

Konka Group Co., Ltd

1st Quarterly Report 2006

§ 1. Important Notes

1.1 The Board of Directors and the directors 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.

1.2 This Quarterly Report has 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.

1.3 The Financial Report of this quarter has not been audited.

1.4 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 Quarterly Report.

§ 2. Company Profile

2.1 Basic information

Stock abbreviation	G Konka A	Shen Konka B
Stock code	000016	200016
	Secretary of the Board	Securities Affairs Representative
Name	Mr. Xiao Qing	Mr. Xu Wenxiao
Contact address	Konka Group Co., Ltd, Overseas Chinese Town, Shenzhen, China	Konka Group Co., Ltd, Overseas Chinese Town, Shenzhen, China
Telephone	0755-26608866	0755-26608866
Fax	0755-26600082	0755-26600082
E-mail	szkonka@konka.com	szkonka@konka.com

2.2 Financial materials

2.2.1 Major accounting data and financial indicators

Unit: RMB

Item	At the end of the report period	At the end of the last year	Increase / decrease at the end of the report period compared with that at the end of the last year (%)
Total assets	8,514,032,036.17	9,120,452,267.93	-6.65%
Shareholders' equity (excluding minority interests)	3,235,371,896.13	3,211,212,304.03	0.75%
Net assets per share	5.374	5.334	0.75%
Net assets per share after adjustment	5.147	5.085	1.22%
Item	The report period	From the beginning of the year to the end of the report period	Increase / decrease of this report period year-on-year (%)
Net cash flows arising from operating activities	-51,215,200.25	-51,215,200.25	-139.07%
Earnings per share	0.0420	0.0420	Increase RMB0.0079
Return on equity	0.78%	0.78%	Increase Percent0.1427
Return on equity deducting non-recurring gains and losses	0.79%	0.79%	Increase Percent 0.1447 个百分点

Items of non-recurring gains and losses	Amount
Non-operating income	1,112,291.26
Non-operating expense	-1,490,994.65
Total	-378,703.39

2.2.2 Income Statement

Income Statement

Unit: RMB

Item	January – March 2006		January – March 2005	
	Consolidated amount	Company amount	Consolidated amount	Company amount
I. Income from main operations	3,187,047,800.61	2,632,198,866.43	3,174,017,824.28	2,574,068,277.22
Less: cost of main operations	2,674,840,044.20	2,246,078,635.25	2,705,675,964.00	2,193,193,393.90
Taxes and surcharges on main operations	207,124.46	9,097.48	249,454.27	37,423.02
II. Profit from main operations	512,000,631.95	386,111,133.70	468,092,406.01	380,837,460.30
Add: profit from other operations	8,258,014.03	2,931,963.00	6,638,096.63	1,023,430.83
Less: operating expense	360,037,123.80	279,067,115.26	363,705,022.45	242,158,246.08
Management expense	129,927,277.64	88,550,128.99	89,273,210.87	54,937,874.99
Financial expense	1,828,053.57	45,120.60	1,961,492.79	255,827.76
III. Operating profit	28,466,190.97	21,380,731.85	19,790,776.53	84,508,942.30
Add: investment yield				-63,780,502.14
Subsidy income				
Non-operating income	1,112,291.26	660,721.56	538,045.67	383,685.81
Less: non-operating expense	1,490,994.65	675,139.36	848,979.75	571,112.11
IV. Total profit	28,087,487.58	21,366,314.05	19,479,842.45	20,541,013.86
Less: income tax	3,038,432.52		823,865.56	
Minority interests	789,464.87		-1,865,702.52	
Losses of subsidiaries not made up	-1,031,894.67		-19,334.45	
V. Net profit	25,291,484.86	21,366,314.05	20,541,013.86	20,541,013.86

2.3 Total number of shareholders and shares held the top ten shareholders holding circulating shares with on restrictions on sales at the end of the report period (G-share company)

Total number of shareholders at the end of the report period	132,057, among them, 118,030 A-share shareholders and 14,027 B-share shareholders		
Shares held by the top ten shareholders holding circulating shares without restrictions on sales			
No.	Name of shareholder (full)	Number of circulating shares without restrictions on sales at the end of the period	Type (A, B, H shares or others)
1	HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	33,100,385	B share
2	BUILD UNITED LIMITED	20,079,900	B share
3	ABLEWELL INVESTMENTS LIMITED	14,100,000	B share
4	BANK OF CHINA – YIFANGDA SHENZHEN 100 TRADING OPEN INDICATOR SECURITIES INVESTMENT FUND	8,610,011	A share
5	THOMSON INVESTMENTS GROUP LIMITED	7,656,813	B share
6	NOMURA SECURITIES CO., LTD.	6,750,000	B share
7	MERRILL LYNCH PIERCE FENNER & SMITH INC	5,975,926	B share
8	NO. 1 SHANGHAI SECURITIES CO., LTD	3,904,880	B share
9	HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B	3,743,323	B share

	SHS FD		
10	ANHUI DEVELOPMENT & INVESTMENT CO., LTD	3,672,790	A share

§3. Discussion and analyses of the management team

3.1 General analyses on the overall operation in the report period

In the report period, the Company continued to practice the value operation strategy and strengthened the three projects, i.e. the quality project, excellent product project and creation project, etc; made continuous creations in various operation links, including the market, R&D, manufacture, sales and post-sale links, etc, so as to upgrade Konka brand with excellent products and services, consolidate and expand the Company's markets and incessantly improve the profitability and profit-making level. In the report period, the income from main operations totaled RMB3.187 billion, up by 0.41% year-on-year, the net profit totaled RMB25.29million, up by 23.13% year-on-year and the earnings per share was RMB 0.0420.

In the report period, the Company continued to increase resource investment in the Color TV operation, so as to consolidate its leading position in the HDTV and Flat-Panel TV areas and realize the high speed improvements in the sales structure and sales revenue; in the meantime, the Company had incessantly optimize the brand resource, tighten systematic management, improve operation efficiency, strengthen terminal construction, improve the reusability of the channels, and strengthen the R&D and promotion of products with high technological content and high added value. The Color TV operation of the Company had maintained steady growth momentum, and the sales revenue totaled RMB 2.758 billion, up by 4.53% year-on-year, and the domestic market share of the Company still took the leading position.

In the report period, to maximize the profit of the mobile phone operation, the Company had continued to increase the investment in the market segments that the Company had advantages and continuously manufacture new types of mobile phones. And the proportion of middle and high end cell phones had increased steadily. In the meantime, the Company strictly carried out the work of cutting expenses and improving efficiency, which had contributed to the continuous decrease of management expense and the large-margin increase of the gross profit ratio of each single cell phone. In the report period, the sales volume of the Company's cell phone operation had decreased by certain margin, and the sales revenue totaled RMB 0.428 billion, down by 11.66% year-on-year.

3.1.1 Main industries or products taking up over 10 percent of the income or the total profit from main operations

Applicable Inapplicable

Industries or products		Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)
Household electric appliances	Color TVs	275,832.67	231,731.02	15.99%
Communication	Mobile phone	42,872.11	35,752.99	16.61%

3.1.2 Seasonal or periodical characteristics of the operations of the Company

Applicable Inapplicable

3.1.3 Breakdown of profit in the report period (significant changes of the proportions of the total profit taken up by the profit from main operations, profit from other operations, period expenses, investment yield, subsidy income and net non-operating income or expense, and explanations on the reasons)

Unit: RMB

Item	January – March 2006		2005		Increase /decrease of the proportion of total profit taken up (+/-) (%)
	Amount	Proportion of total profit taken up (%)	Amount	Proportion of total profit taken up (%)	
Profit from main operations	512,000,631.95	1822.88%	1,883,466,317.97	4708.45%	-61.28%
Profit from other	8,258,014.03	29.40%	26,498,445.26	66.24%	-55.62%

operations					
Period expense	491,792,455.01	1750.93%	1,877,315,352.55	4693.07%	-62.69%
Investment yield	-	0.00%	7,236,702.20	18.09%	-100.00%
Net non-operating income and expense	-378,703.39	-1.35%	-2,693,260.75	-6.73%	-79.97%
Total profit	28,087,487.58	100.00%	40,001,831.16	100.00%	0.00%

Explanations: The sales revenue of the report period remained at the same level, but the comprehensive gross profit ratio had increased by a large margin and the period expense increased by a relatively small margin, which had contributed to the large-margin increase of total profit. The increase of the calculation base number had led to the decreases of proportions in total profit taken up by the profit from main operations, the profit from other operations and the period expenses;

3.1.4 Significant changes of the main operations and their structure compared with the last report period and explanations on reasons

Applicable Inapplicable

3.1.5 Material change of profitability of main operations (gross profit ratio) compared with the previous report period and explanation on reasons

Applicable Inapplicable

The gross profit ratio of mobile phones had climbed up a little compared with the case in 2005, mainly because the Company had continuously manufactured new types of mobile phones since the launching of the excellent product project. And the proportion of middle and high-end cell phones had increased steadily. In the meantime, the Company strictly carried out the work of cutting expenses and improving efficiency, which had contributed to the continuous decrease of management expense and the large-margin increase of the gross profit ratio of each single cell phone.

3.2 Analysis on and explanation of significant events and the influence and solutions

Applicable Inapplicable

Routine related transactions in the report period are as follows: Unit: RMB

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.

3.3 Particulars about accounting policy, accounting estimation, change of consolidated scope and significant accounting errors and explanation on reasons

Applicable Inapplicable

3.4 Relevant explanation of the Board of Directors and the Supervisory Committee under the situation of being audited and issued "Qualified Opinion"

Applicable Inapplicable

3.5 Estimation of accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation of reason

Applicable Inapplicable

3.6 Rolling adjustment of annual business plan or budget ever disclosed

Applicable Inapplicable

3.7 Special commitment made by original shareholders of nontradable share in course of share merger reform and its implementation

Applicable Inapplicable

Name of shareholder	Special commitments	Implementation of commitments
Overseas Chinese Town Group Corporation	(1) They had promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights at the A-share market. (2) After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by each shareholder of non-circulating shares through listing at the Stock Exchange would not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months.	Up to now, no shares with restrictions on sales have been traded or transferred.
Anhui Tianda Enterprise (Group) Co., Ltd		
Thomson Investment Group Corporation		

Konka Group Co., Ltd
Board of Directors
 Apr. 25, 2006

KONKA GROUP CO., LTD.
For the period ended Mar. 31, 2006
Financial Report (for B shares)
(Un-audited)

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

As of March 31, 2006

	Mar. 31, 2006	Dec. 31, 2005
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,302,049	1,332,475
Land use rights - non-current portion	27,689	27,059
Goodwill	989	989
Intangible assets	18,303	19,928
Interests in associates	79,111	44,284
Other investments	17,290	10,290
	1,445,431	1,435,025
Current assets		
Land use rights - current portion	0	630
Inventories	2,954,105	3,385,558
Properties held for sale	4,172	4,172
Account receivables	600,179	676,234
Prepayments, deposits and other receivables	224,549	231,918
Note receivables	2,763,627	2,759,689
Cash and bank balances	550,925	629,160
	7,097,557	7,687,361
Total assets	8,542,988	9,122,386
Current liabilities		
Tax Payable	(14,365)	(4,536)
Account payables	(1,045,043)	(1,430,260)
Other payables and accrued expenses	(846,900)	(813,038)
Note payables	(3,071,965)	(3,342,185)
Short-term bank loans	(28,000)	(28,000)
	(5,006,273)	(5,618,019)
Net current assets	2,091,284	2,069,342
Total assets less current liabilities	3,536,715	3,504,367

Chairman of the Board:Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

Consolidated Balance Sheet (Con.)

	As of March 31, 2006	
	Mar. 31, 2006	Dec. 31, 2005
	RMB'000	RMB'000
Total assets less current liabilities	3,536,715	3,504,367
Long-term account receivables of financing lease		
Deferred income	(9,743)	(10,493)
Other long-term liabilities	(21,464)	(20,179)
	<u>(31,207)</u>	<u>(30,672)</u>
Minority interests	(268,626)	(261,722)
	<u>3,236,882</u>	<u>3,211,973</u>
Shareholders' equity		
Share capital	601,986	601,986
Reserves	2,634,896	2,609,987
Shareholders' equity	<u>3,236,882</u>	<u>3,211,973</u>

(The accompanying notes are an integral part of these consolidated financial statements , Financial consolidated statement has been approved by the Board of Directors dated Aug.25,2006)

Chairman of the Board;Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

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

For the period from January to March, 2006

	Jan.–Mar. 2006	Jan.– Mar.2005
	RMB'000	RMB'000
Turnover	3,187,048	3,174,018
Cost of sales	(2,675,047)	(2,705,676)
Gross profit	512,001	468,342
Other revenue	8,629	6,327
Distribution costs	(360,037)	(363,705)
Administrative expenses	(129,928)	(89,273)
Other operating expenses	0	(250)
Profit from operating activities	30,665	21,441
Finance costs	(1,828)	(1,961)
Share of profit of associated companies	0	0
		0
Profit before taxation	28,837	19,480
Taxation	(3,038)	(824)
Profit before minority interests	25,799	18,656
Share of profit of minority interests	(790)	1,885
Net profit in the interim period of 2004	25,009	20,541
	-----	-----
Retained profit at the year-beginning	25,988	(361,412)
Profit attributable to shareholders	50,997	(340,871)
Profit distribution:		-
Transferring into reserves		-
Dividends		-
Issue of bonus shares		-
Retained profit at end of the interim period	50,997	(340,871)
	=====	=====
Earnings/(loss) per share - basic	RMB 0.042	RMB 0.034
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Chairman of the Board:Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

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

For the period from January to March, 2006

	Jan.- Mar. 2006	Jan.- Mar. 2005
	RMB'000	RMB'000
Cash flow from operating activities		
Operating profit	25,009	20,541
Adjustment items:		
Depreciation of fixed assets	34,210	32,813
Amortization of intangible assets	1,939	1,283
Amortization of deferred expenditure	3,423	4,984
Loss on rejection or sale of fixed assets	214	262
Loss on disposal of properties held for sale	0	0
Interests income	1,251	1,961
Balance difference from foreign currency exchange	(139)	(279)
(Increase)/decrease in account receivables	153,927	(191,771)
(Increase)/decrease in inventories	431,453	690,375
Decrease in account payables	(705,679)	(430,194)
Income tax paid	3,038	824
	(51,354)	130,799
Investing reward and financing expenses		
Interests received	0	440
Interests paid	(8,274)	(619)
Dividend paid	0	0
	(8,274)	(179)
Investing activities		
Purchases of fixed assets	(11,876)	(26,821)
Proceeds from disposal of fixed assets	269	96
Deferred expenses paid	0	0
Net cash inflow/ (expenditure) from acquisition of associates	0	2,400
Investment in associated company	0	0
Purchases of long-term investment	(7,000)	0
Net cash outflow from investing activities	(18,607)	(24,325)
Net cash outflow before financing activities	(78,235)	106,295

Chairman of the Board:Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

Consolidated Cash Flows Statement (Con.)

For the period from January to March, 2006

	Jan.- Mar. 2005	Jan.- Mar. 2005
	RMB'000	RMB'000
Financing activities		
Additional bank loans	0	5,082
Repayment for bank loans	0	(13,656)
Expenditure of financing lease	0	0
Contribution from minority shareholders on formation of new subsidiary	0	0
Dividend paid to minority shareholders	0	0
Net cash inflow from financing activities	0	(8,574)
Cash and cash equivalents at beginning of the period	629,160	851,762
Cash and cash equivalents at end of the period	550,925	949,483
Net increase/(decrease) in cash and cash equivalents	(78,235)	97,721
Analysis of balances of cash and cash equivalents		
Monetary funds	550,925	949,483
	(78,235)	97,721

Chairman of the Board:Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong