

KONKA GROUP CO., LTD.
INTERIM REPORT 2007

KONKA GROUP CO., LTD.
CHAIRMAN OF THE BOARD: HOU SONG RONG
AUGUST 24, 2007

KONKA GROUP CO., LTD.

INTERIM REPORT 2007

Important Notice

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

This Interim Report has been examined and approved by the 2nd meeting of the 6th Board of Directors of the Company.

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

After careful examination, the 2nd meeting of the 6th Supervisory Committee believes that the Interim Report 2007 and its Summary have faithfully, accurately and completely reflected the financial status, business achievement, corporate administration and business development of the Company in the interim of 2007.

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

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

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I. Company Profile

(I) Basic information

1. Legal Name of the Company in Chinese: 康佳集团股份有限公司
Abbreviation in Chinese: 康佳集团
Legal Name of the Company in English: KONKA GROUP CO., LTD.
Abbreviation in English: KONKA GROUP
2. Legal Representative: Chairman of the Board, Mr. Hou Songrong
3. Secretary of Board of Directors: Mr. Xiao Qing
Securities Affairs Representative: Mr. Wu Yongjun
Contact Address: Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen, P. R.C.
Tel.: 0755-26608866
Fax: 0755-26601139
E-mail: szkonka@konka.com
4. Registered (Office) Address: Overseas Chinese Town, Nanshan District, Shenzhen
Post Code: 518053
Internet Website: <http://www.konka.com>
E-mail: szkonka@konka.com
5. Newspaper Chosen for Disclosing the Information of the Company:
Securities Times and etc.
Internet Website Designated by CSRC for Publishing the Interim Report:
<http://www.cninfo.com.cn>
The Place Where the Interim Report is Prepared and Placed:
Secretariat of the Board of Directors of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock: Shen Konka A, Shen Konka B
Stock Code: 000016, 200016
7. Date of the Initial Registration: Oct. 1, 1980
Place of the Initial Registration: Shenzhen City
8. Registration Code of Enterprise Legal Person's Business License: QGYSZ Zi No. 100476
9. Registration Code of Tax: 440301618815578
10. Certified Public Accountants Engaged by the Company:
Name: Shenzhen Dahua Tiancheng Certified Public Accountants
Address: Room 1102-1103, 11/F, Tower B, United Plaza, No. 5022, Binhai Av., Futian District, Shenzhen

(II) Accounting data and business data

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

Items	At the end of report period	At the end of last year		Increase/decrease (%)	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Total assets	8,064,742,117.72	9,952,185,214.15	10,019,526,991.31	-18.97	-19.51
Owners' equity (Shareholders' equity)	3,346,979,346.72	3,301,759,715.43	3,369,057,575.42	1.37	-0.66
Net assets per share	5.560	5.485	5.597	1.37	-0.66
Item	In the report period (Jan. – Jun.)	The same period of last year		Increase/decrease (%)	
Operating profit	45,480,204.76	42,085,175.74	41,594,957.70	8.07	9.34
Total amount of profit	47,182,156.02	40,287,894.42	40,556,459.45	17.11	16.34
Net profit	42,473,932.57	33,367,874.20	29,724,979.18	27.29	42.89
Net profit after deducting non-recurring gains and losses	40,727,914.33	35,165,155.52	30,655,454.26	15.82	32.86
Basic earnings per share	0.0706	0.0554	0.0494	27.44	42.91
Diluted earnings per share	0.0706	0.0554	0.0494	27.44	42.91
Return on equity	1.27%	1.03%	0.88%	Up by 0.24 percentage point	Up by 0.39 percentage point
Net cash amount arising from operating activities	157,640,706.13	235,545,874.82		-33.07	
Net cash amount per share arising from operating activities	0.2619	0.3913		-33.07	

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

Items of non-recurring gains and losses	Amount
Income from equity investment transfer	557,204.91
Non-operating income	5,306,358.57
Non-operating expense	-4,177,679.36
Amount excluding influence of minority interests	60,134.12
Total	1,746,018.24

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

	Net assets	Net profit
According to IAS	3,413,009,362.39	43,972,682.57
1. Adjustment to capital reserves before taxation	6,978,000.00	
2. Adjustment to surplus reserves before taxation	-17,909,000.00	
3. Government subsidies transferred into capital reserves from deferred income	5,996,250.00	
4. Part of government subsidies classified as income		-1,498,750.00
5. Goodwill written back	-896,630.47	
6. Retained profit transferred to shareholders' equity	-60,198,635.20	
According to Business Accounting System	3,346,979,346.72	42,473,932.57

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

1. During the report period, the Company's total shares and structure of shares remained unchanged compared with that at the end of the last year.

2. Time to list and traded in the market for shares subject to moratorium

Time	Newly increased shares which could be listed and traded in the trading moratorium	Balance of shares subject to moratorium	Balance of shares not subject to moratorium	Explanations
Mar.30, 2008	79,907,734	38,992,336	562,994,016	
Mar.30, 2009	37,379,327	1,613,009	600,373,543	
Mar.30, 2010	1,613,009	0	601,986,352	

3. Particulars about shares held by top ten shareholders and top ten tradable shareholders at the end of report period:

Number of shares held by top ten shareholders subject to moratorium and the moratorium

Unit: share

Number	Name of shareholders subject to moratorium	Number of shares held subject to moratorium	Time to be listed and traded	Newly increased shares to be listed and traded	Moratorium
1	Overseas Chinese Town Group Company	52,392,592	2008-3-30	-	Notes
2	Anhui Tianda Enterprise Group Co., Ltd.	43,546,563	2008-3-30	-	
3	Thomson Investments Group Limited	22,960,915	2008-3-30	-	

Notes: The original shareholder of the Company, Overseas Chinese Town Group Company, Anhui Tianda Enterprise Group Co., Ltd. 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 in A share market. After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number

within 12 months, and not exceed 10 percent within 24 months.

4. Particulars about shares held by top ten shareholders and top ten shareholders not subject to moratorium

Unit: share

Total number of shareholders							92,852
Particulars about shares held by top ten shareholders							
Name of shareholder	Nature of shares	Shareholding proportion (%)	Total shares held	Particulars about change of shares in the report period	Number of shares held subject to moratorium	Number of shares pledged and frozen	
Overseas Chinese Town Group Company	State-owned legal person	8.70	52,392,592	0	52,392,592	0	
Anhui Enterprise Group Co., Ltd.	Domestic non-state-owned Legal person	7.23	43,546,563	0	43,546,563	0	
GAO-LING FUND,L.P.	Overseas legal person	4.77	28,724,813	+28,724,813	0	Unknown	
THOMSON INVESTMENTS GROUP LIMITED	Overseas Legal Person	3.81	22,960,915	0	22,960,915	0	
GSI S/A GOLDEN CHINA MASTER FUND	Overseas legal person	1.90	11,426,396	+11,426,396	0	Unknown	
MORGAN STANLEY & CO. INTERNATIONAL PLC	Overseas legal person	1.75	10,514,814	+10,514,814	0	Unknown	
Taihe Securities Investment Fund	Domestic non-state-owned Legal person	1.50	9,014,548	+9,014,548	0	Unknown	
Fenghe Value Securities Investment Fund	Domestic non-state-owned Legal person	1.43	8,620,318	+8,620,318	0	Unknown	
Bank of China-Harvest Growth Income Securities Fund	Domestic non-state-owned Legal person	1.25	7,543,194	+7,543,194	0	Unknown	
GLHH FUND II, L.P.	Overseas legal person	1.17	7,024,860	+7,024,860	0	Unknown	
Particulars about changes of shares held by top ten shareholders not subject to moratorium							
Name of shareholder	Number of shares held not subject to moratorium		Nature of shares				
GAO-LING FUND,L.P.	28,724,813		tradable B shares				
GSI S/A GOLDEN CHINA MASTER FUND	11,426,396		tradable B shares				
MORGAN STANLEY& CO. INTERNATIONAL PLC	10,514,814		tradable B shares				
Taihe Securities Investment Fund	9,014,548		tradable A shares				

Fenghe Value Securities Investment Fund	8,620,318	tradable A shares
Bank of China-Harvest Growth Income Securities Fund	7,543,194	tradable A shares
GLHH FUND II, L.P.	7,024,860	tradable B shares
China Industrial and Commercial Bank-Harvest Strategic Growth Mixed Type Fund	6,896,161	tradable A shares
NOMURA SECURITIES CO.LTD	6,750,000	tradable B shares
YALE UNIVERSITY	6,429,270	tradable B shares
Explanation on associated relationship among the top ten shareholders or acting-in-concert	The principal shareholder Overseas Chinese Town Group Company neither has any related relationship with other shareholders, nor has joined in any consistent actions; there existed related relationships between GAO-LING FUND,L.P. and GLHH FUND II, L.P. and they belonged to action-in-concert. It is not known whether the other shareholders have joined in any consistent action or have related relationships among them.	

Notes: In the process of share merger reform of the Company, the original principal shareholder Overseas Chinese Town Group Company has paid 35% of consideration for Anhui Tianda Enterprise Group Co., Ltd and Thomson Investments Group Limited, and Anhui Tianda Enterprise Group Co., Ltd and Thomson Investment Group Limited should repay this part of consideration to Overseas Chinese Town Group Company before their applications for the circulation of the A shares of Konka Group they hold, the A shares of the Company that Overseas Chinese Town Group Company, Anhui Tianda Enterprise Group Co., Ltd. and Thomson Investment Group Limited actually may apply for circulation amount to 10.27%, 6.21% and 3.27% respectively.

5. Particulars shareholders holding more than 5% equity

Name	Type of shares held	Nature of enterprise	Legal representative	Date of foundation	Registered capital (RMB'0000)	Core businesses
OVERSEAS CHINESE TOWN GROUP COMPANY	Domestic legal person shares	Wholly State-funded company	Ren Kelei	November 1985	RMB 200,000	Development and operation of real estate and hotels; operation of tourism and relevant cultural industries; manufacture of electronics and supporting packing products.
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	Domestic ordinary legal person shares	Private enterprise	Yong Jingui	August 2000	RMB 23,372.55	Plastic products, plastic machines, air-conditioner parts and optical fiber communication instruments, etc.

6. The principal shareholders of the Company remained unchanged during the report period.

III. Particulars about Directors, Supervisors and Senior Executives

1. In the report period, shares held by directors, supervisors and senior executives of the Company remained unchanged.

In the report period, directors, supervisors and senior executives of the Company neither hold stock option of the Company nor be authorized restricted shares.

2. Particulars about change of directors, supervisors and senior executives of the Company in the report period

2.1. Members of the Board of Directors and the Supervisory Committee were remained unchanged during the report period.

2.2. In the report period, General Vice President of the Company, Mr. Zeng Hui left and did not assume the position of General Vice President. Except for that, the Company did not change other senior executives.

IV. Report of the Board of Directors

(I). Overall operation in the report period

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

The Company stressed two kinds of consciousness on the basis of further propelling value operation concept in the report period: one is profit-oriented consciousness and the other is reform consciousness. Combining with actual situation, the Company actualized the strategy, guided the work and reinforced the implementation with concept of value operation, profit-oriented and reform consciousness so as to assure steady development of all business and keep relatively leading status and healthy development.

In the report period, the sales revenue of the Company amounted to RMB 5.614 billion, up by 0.76% year-on-year; the net profit totaled RMB 42.4739 million, up by 42.89% year-on-year; and the earnings per share was RMB 0.0706, up by 42.91% year-on-year.

(II). Analysis on financial indexes

Unit: RMB

Item	Jan.- Jun. 2007	Jan.- Jun. 2006	Increase/decrease (%)
Operating income	5,614,106,475.21	5,571,631,604.12	0.76%
Operating cost	4,607,069,074.69	4,585,808,959.86	0.46%
Administrative expenses	200,527,060.77	183,050,849.86	9.55%
Operating expenses	742,726,059.82	709,405,855.69	4.70%
Financial expenses	15,049,905.76	5,945,774.79	153.12%
Operating profit	45,480,204.76	41,594,957.70	9.34%
Net profit	42,473,932.57	29,724,979.18	42.89%
Net increase of cash and cash equivalent	81,547,917.70	170,807,498.61	-52.26%
Item	Jun.30, 2007	Dec.31, 2006	Increase/decrease (%)
Total assets	8,064,742,117.72	10,019,526,991.31	-19.51%
Shareholders' equity	3,346,979,346.72	3,369,057,575.42	-0.66%
Accounts receivable	619,742,673.01	951,277,319.91	-34.85%
Fixed assets	1,252,014,959.61	1,272,286,035.59	-1.59%

Retained profit	108,150,743.63	65,676,811.06	64.67%
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Explanation and analysis on the main changed items:

1. Due to a large increase of discount interest of bills and exchange loss, the financial expenses in this report period increased by 153.12% compared with last year;
2. Since the Company strived to control cost and expenses, and gross profit ratio in the cell phone industry has rebounded, the net profit made during the report period has increased by 42.89% than the same period of last year;
3. Due to the decrease of accounts receivable from domestic household appliances sales market, accounts receivable decreased by 34.85% in this period.
4. Since the Company invested fairly more in fixed assets in this report period, the net increase of cash and cash equivalent decreased by 52.26% over the same period of last year;
5. Since the net profit of the report period amounted to RMB 42,473,932.57, the retained profit has increased by 64.67% than the beginning of the year.

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

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

Industries	Products	Income from core business (RMB)	Cost of core business (RMB)	Gross profit ratio (%)	Comparison with that of the same period of last year		
					Increase/decrease of income (%)	Increase/decrease of cost (%)	Increase/decrease of gross profit ratio (%)
Electronics manufacture	Color TV	4,316,611,943.61	3,491,830,165.09	19.11	-1.61	-2.11	0.42
Communication	Mobile phones	816,102,084.62	665,615,842.27	18.44	-3.01	-4.58	1.34
Others		481,392,446.98	449,623,067.33	6.60	40.33	40.08	0.17

Notes: there was no related transaction.

2. Main operations classified according to regions Unit: RMB

Regions	January – June 2007	Increase or decrease year-on-year (%)
Mainland China	4,564,857,100.41	15.45
Hong Kong and overseas regions	1,049,249,374.80	-35.14
Consolidation of the Group	5,614,106,475.21	0.76

Note: there is no related transaction.

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

profit of the Company

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

(V). Problems, difficulties in operation and project for solutions

1. Fierce competition in flat panel TV

Faced with competition in flat panel TV, the Company accelerated innovation project on the foundation of grasping masterpiece project, perform precise layout of production line, definition of products and project on promotion; and achieve efficient control on cost and expenses.

2. Severe competition in mobile phone business

The Company performed reform on marketing and products, organized effectively in accordance with requirement of rhythm and speed strategy and seized the initiative in market competition.

3. Urgent need for establishment of new competition edge for the LC rapidly substitute color picture tube TV.

The Company accelerated construction in TV production base, mainly for production lines of flat panel, digital and 16:9 high-end TV. Meanwhile, the Company elevated the grade of products comprehensively, perfected system process construction, improved operation efficiency and market feedback for TV business continuously.

(VI). Particulars about investment

1. In the report period, the Company neither raised fund nor had significant investment in the report period.

2. Particulars about significant project invested with non-raised fund.

In the report period, the Company did not invest significant project with non-raised fund.

V. Significant Events

(I) The Company's administration

In the report period, the Company has steadily improved its corporate management structure, set and improved relevant systems and regulations to standardize its operation, and strengthened the information disclosure work in accordance with the requirements of the Company Law, Securities Law and other regulations and laws set by the CSRC. And the implementation of all the resolutions made at the Shareholders' General Meeting and Board of Directors has been carried out strictly.

In the report period, the Company performed self-inspection on administration in accordance with Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the

Corporate Governance of Listed Companies (ZJGS Zi [2007] No. 28) issued by CSRC, Notice on Carrying out a Special Campaign to Strengthen Corporate Governance of Listed Companies in Shenzhen District issued by Shenzhen Securities Regulatory Bureau (SZJGS Zi[2007] No. 14) and Notice on Carrying out a Special Campaign to Strengthen Corporate Governance of Listed Companies issued by Shenzhen Stock Exchange. The result indicated that, the Company existed problems to improve i.e. the Special Committee for Board of Directors was not established yet, the minute of Shareholders' General Meeting was not integrated, meeting of the Supervisory Committee was not standard and divulgence of non-public information to principal shareholders.

Focused on the foresaid problems, the Company adopted following reform measures: (1). The Company modified Implementing Rules on Special Committee for Board of Directors and set up four special committees; (2). The Company prepared minutes strictly in accordance with relevant requirement and assure its integration since the Shareholders' General Meeting 2006; (3) The Company convened and held meetings the Supervisory Committee strictly in accordance with relevant requirement since the 13th meeting of the 5th Supervisory Committee so that the Supervisory Committee operated independently, made minutes and kept their integration; (4) From now on, if the Company provide non-public information to principal shareholders, it shall perform relevant obligation in accordance with document of Notice on Enhancing Supervisory of Providing Non-public Information to Principal Shareholder and Actual Controller by Listed Company.(SZJGS Zi (2007) No. 11)

(II). Particulars about profit distribution, capitalization and issuance

Examined by Shareholders' General Meeting 2006, profit distribution preplan 2006 were as follows:

1. Appropriating 10% of the net profit as statutory surplus reserve amounting to RMB 9,188,859.69;
2. Appropriating 20% of the net profit as arbitrary surplus reserve amounting to RMB 18,377,719.39;
3. Net profit after appropriating statutory surplus reserve and arbitrary surplus reserve as the retained profit for the year 2006, adding the retained profit of RMB 62,071,568.66 in the last year, as the total profit available for distribution to the shareholders.

Dividend plan: based on the total share capital of the Company for the end of 2006 amounting to 601,986,352 shares, distributing cash dividends at the rate of RMB 1.00 (tax included) for every 10 shares, which total dividends amounts to RMB 60,198,635.2. After the distribution, the rest profit of RMB 75,948,131.74 will be distributed in the next year.

The profit distribution preplan was actualized and the record date for A shares was Jul. 31, 2007, Ex-dividend date was Aug. 1, 2007; The last trading day for B shares was Jul. 31, 2007,

Ex-dividend date was Aug. 1, 2007 and the record date was Aug.3, 2007.

(III). Material lawsuits and arbitration

In the report period, the Company had no material lawsuits and arbitration.

(IV). Other significant events, its influences and analysis and explanation on solution projects

4.1. Securities investment

Number	Variety of securities	Stock code	Short form of stock	Amount of initial investment (Unit: RMB)	Number of shares held	Book value at the end of period	Proportion in total securities investment at the end of period	Gains and losses in the report period (Note)
1	A share	600891	ST CHURIN	9,000,000	9,350,000	9,000,000	93.10%	29,160,000
2	A share	600898	Sanlian Commerce	344,760	111,540	344,760	3.57%	1,317,287.4
3	A share	601919	China COSCO	322,240	38,000	322,240	3.33%	371,640
Other securities investment held at the end of period				0	0	0	0	0
Gains and losses of sold securities investment at the end of report period				0	0	0	0	0
Total				9,667,000.00	-	9,667,000.00	100.00%	30,848,927.4

Notes: The Company measured securities investment in cost method and not calculate its gains and losses into profit in the report period. The foresaid gains and losses in the report period solely indicated that gains and losses of the three shares, ST CHURIN, Sanlian Commerce and China COSCO were not calculated into profit in the report period.

4.2. In the report period, the Company neither participated in commercial enterprises such as commercial banks, securities companies, insurance companies, trust companies and futures companies nor joined stocks in companies to be listed.

(V). Material purchase, sale and reorganization of assets

5.1 The Company had no important purchase, sales or reorganization of assets in the report period.

5.2 The Company had no transfer of assets property and transfer of credit and debt referred in purchase, sales or reorganization of assets in the report period.

(VI). Material related transactions

1. Transactions with the controlling shareholder and its subsidiaries

During the upper half year of 2007, the Company had some small-amount related transactions with the subsidiaries of the controlling shareholder Overseas Chinese Town Group Company, including charges for property management, water and power, etc, all of which were fair transactions and conducted according to normal market prices. These transactions have not done harm to the interests of the Company or other shareholders of the Company. For details, please refer to “(5) Transactions with related companies” and “(6) Current with related companies” in the “Note 6 to the accounting statement” in the financial report.

2. Implementation of the related transactions concerning regular operation

Unit: RMB

Type of related transaction	Further classification according to product or labor service	Related person	Amount implemented in the upper half year		Proportion taking up the same kind of transactions
Purchase of raw materials	Raw materials of packing	Shanghai Huali Packaging Co., Ltd	7,299,825.43	55,491,819.61	0.16%
		Shenzhen Huali Packing & Trading Co., Ltd	14,169,567.79		0.31%
		Mudanjiang Huali Packing Co., Ltd	5,106,127.99		0.11%
		Anhui Huali Package Co., Ltd.	24,031,358.43		0.53%
		Shenzhen Huayou Package Co., Ltd.	4,884,939.97		0.11%

The Company published the Notice on the Estimation of Regular Related Transactions (Notice No.: 2007-05) in Securities Times, Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao dated Apr. 19, 2007 and the Internet website <http://www.cninfo.com.cn> designated by the CSRC. The pricing terms, transaction prices, transaction amount and settling methods of the raw material purchases from the aforesaid three related parties were basically in compliance with the estimation.

3. The Company had no other related transactions in the report period.

(VII) Material contracts and their implementations

1. In the report period, the Company had never kept as custodian, contracted or leased any

other company's assets and vice versa.

2. In the report period, the Company had never entrusted financing.

(VIII) Commitments of the shareholders

The special commitments made by the original non-tradable shareholders in the process of share merger reform and the implementation were as follows:

Name of shareholder	Special commitments	Implementation of the commitments
OVERSEAS CHINESE TOWN GROUP COMPANY	(1) These three companies have promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights in A share market.	Up to now, no restricted shares have been listed, traded or transferred.
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	(2) After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by each company through listing at	
THOMSON INVESTMENTS GROUP LIMITED	the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months.	

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

VIII. Particulars about investigation and interview of the Company in the report period

In the report period, the Company warmly received calls and visits and investigations of investors and answered their questions. In the reception process, the Company supplied the public information, introduced actual production and operation objectively, truthfully, accurately and completely and did not divulge non-public significant information strictly in accordance with Guidelines on Fair Information Disclosure of Companies Listed on the Shenzhen Stock Exchange, Konka Group Co., Ltd. Administrative System on Information Disclosure and Konka Group Co., Ltd. Administrative System on Investors' Relations. In the report period, investigation and interview of the Company were as follows:

Reception time	Reception place	Reception Way	Reception Object	Discussion content and materials provided by the Company
Jan. 2007	Meeting room of the Company	Field research	Guotai Junan Securities Co., Ltd.	Status quo of production and operation, products structure and R&D of new products.

Jan. 2007	Meeting room of the Company	Field research	SINOLINK Securities Co., Ltd.	Company profile and industry status
Feb. 2007	Meeting room of the Company	Field research	Hillhouse Capital Management Co., Ltd.	Core competitive power, developing strategy, Foresight of new products and schedule of relevant work
Apr. 2007	Meeting room of the Company	Field research	Guotai Junan Securities Co., Ltd.	Developing trend of industry and industry status of the Company
Apr. 2007	Meeting room of the Company	Field research	China Galaxy Securities Co., Ltd.	Policies and regulations of this industry, particulars about subsidiaries and developing strategy of the Company
May 2007	Meeting room of the Company	Field research	Harvest Fund Management Co., Ltd.	Developing strategy in future company; Status quo, developing trend and developing frame of color TV and mobile phone industry; Particulars about internal management, including management on purchase, accounts receivable and inventories; Particulars about company administration
Jun. 2007	Meeting room of the Company	Field research	CITIC Securities Co., Ltd.	Core competitive power, developing strategy, foresight of new products and schedule on relevant work

(VIII). Other significant events

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

(IX) Indexes of information disclosure

1. Public Notice on Resolution of 20th Meeting of the 5th Board of Directors. No. 2007-01, published time: Jan. 26, 2007, notice events: the Board of Directors agreed the Company apply for comprehensive line for credit authorization RMB 3.5 billion in Bank of China and provide assets as guarantee.
2. Public Notice on Forecast of Regular Related Transaction, No. 2007-05, published time: Apr. 19, 2007.

3. Public Notice on Setting up Special Line and E-mail for Special Campaign of Company Administration, No. 2007-07, published time: Apr. 28, 2007.

The above public notices were published in Securities Times, Shanghai Securities News, China Securities Journal, and Hong Kong Ta Kung Pao as well as on the website of CNINFO, namely www.cninfo.com.cn.

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

1. By Jun. 30, 2007, capital current of related parties (Unit: RMB)

Name of related parties	Relationship with the listed company	Item in the accounting statement	Balance at the period beginning	Debit	Credit	Balance at the period end	Way of occupation	Way of repayment	Irregular capital occupation prohibited in the No. 56 Document or not
Shenzhen Konka Energy Technology Co., Ltd	Subsidiary of the principal shareholder	Accounts receivable	1,130,000.00	—	—	1,130,000.00	Current funds	Monetary capital	No
Shenzhen OCT Group Company	The principal shareholder	Other receivables	—	2,160,000.00		2,160,000.00			
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of the principal shareholder	Other receivables	1,271,836.74	0.00	150,386.88	1,121,449.86	Boarding rent and deposit	Settlement of boarding rent	No
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the principal shareholder	Other receivables	76,876.00	526.65		77,402.65	Deposit for property management	Settlement of property management charges	No
Shenzhen OCT Water and Power Company	Subsidiary of the principal shareholder	Other receivables	2,241,192.11	652,958.81		2,894,150.92	Prepayment of Water and power charges	Settlement of water and power charges	No
Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd.	Subsidiary of the principal shareholder	Other receivables	100,000.00			100,000.00			
Indonesia Konka Trade Co., Ltd	Shareholding subsidiary	Accounts receivable	25,391,619.71	—	—	25,391,619.71	Payment for goods	—	No
Total	—	—	30,211,524.56	2,813,485.46	150,386.88	32,874,623.14	—	—	—

2. Guarantees

In the report period, to further reduce purchase costs and advance competitiveness, the Company provided a guarantee for a credit amounting to RMB 11.6 million got by Dongguan Konka Mould Plastic Co., Ltd, and the guarantee took up 0.35% of the Company's net assets. Apart from this, the Company provided no guarantees for other shareholding subsidiaries by Jun. 30, 2007, nor did it offer any external guarantees.

(XI) Pledges of assets

On Nov. 9, 2004, the Company's subsidiary Anhua Konka Electronics Co., Ltd signed the Contract on the Ceiling Amount of Mortgage with Chuzhou Branch of the Bank of China. The Contract ruled that this company would pledge the land use right with a book value of RMB 4.314 million on the East of Nanqiao S. Road in the Development District of Chuzhou

as RMB 16.65 million (CGY (2000) Z No. 00776 Land Certificate), and the housing ownership of the old workshops on the East of Nanqiao S. Road in the Development District of Chuzhou, the Building A, B, C, D, E in the Development District and the power station totaling 57,297.65 m² (CFQZ 2000 Z No. 01194 and CFQZ 2000 Z No. 02068 House Property Title Certificate) with a total book value of RMB 52.12 million as RMB 48.23 million, and the total pledge price amounted to RMB 64.88 million, for the liabilities not exceeding RMB 38.23 million owed to Chuzhou Branch of the Bank of China during Nov. 9, 2004 and Nov. 9, 2007 as well as those owed to this bank before Nov. 9, 2004.

VI. Financial Report

The 2007 interim financial report of the Company (unaudited) is attached at the back.

VII. Documents Available for Reference

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

**Board of Directors of
Konka Group Co., Ltd.**
Aug. 24, 2007

Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)
Financial statements for the period ended June 30, 2007

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

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Konka Group Co., Ltd.

Consolidated income statement for the period ended June 30, 2007

	Note	Jan.–Jun. 2007 RMB'000	Jan.– Jun.2006 RMB'000
Turnover	5	5,614,106	5,571,631
Cost of sales		(4,608,224)	(4,586,787)
Gross profit		1,005,882	984,844
Other revenue	6	3,690	461
Distribution costs		(742,726)	(709,406)
Administrative costs		(202,649)	(227,407)
Operating profit		64,197	48,492
Finance costs		(15,050)	(5,946)
Share of loss from associates		(466)	(501)
Profit before taxation	7	48,681	42,045
Income tax	8	(7,049)	(10,868)
Profit for the year		41,632	31,177
Attributable to :			
Equity holders of the parent		43,973	31,214
Share of results of minority interests		(2,341)	(37)
Profit attributable to equity holders of the parent		41,632	31,177
Profit per share to equity holders of the parent - basis		RMB0.073	RMB0.052

The calculation of the basic earnings per share is based on the current year's profit of RMB43,973,000 (2006 – RMB31,214,000) attributable to the equity holders of the parent and on the existing number of 601,986,352 shares in issue during the period.

Konka Group Co., Ltd.

Consolidated balance sheet as at June 30, 2007

	Note	Jun. 30, 2007 RMB'000	Dec. 31, 2006 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,316,475	1,308,162
Land use rights - non-current portion	10	29,431	26,428
Goodwill	11	4,840	4,840
Intangible assets	12	15,505	16,341
Interests in associates	13	39,030	46,151
Other investments	14	16,613	15,290
Deferred tax assets		68,741	67,342
		1,490,635	1,484,554
Current assets			
Land use rights - current portion	10	630	630
Inventories	15	2,737,940	3,551,897
Properties held for sale	16	4,172	4,172
Account receivables	17	618,513	950,048
Prepayments, deposits and other receivables	18	247,961	276,215
Note receivables	19	1,966,453	3,144,956
Cash and bank balances		1,033,789	678,240
		6,609,458	8,606,158
Total assets		8,100,093	10,090,712

(to be cont'd)

Konka Group Co., Ltd.

Consolidated balance sheet as at June 30, 2007

(cont'd)

	Note	Jun. 30, 2007 RMB'000	Dec. 31, 2006 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	20	601,986	601,986
Reserves		2,811,023	2,771,404
		<hr/>	<hr/>
Equity attributable to equity holders of the parent		3,413,009	3,373,390
Minority interests		234,390	243,713
		<hr/>	<hr/>
Total equity		3,647,399	3,617,103
Non-current liabilities			
Deferred income		5,996	7,495
Other long-term liabilities		28,078	27,495
		<hr/>	<hr/>
		34,074	34,990
Current liabilities			
Tax payable		8,040	10,088
Account payables		1,131,227	1,217,777
Other payables and accrued expenses		814,263	1,081,080
Note payables		2,173,108	4,114,674
Short-term bank loans	21	291,982	15,000
		<hr/>	<hr/>
		4,418,620	6,438,619
		<hr/>	<hr/>
Total liabilities		4,452,694	6,473,609
		<hr/>	<hr/>
Total equity and liabilities		8,100,093	10,090,712
		<hr/> <hr/>	<hr/> <hr/>

Konka Group Co., Ltd.

Consolidated statement of changes in equity for the period ended June 30, 2007

	Reserves									
	Share capita	Capital reserves	Surplus reserves	Accumulated profit/(loss)	Dividend reserve	Exchange reserve	Total reserves	Attributable to equity holders of the parent	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2006	601,986	1,820,452	765,196	25,988	-	(1649)	2,609,987	3,211,973	261,722	3,473,695
Profit for the year of 2006	-	-	-	156,664	-	-	156,664	156,664	7,493	164,157
Appropriation to statutory surplus reserve	-	-	31,436	(31,436)	-	-	-	-	-	-
Proposed final dividend	-	-	-	(60,199)	60199	-	-	-	-	-
Dividend to minority interests	-	-	-	-	-	-	-	-	(22823)	(22823)
Decrease in minority interests	-	-	-	-	-	-	-	-	(2679)	(2679)
Exchange difference from translation of foreign operations	-	-	-	-	-	4,753	4,753	4,753	-	4,753
As at December 31, 2006	601,986	1,820,452	796,632	91,017	60199	3,104	2,771,404	3,373,390	243,713	3,617,103
Profit for the period of 2007	-	-	-	43,973	-	-	43,973	43,973	(2,341)	41,632
Appropriation to statutory surplus reserve	-	-	-	-	-	-	-	-	-	-
Proposed final dividend	-	-	-	-	-	-	-	-	-	-
Dividend to minority interests	-	-	-	-	-	-	-	-	(10,323)	(10,323)
Decrease in minority interests	-	-	-	-	-	-	-	-	3,341	3,341
Exchange difference from translation of foreign operations	-	-	-	-	-	(4,354)	(4,354)	(4,354)	-	(4,354)
As at June 30, 2007	601,986	1,820,452	796,632	134,990	60,199	(1,250)	2,811,023	3,413,009	234,390	3,647,399

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 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 surplus reserve until it is up to 50% of the registered share capital. Statutory surplus reserve can be used to cover current year loss or for issue of new shares. The amount of statutory surplus 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. 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 period ended June 30, 2007

	Note	Jan.–Jun. 2007 RMB'000	Jan.– Jun.2006 RMB'000
Cash flow from operating activities			
Operating profit before taxation		48,681	42,045
Adjustment items :			
Interest income		(3,993)	(3,851)
Income from government grant		(1,499)	(1,499)
Other payables waived		-	-
Interest expenses		11,056	5,000
Depreciation of property, plant and equipment		55,450	72,368
Loss on disposal of property, plant and equipment		1,209	614
Reversal for impairment loss on property, plant and equipment			
Amortization of land use rights		354	315
Impairment loss on goodwill		-	-
Amortization of intangible assets		2,805	3,485
Profit on partial disposal of associates		(490)	-
Share of results from associates		466	490
Reversal for impairment loss on associates		-	-
Provision for inventory obsolescence		2,102	41,734
Inventories written off		-	-
Provision for doubtful debts on account receivables		(1,255)	1,994
Provision for doubtful debts on other receivables		1,275	629
<hr/>			
Net operating cash inflow before movements in working capital		116,161	163,324
Exchange reserve movement		(1,913)	(510)
(Increase)/decrease in inventories		813,504	485,538
Increase in account receivables		333,742	(61,876)
Increase in prepayments, deposits and other receivables		27,364	(4,962)
(Increase)/decrease in note receivables		1,178,503	359,286
Increase/(decrease) in account payables		(86,550)	(208,963)
Increase/(decrease) in other payables and accrued charges		(266,817)	20,637
Increase/(decrease) in note payables		(1,941,566)	(510,791)
<hr/>			
Cash generated from/(absorbed in) operations		172,428	241,683
Interest paid		(11,056)	(5,000)
Corporate and profits tax paid		(8,449)	(8,348)
<hr/>			
Net cash inflow/(outflow) from operating activities		152,923	228,335

(to be cont'd)

Konka Group Co., Ltd.

Consolidated cash flow statement for the period ended June 30, 2007

(cont'd)

	Note	Jan.-Jun. 2007 RMB'000	Jan.- Jun.2006 RMB'000
Net cash inflow/(outflow) from operating activities		152,923	228,335
Investing activities			
Interest received		3,993	3,851
Purchases of property, plant and equipment		(77,114)	(32,347)
Proceeds from disposal of property, plant and equipment		279	1,167
Purchase of intangible assets			
Returns from partial investment in associates		8,640	-
Increase of investment in associates		(1,000)	(7,714)
Repayments to associates		-	-
Acquisition of other investments		(322)	-
Net cash outflow from investing activities		(65,524)	(35,043)
Financing activities			
Bank loans repaid	22	276,982	(10,000)
Other long-term liabilities raised	22	583	1,435
Dividend paid to minority interests	22	(7,074)	(13,883)
Increase/(decrease) in minority interests	22	(2,341)	(37)
Net cash outflow from financing activities		268,150	(22,485)
Increase/(decrease) in cash and cash equivalents		355,549	170,807
Cash and cash equivalents as at beginning of the year		678,240	629,160
Cash and cash equivalents as at end of the year		1,033,789	799,967

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

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 International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”) and Interpretations (“Int.”) issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB.

The consolidated financial statements have been prepared in accordance with the IFRS. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at June 30, 2007 and on the operating results for the period then ended are included in note 26 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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

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 period 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 end of each period. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

(a) Subsidiaries

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

As at June 30, 2007, the Company held the following subsidiaries :

<u>Name of the company</u>	<u>Place of incorporation/ registration</u>	<u>Registration capital '000</u>	<u>Percentage of interest held</u>		<u>Principal activities</u>
			<u>Direct</u> %	<u>Indirect</u> %	
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
Konka America, Inc.	U.S.A.	USD1,000	100	-	Sale of electronic products
Anhui Konka Electronic Co., Ltd.	PRC	RMB140,000	78	-	Manufacture and sale of TV sets

Konka Group Co., Ltd.

Notes to the financial statements for the year ended June 30, 2007

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

<u>Name of the company</u>	<u>Place of incorporation/ registration</u>	<u>Registration capital '000</u>	<u>Percentage of interest held</u>		<u>Principal activities</u>
			<u>Direct</u> %	<u>Indirect</u> %	
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
Hong Kong Konka Limited	Hong Kong	HKD500	99	1	Trading of electronic products
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 Injected Plastic Manufactory Co., Ltd.	PRC	RMB9,500	49	51	Production of plastic products
Anhui Konka Electrical Co., Ltd.(1)	PRC	RMB10,000	45	27.3	Manufacture and sale of electrical appliances
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

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

<u>Name of the company</u>	<u>Place of incorporation/ registration</u>	<u>Registration capital '000</u>	<u>Percentage of interest held</u>		<u>Principal activities</u>
			<u>Direct</u> %	<u>Indirect</u> %	
Hong Din Investment Development Limited	Hong Kong	HKD500	-	100	Investment holding
Indonesia Konka Trading Limited *	Indonesia	USD500	-	100	Trading
Konka Electronics (India) Co., Ltd. *	India	USD1,160	-	70	Production of colour TV sets
Dongguan Konka Plastic Mould Co., Ltd.	PRC	RMB10,000	-	63.25	Production of moulds and plastic products
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
Shenzhen Konka Precision Mould Co., Ltd. (3)	PRC	RMB14,500	-	51	Production of moulds
Boluo Konka Printed Co., Ltd.	PRC	RMB40,000	-	51	Manufacture and sale of electronic product
Shenzhen Konka Electronic Parts Technology Co., Ltd(2)	PRC	RMB65,000		100	Research of Electronic Parts
Boluo Precision Science & Technology Co., Ltd.	PRC	RMB11250		100	Manufacture electronic product

* 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.

(1) The Company increase fund in the affiliated company, Anhui Konka Electric Appliance Co., Ltd., among the devotion there are cash RMB 50 million and fixed assets RMB 18.19 million.

(2) The Company invested RMB 65 million to set up Shenzhen Konka Electronic Parts Technology Co., Ltd.

(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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

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

As at June 30, 2007, the Group held the associates as follows :

<u>Name of the company</u>	<u>Place of registration</u>	<u>Percentage of interest held</u>		<u>Principal activities</u>
		<u>Direct</u> %	<u>Indirect</u> %	
Huadoushi Longfeng Properties Development Co., Ltd. *	Macau	50	-	Investment holding and property investment
Shenzhen Julong Guangdian Co., Ltd.	PRC	20	-	LCD display production & distribution
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
Shenzhen Zhongcailian Technology Co., Ltd.	PRC	10		Research of electronic Technology

* This company was jointly invested by the Group and other four companies for developing a property development project, namely "Huadoushi Furong Village".

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%

Konka Group Co., Ltd.

Notes to the financial statements for the year ended June 30, 2007

(cont'd)

4. Significant accounting policies (cont'd)

(a) Property, plant and equipment and depreciation (cont'd)

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.

(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.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended June 30, 2007

(cont'd)

4. Significant accounting policies (cont'd)

(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 time frame established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

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 weighted-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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

4. Significant accounting policies (cont'd)

(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.

(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

Account payables 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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

4. Significant accounting policies (cont'd)

(l) Research and development expenditures (cont'd)

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.

(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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

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

As 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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

5. Business and geographical segments

	Jan.-Jun.,2007					Jan.-Jun.,2006				
	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
<u>Income statement</u>										
External sales	4,316,612	816,102	481,392		5,614,106	4,387,137	841,454	343,040		5,571,631
Inter-segment sales										
	<u>4,316,612</u>	<u>816,102</u>	<u>481,392</u>		<u>5,614,106</u>	<u>4,387,137</u>	<u>841,454</u>	<u>343,040</u>		<u>5,571,631</u>
Operating profit/(loss)	<u>51,661</u>	<u>3,897</u>	<u>8,638</u>		64,197	<u>54,305</u>	<u>2,659</u>	<u>(8,472)</u>		48,492
Finance costs					(15,050)					(5,946)
Share of profit/(loss) from associates	(466)	-	-	-	(466)	(501)	-	-	-	(501)
Income tax					(7,049)					(10,868)
Minority interests					<u>2,341</u>					<u>37</u>
Profit to equity holders of the parent					<u>43,973</u>					<u>31,214</u>

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

5. Business and geographical segments (cont'd)

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

	Jan.-Jun.,2007 RMB'000	Jan.-Jun.,2006 RMB'000
Inside PRC	4,564,857	3,953,964
Outside PRC	<u>1,049,249</u>	<u>1,617,667</u>
	<u>5,614,106</u>	<u>5,571,631</u>

6. Other revenue

	Jan.-Jun.,2007 RMB'000	Jan.-Jun.,2006 RMB'000
Income from government grant (*)	1,499	1,499
Profit on partial disposal of associates	490	-
Other non-operating net incomes	<u>1,701</u>	<u>(1,038)</u>
	<u>3,690</u>	<u>461</u>

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

7. Profit before taxation

	Jan.-Jun.,2007	Jan.-Jun.,2006
	RMB'000	RMB'000
Profit before taxation has been arrived at :		
After charging :		
Auditors' remuneration	-	-
Directors' emoluments		
Depreciation of property, plant and equipment	55,450	67,712
Amortization of land use rights	354	315
Loss on disposal of property, plant and equipment	1,209	614
Impairment loss of goodwill	0	-
Amortization of intangible assets	2,805	3,485
Provision for inventory obsolescence	2,102	43,835
Inventories written off		
Provision for doubtful debts on account receivables	(1,255)	1,796
Provision for doubtful debts on other receivables	1,275	544
Interest expenses	11,056	3,851
Research and development expenditures	66,421	48,448
Rentals of land and buildings	6,993	6,792
Staff costs	150,332	135,693
	150,332	135,693
And after crediting :		
Interest income	3,993	5,000
Reversal for impairment loss on property, plant and equipment	-	-
Profit on partial disposal of a subsidiary	-	-
Profit on partial disposal of associates	(490)	-
Other payables waived	-	-
	-	-

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

8. Income tax

	Jan.-Jun.,2007	Jan.-Jun.,2006
	RMB'000	RMB'000
PRC corporate tax	6,487	8,306
Hong Kong profits tax	562	2,562
	<u>7,049</u>	<u>10,868</u>

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% (2006 - 15%) on the estimated assessable income for companies established in Shenzhen and 33% (2006 - 33%) for other PRC companies. Hong Kong profits tax is calculated at 17.5% (2006- 17.5%) of the estimated assessable profits for the year.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

9. Property, plant and equipment

	Buildings	Leasehold improvements	Machinery & equipment	Electronic equipment	Motor vehicles	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost/valuation							
As at December 31, 2006	903,986	12,392	738,908	648,646	62,924	34,851	2,401,707
Additions	11,940	2,409	35,472	12,879	2,417	28,657	93,774
Disposals	(1,597)		(22,924)	(3,129)	(4,657)		(32,307)
Reclassifications	872					(872)	-
As at June 30, 2007	915,201	14,801	751,456	658,396	60,684	62,636	2,463,174
Accumulated depreciation							-
As at December 31, 2006	(187,456)	(7,195)	(430,049)	(430,161)	(38,684)	-	(1,093,545)
Additions	(12,417)	(1,609)	(34,623)	(15,509)	(3,127)		(67,285)
Disposals	1,944		5,673	2,263	4,251		14,131
As at June 30, 2007	(197,929)	(8,804)	(458,999)	(443,407)	(37,560)	-	(1,146,699)
Net book value							
As at June 30, 2007	717,272	5,997	292,457	214,989	23,124	62,636	1,316,475
As at December 31, 2006	716,530	5,197	308,859	218,485	24,240	34,851	1,308,162

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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

10. Land use rights

	Jun.30,2007 RMB'000	Dec.31,2006 RMB'000
Cost		
As at beginning of the year	42,777	39,420
Reclassifications	-	-
As at June 30, 2007	42,777	39,420
Accumulated amortization		
As at beginning of the year	(12,362)	(11,731)
Charged for the year	(354)	(631)
Reclassifications	-	-
As at June 30, 2007	(12,716)	(12,362)
Net book value	30,061	27,058
Classified as current portion	630	630
Classified as non-current portion	29,431	26,428

The Group's certain land use rights with a net book value of RMB3,696,000 have been pledged to secure general banking facilities granted to the Group.

11. Goodwill

	Jun.30,2007 RMB'000	Dec.31,2006 RMB'000
Cost		
As at beginning of the year	7,106	3,217
Additions		3,889
As at June 30, 2007	7,106	7,106
Accumulated amortization/impairment loss		
As at beginning of the year	(2,266)	(2,228)
Impairment loss		(38)
As at June 30, 2007	(2,266)	(2,266)
Net book value	4,840	4,840

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

12. Intangible assets

	Trademarks RMB'000	Technical know-how RMB'000	Total RMB'000
Cost			
As at January 1, 2006	1,609	38,277	39,886
Additions	27	2,800	2,827
As at December 31, 2006	1,636	41,077	42,713
Additions	172	1,797	1,969
As at June 30, 2007	1,808	42,874	44,682
Accumulated amortization			
As at January 1, 2006	(1,017)	(18,941)	(19,958)
Charged for the year	(191)	(6,223)	(6,414)
As at December 31, 2006	(1,208)	(25,164)	(26,372)
Charged for the year	(76)	(2,729)	(2,805)
As at June 30, 2007	(1,284)	(27,893)	(29,177)
Net book value			
As at June 30, 2007	524	14,981	15,505
As at December 31, 2006	428	15,913	16,341

13. Interests in associates

	Jun.30,2007 RMB'000	Dec.31,2006 RMB'000
Share of net assets	43,941	48,075
Impairment loss provision	(2,797)	(2,797)
Amounts due from associates	1,230	1,230
Amounts due to associates	(3,344)	(357)
	<u>39,030</u>	<u>46,151</u>

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

14. Other investments

	Jun. 30, 2007 RMB'000	Dec. 31, 2006 RMB'000
Unconsolidated subsidiaries, at cost	136,567	136,567
Impairment loss provision	(136,567)	(136,567)
	-	-
Unlisted shares, at cost *	7,885	6,885
Impairment loss provision	(1,400)	(1,400)
	6,485	5,485
Listed share, at cost **	10,128	9,805
	16,613	15,290

* The Company entered into a venture agreement with nine companies to form Shenzhen Zhongcailian Technology Co., Ltd. for a total investment cost of RMB10,000,000 whereby the Company was required to contribute its share of 10%, which was equal to RMB1,000,000.

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

15. Inventories

	Jun. 30, 2007 RMB'000	Dec. 31, 2006 RMB'000
Raw materials	1,239,558	1,313,546
Work-in-progress	115,080	71,962
Finished goods	1,644,734	2,427,368
	2,999,372	3,812,876
Provision for inventory obsolescence	(261,432)	(260,979)
	2,737,940	3,551,897

16. Properties held for sale

	Jun. 30, 2007 RMB'000	Dec. 31, 2006 RMB'000
King Yuan Building – cost b/f and c/f	4,172	4,172
	4,172	4,172

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

17. Account receivables

	Jun. 30, 2007	Dec. 31, 2006
	RMB'000	RMB'000
Amount receivables	769,817	1,102,754
Provision for doubtful debts	(151,304)	(152,706)
	618,513	950,048

As at June 30, 2007, the aging of amount receivables is analyzed as follows :

	Jun. 30, 2007	Dec. 31, 2006
	RMB'000	RMB'000
Within one year	560,352	913,441
Over one year but within two years	31,911	14,255
Over two years but within three years	14,549	10,145
Over three years	163,005	164,913
	769,817	1,102,754

18. Prepayments, deposits and other receivables

	Jun. 30, 2007	Dec. 31, 2006
	RMB'000	RMB'000
Advance payments and Prepayments	131,661	108,557
Other receivables	125,476	175,944
	257,137	284,501
Provision for doubtful debts	(9,176)	(8,286)
	247,961	276,215

19. Note receivables

	Jun. 30, 2007	Dec. 31, 2006
	RMB'000	RMB'000
Bills receivable	65,122	86,783
Promissory notes issued by banks	1,899,132	3,021,670
Promissory notes issued by debtors	2,199	36,503
	1,966,453	3,144,956

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

20. Share capital

	Jun. 30, 2007	Dec. 31, 2006
	RMB'000	RMB'000
Registered, issued and paid-up		
“A” shares of RMB1 each	399,148	399,148
“B” shares of RMB1 each	202,838	202,838
	601,986	601,986
“A” shares, listed and tradable	280,244	280,244
“B” shares, listed and tradable	202,838	202,838
	483,082	483,082
Listed but temporarily not tradable	118,904	118,904
	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	Jun. 30, 2007	Dec. 31, 2006
		RMB'000	RMB'000
Bank loans, secured	9, 10	18,000	15,000
Tradable financial liabilities		273,982	
		291,982	15,000

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

22. Analysis of financing

	Bank loans	Other long-term liabilities	Minority interests
	RMB'000	RMB'000	RMB'000
As at beginning of the year	15,000	27,495	243,713
Net cash inflow/(outflow) from financing	276,982	583	-
Gain on partial disposal of a subsidiary	-	-	-
Decrease in minority interests	-	-	3,341
Dividend paid to minority shareholders	-	-	(10,323)
Share of results of minority interests	-	-	(2,341)
As at June 30, 2007	<u>291,982</u>	<u>28,078</u>	<u>234,390</u>

23. Commitments

As at June 30, 2007, the Group did not have any material commitments under non-cancellable operating leases and capital expenditures.

24. Contingent liabilities

At June 30, 2007, the Group did not have any significant contingent liabilities.

25. Related party transactions

During the period ended June 30, 2007, the Group had certain material transactions with Overseas Chinese Town Holdings Co. (major shareholder of the company) and its subsidiaries with details as follows :

		Jan.-Jun.,2007	Jan.-Jun.,2006
		RMB'000	RMB'000
Shenzhen Dekon Electronics Co., Ltd.	Purchase of merchandise	42,279	29,727
Shanghai Huali Packaging Co., Ltd.	Purchase of merchandise	7,300	24,737
Mudanjiang Huali Packaging Co., Ltd.	Purchase of merchandise	5,106	4,983
Shenzhen Huali Packaging Co., Ltd.	Purchase of merchandise	14,170	17,633
Anhui Huali Packaging Co., Ltd.	Purchase of merchandise	24,031	-

Konka Group Co., Ltd.

Notes to the financial statements for the year ended June 30, 2007

(cont'd)

25. Related party transactions (cont'd)

Shenzhen Town Hydro water Company	Overseas Chinese Town	Chinese Town	Water and electricity expenses	4,099	4,318
Overseas Holdings Co.	Chinese Town	Overseas Holdings Co.	Equity transfer	2,160	-
Shanghai Town Development Co., Ltd.	Overseas Investment	Chinese and	Equity transfer	4,320	-
Chengdu Chinese Development Company	Tianfu Town	Overseas Industrial	Equity transfer	4,320	-
Anhui Konka Electronic Co., Ltd			Purchase of merchandise	25	3,818

26. 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	42,474	3,346,979
Adjustments to conform to IFRS :		
Prior year adjustment on capital reserves	-	(6,978)
Prior year adjustment on surplus reserves	-	17,909
Transfer to dividend reserve	-	60,199
Government grant transfer from capital reserves to 'deferred income	-	(5,996)
Government grant recognized as income	1,499	-
Transfer of welfare funds recognized as expense	-	-
Impairment loss of goodwill reversed	-	896
	43,973	3,413,009
As restated in conformity with IFRS	43,973	3,413,009

27. 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.

Konka Group Co., Ltd.

Notes to the financial statements for the period ended June 30, 2007

(cont'd)

27. 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 judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

28. Language

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