,152	82,512	(4,076,895)	-
	13,314,533	1,694,718	415,715	(3,969,074)	11,455,892	13,511,821	3,582,865	344,731	(4,076,895)	13,362,522
Operating profit/(loss)	264,154	(193,178)	(27,422)	14,559	58,113	240,289	14,661	(17,479)	(56,139)	181,332
Finance costs					(12,353)					(7,033)
Share of loss from associates	(833)	-	-	-	(833)	(1,738)	-	-	-	(1,738)
Income tax					(11,514)					(11,593)
Minority interests					(13,861)					(18,419)
Profit to equity holders of the parent					19,552					142,549
Balance sheet										
Assets										
Segment assets	8,038,250	624,487	400,903	-	9,063,640	8,253,222	1,035,140	245,887	-	9,534,249
Interests in associates	44,284	-	-	-	44,284	35,159	-	-	-	35,159
Unallocated assets					14,462					15,962
					9,122,386					9,585,370
Liabilities										
Segment liabilities	4,791,401	640,679	168,432	-	5,600,512	5,116,502	883,707	84,993	-	6,085,202
Unallocated liabilities					48,179					58,649
					5,648,691					6,143,851

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 :

	2005 RMB'000	**2004 RMB'000**
Inside PRC	9,977,030	12,097,893
Outside PRC	1,478,862	1,264,629
	11,455,892	13,362,522

The following is an analysis of the carrying amount of segment assets and capital additions, analyzed by geographical area in which the assets are located :

	Carrying amount of segment assets		**Capital additions**	
	2005 RMB'000	**2004 RMB'000**	**2005 RMB'000**	**2004 RMB'000**
Inside PRC	8,711,578	9,293,739	135,086	166,102
Outside PRC	410,808	291,631	116	131
	9,122,386	9,585,370	135,202	166,233

6. Other revenue

	2005 RMB'000	**2004 RMB'000**
Dividend income	-	595
Income from government grant (*)	2,997	2,997
Profit on partial disposal of a subsidiary	-	112
Profit on disposal of an associate	-	357
Impairment loss on associates reversed	8,391	-
Loss on disposal of other investments	-	(364)
Income from raw material less cost	3,853	10,445
Income form scrap products less cost	10,714	8,123
Liabilities waived	1,207	4,973
Transfer from VAT of local-product-local-sale	-	188
Profit from joint venture on property development site at Fairview Park and Swan Castle	-	36,129
Profit from disposal of properties to staff	-	3,928
Other non-operating net incomes	12,048	7,769
	39,210	75,252

(*) 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

	2005 **RMB'000**	**2004** **RMB'000**
Profit before taxation has been arrived at :		
After charging :		
Auditors' remuneration	800	800
Directors' emoluments	-	-
Depreciation of property, plant and equipment	139,540	146,808
Amortization of land use rights	630	630
Loss on disposal of property, plant and equipment	1,815	1,978
Amortization of goodwill	-	322
Amortization of intangible assets	5,550	3,295
Loss on disposal of other investments	-	364
Provision for inventory obsolescence	50,053	35,502
Inventories written off	27,040	-
Provision for doubtful debts on account receivables	18,271	18,165
Provision for doubtful debts on other receivables	2,148	-
Interest expenses	4,456	7,227
Research and development expenditures	98,632	69,257
Rentals of land and buildings	16,838	32,949
Staff costs	257,038	275,908
And after crediting :		
Interest income	7,488	11,993
Dividend income	-	595
Reversal for impairment loss on property, plant and equipment	260	-
Profit on partial disposal of a subsidiary	-	112
Profit on disposal of an associate	-	357
Reversal for doubtful debts on other receivables	-	2,135
Short-term bank loan waived	-	4,500
Other payables waived	1,207	473

8. Income tax

	2005 RMB'000	2004 RMB'000
PRC corporate tax	8,167	9,098
Hong Kong profits tax	3,347	2,495
	11,514	11,593

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.

The reconciliation between tax expense and accounting profit at applicable tax rates is as follows :

	2005 RMB'000	2004 RMB'000
Profit before taxation	44,927	172,561
Tax at the applicable income tax rate of 15% (2004 - 15%)	6,739	25,884
Tax effect of :		
- disallowable expenses	266	328
- non-taxable revenue	(401)	(2,095)
- different tax rates in different regions	(2,654)	(2,911)
- recognized tax losses	(9,967)	(9,613)
- tax losses unrecognized	17,531	-
Actual tax expense at 25.63% (2004 - 6.72%)	11,514	11,593

No deferred tax asset is recognized as it is uncertain whether taxable profit will be available against which deductible temporary differences can be utilized in the near future. As at December 31, 2005, the net unprovided deferred tax asset was RMB105,954,000 (2004 - RMB70,434,000).

9. Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery & equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost/valuation							
As at January 1, 2004	815,920	22,230	617,387	531,032	67,013	113,883	2,167,465
Additions	2,920	658	39,457	73,187	13,132	29,594	158,948
Disposals	(13,037)	(17,100)	(18,393)	(27,531)	(14,134)	(1,719)	(91,914)
Reclassifications	58,852	-	-	18,373	-	(77,225)	-
As at December 31, 2004	864,655	5,788	638,451	595,061	66,011	64,533	2,234,499
Additions	12,073	749	48,369	46,840	4,518	8,189	120,738
Disposals	(516)	-	(14,055)	(16,951)	(11,100)	(1,123)	(43,745)
Reclassifications	19,213	-	20,151	-	-	(39,364)	-
As at December 31, 2005	895,425	6,537	692,916	624,950	59,429	32,235	2,311,492
Accumulated depreciation							
As at January 1, 2004	(128,969)	(19,265)	(291,396)	(309,114)	(47,665)	-	(796,409)
Additions	(21,510)	(1,131)	(50,124)	(64,229)	(9,814)	-	(146,808)
Disposals	5,271	17,100	13,932	17,857	13,527	-	67,687
As at December 31, 2004	(145,208)	(3,296)	(327,588)	(355,486)	(43,952)	-	(875,530)
Additions	(22,256)	(1,794)	(49,665)	(60,738)	(5,087)	-	(139,540)
Disposals	103	-	11,892	13,598	10,200	-	35,793
Reversal for impairment loss	-	-	254	-	6	-	260
As at December 31, 2005	(167,361)	(5,090)	(365,107)	(402,626)	(38,833)	-	(979,017)
Net book value							
As at December 31, 2005	728,064	1,447	327,809	222,324	20,596	32,235	1,332,475
As at December 31, 2004	719,447	2,492	310,863	239,575	22,059	64,533	1,358,969

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

	2005 RMB'000	2004 RMB'000
Cost		
As at beginning of the year	31,326	31,326
Reclassifications	8,094	-
As at end of the year	39,420	31,326
Accumulated amortization		
As at beginning of the year	(3,007)	(2,377)
Charged for the year	(630)	(630)
Reclassifications	(8,094)	-
As at end of the year	(11,731)	(3,007)
Net book value	27,689	28,319
Classified as current portion	(630)	(630)
Classified as non-current portion	27,059	27,689

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

	2005 RMB'000	2004 RMB'000
Cost		
As at beginning of the year and as at end of the year	3,217	3,217
Accumulated amortization		
As at beginning of the year	(2,228)	(1,906)
Charged for the year	-	(322)
As at end of the year	(2,228)	(2,228)
Net book value	989	989

12. Intangible assets

	Trademarks RMB'000	Technical know-how RMB'000	Total RMB'000
Cost			
As at January 1, 2004	1,534	16,872	18,406
Additions	28	7,257	7,285
Transfer to prepayments	-	(269)	(269)
As at December 31, 2004	1,562	23,860	25,422
Additions	47	14,417	14,464
As at December 31, 2005	1,609	38,277	39,886
Accumulated amortization			
As at January 1, 2004	(638)	(10,568)	(11,206)
Charged for the year 2004	(214)	(3,081)	(3,295)
Transfer to prepayments	-	93	93
As at December 31, 2004	(852)	(13,556)	(14,408)
Charged for the year 2005	(165)	(5,385)	(5,550)
As at December 31, 2005	(1,017)	(18,941)	(19,958)
Net book value			
As at December 31, 2005	592	19,336	19,928
As at December 31, 2004	710	10,304	11,014

13. Interests in associates

	2005 RMB'000	2004 RMB'000
Share of net assets	52,142	55,375
Impairment loss provision	(2,797)	(11,188)
Amounts due from associates	1,130	1,130
Amounts due to associates	(6,191)	(10,158)
	44,284	35,159

14. Other investments

	2005 RMB'000	2004 RMB'000
Unconsolidated subsidiaries, balances due	136,567	136,567
Impairment loss provision	(136,567)	(136,567)
	-	-
Unlisted shares, at cost	1,885	1,885
Impairment loss provision	(1,400)	(1,400)
	485	485
Listed share, at cost *	9,805	9,805
	10,290	10,290

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

15. Inventories

	2005 RMB'000	2004 RMB'000
Raw materials	1,416,730	1,551,927
Work-in-progress	198,685	113,212
Finished goods	1,996,287	2,091,729
	3,611,702	3,756,868
Provision for inventory obsolescence	(226,144)	(176,091)
	3,385,558	3,580,777

16. Properties held for sale

	2005 RMB'000	2004 RMB'000
King Yuan Building – cost b/f and cost c/f	4,172	4,172

17. Account receivables

	2005 RMB'000	2004 RMB'000
Amount receivables	814,306	690,817
Provision for doubtful debts	(138,072)	(119,801)
	676,234	571,016

As at December 31, 2005, the aging of amount receivables is analyzed as follows :

	2005 RMB'000	2004 RMB'000
Within one year	605,465	493,906
Over one year but within two years	20,970	13,328
Over two years but within three years	7,552	18,752
Over three years	180,319	164,831
	814,306	690,817

18. Prepayments, deposits and other receivables

	2005 RMB'000	2004 RMB'000
Advance payments	53,457	49,570
Prepayments	76,721	38,451
Other receivables	108,314	115,656
	238,492	203,677
Provision for doubtful debts	(6,574)	(4,426)
	231,918	199,251

19. Note receivables

	2005 RMB'000	2004 RMB'000
Bills receivable	135,862	127,634
Promissory notes issued by banks	2,594,001	2,806,018
Promissory notes issued by debtors	29,826	-
	2,759,689	2,933,652

20. Share capital

	2005 RMB'000	2004 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	224,199	224,199
"B" shares, listed and tradable	202,837	202,837
	427,036	427,036
Listed but temporarily not tradable	174,950	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

	Note	2005 RMB'000	2004 RMB'000
Bank loans, secured	9, 10	28,000	48,149

22. Analysis of financing

	Bank loans RMB'000	Other long-term liabilities RMB'000	Minority interests RMB'000
As at beginning of the year	48,149	10,499	247,827
Net cash inflow/(outflow) from financing	(20,149)	9,680	-
Increase in minority interests	-	-	12,900
Dividend paid to minority shareholders	-	-	(12,866)
Share of results of minority interests	-	-	13,861
As at end of the year	28,000	20,179	261,722

23. Commitments

As at December 31, 2005, the Group did not have any material commitments under non-cancellable operating leases and capital expenditures.

24. Contingent liabilities

At December 31, 2005, 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 December 31, 2005, the Group had certain material transactions with related parties with details as follows :

		2005 RMB'000	2004 RMB'000
Overseas Chinese Town Holdings Co.	Operating lease paid	335	357
Shenzhen Dekon Electronics Co., Ltd.	Purchase of merchandises	52,017	58,841
Shanghai Huali Packaging Co., Ltd.	Purchase of merchandises	56,144	57,226
Shenzhen Huali Packaging Co., Ltd.	Purchase of merchandises	27,615	49,071
	Proceeds from disposal of other investments	-	1,136

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	71,899	3,211,212
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	(57,272)	-
Government grant transfer from capital reserves as deferred income	-	(10,492)
Removal expenditures written-back	2,318	-
Government grant recognized as income	2,997	-
Transfer of welfare funds recognized as expense	(1,919)	-
Goodwill written-back	322	322
Other payables waived by subsidiaries 'creditors	1,207	-
As restated in conformity with IFRS	19,552	3,211,973

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.