# KONKA GROUP CO., LTD

# ANNUAL REPORT 2006

Chairman of the Board of Directors: Hou Songrong

April 2007

Contents

# I. Important Notes

Board of Directors, Supervisory Committee, directors, supervisors and senior executives of the Konka Group Co., Ltd, Limited (hereinafter referred to as the Company) warrant that this report does not contain any false or misleading statements or omit any material facts and all information set forth herein are true, accurate and complete.

The Annual Report 2006 and Summary of Annual Report 2006 was examined and approved by the 21st meeting of the 5th Board of Directors. The Independent Director of the Company, Xiao Zhuoji is unable to attend the meeting because of illness and did not authorize other Directors to vote for him.

The11$^{th}$ meeting of the5$^{th}$ Supervisory Committee examined the Annual Report 2006 and Summary of Annual Report 2006 and considered it reflect the financial status, operation results, corporate Governance and business development of the Company in 2006 truly, accurately and completely.

Shenzhen Dahua Certified Public Accountants produced Auditors' Report with qualified opinion for the Company;

Person in charge of the Company Mr. Hou Songrong, person in charge of the accounting Mr. Yang Guobin and person in charge of handling accounting affairs Mr. Ruan Renzong hereby confirm that the Financial Report enclosed in this Annual Report is true and complete.

This report was prepared in both Chinese and English. Should there be any difference in interpretation between the two versions, the Chinese version shall prevail.

## II. Company Profile

1. **Name in Chinese:** 康佳集团股份有限公司

**Abbreviation:** 康佳集团

**Name in English:** KONKA GROUP CO., LTD

**Abbr.:** KONKA GROUP

2. **Registered and office address:** Overseas Chinese Town, Nanshan District, Shenzhen

**Zip code:** 518053

**Internet web:** www.konka.com

**E-mail:** szkonka@konka.com

**3. Legal representative:** Chairman of the Board of Directors, Mr. Hou Songrong

4. **Secretary of the Board of Directors:** Mr. Xiao Qing

**Securities Affairs Representative**: Mr. Wu Yongjun

**Address:** Secretariat of the Board of Directors, Konka Group Co., Ltd. Overseas Chinese Town, Nanshan District, Shenzhen

**Tel:** 0755-26608866

**Fax:** 0755-26600082

**E-mail:** szkonka@konka.com

5. **Company information disclosed in:** Security Times, etc.

**Internet web site publishing the annual report designated by China Securities Regulatory Committee:** http:// www.cninfo.com.cn

**Annual report prepared in:** Secretariat of the Board of Directors

6. **Listing place of shares:** Shenzhen Stock Exchange.

**Abbr. of shares:** Shen Konka A Shen Konka B

**Stock Code**: 000016 200016

7. **Date of first registration:** Oct. 1, 1980

**Place:** Shenzhen

**Registration No. of Legal Entity Business License:** QGYSZ Zi No. 100476

**Tax registration No.:** 440301618815578

**Names and offices of accountant firms employed by the company:**

**Domestic:** Shenzhen Dahua Tiancheng Certified Public Accountants

**Address:** 1102-1103, 11th floor, B building, Union Square, No.5033 of Binhai Road, Futian District, Shenzhen

**Foreign:** Hong Kong Hu Guozhi Certified Public Accountants.

**Address**: 8/F, New Henry House, 10 Ice House Street, Central Hong Kong

## III. ABSTRACT OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Financial highlights this year of the Company(Unit: RMB Yuan)

| Item | Amount |
|---|---|
| Total profit | 116,097,240.57 |
| Net profit | 102,638,435.58 |
| Net profit after deducting non-recurring gains and losses | 104,777,537.60 |
| Profit from main operations | 2,131,447,550.14 |
| Profit from other operations | 33,080,273.49 |
| Operating profit | 117,909,921.20 |
| Investment yield | 1,338,486.73 |
| Subsidy income | 210,000.00 |
| Net non-operating income or expense | -3,361,167.36 |
| Net cash flows arising from operating activities | 180,581,832.52 |
| Net increase or decrease of cash and cash equivalents | 49,079,875.44 |

2. main financial index of three years of the Company

| Item | 2006 | 2005 | Increase/decrease by (%) | 2004 |
|---|---|---|---|---|
| Income from main operations (RMB'000) | 12,656,150.99 | 11,455,891.61 | 10.48 | 13,362,521.90 |
| Total profit(RMB'000) | 116,097.24 | 40,001.83 | 190.23 | 170,738.57 |
| Net profit (RMB'000) | 102,638.44 | 71,898.95 | 42.75 | 140,726.70 |
| Net profit after deducting non-recurring gains and losses (RMB'000) | 104,777.54 | 64,186.58 | 63.24 | 101,953.62 |
| Earnings per share fully diluted (RMB) | 0.170 | 0.119 | 42.86 | 0.234 |
| Earnings per share weighted average (RMB) | 0.170 | 0.119 | 42.86 | 0.234 |
| Return on equity (%) | 3.11 | 2.24 | 0.87 | 4.41 |
| Net cash flows arising from operating activities(RMB'000) | 180,581.83 | -101,374.78 | 278.56 | -373,669.77 |
| Net cash flows per share arising from operating activities (RMB) | 0.300 | -0.168 | 278.56 | -0.621 |
| **Item** | At the end of 2006 | At the end of 2005 | Increase/decrease by (%) | At the end of 2004 |
| Total assets (RMB'000) | 9,952,185.21 | 9,120,452.27 | 9.12 | 9,597,845.80 |
| Assets-liability ratio (%) | 64.38 | 61.99 | 3.85 | 64.13 |
| Shareholders' equity (excluding minority interests) (RMB'000) | 3,301,759.72 | 3,211,212.30 | 2.82 | 3,193,928.10 |
| Net assets per share (RMB) | 5.485 | 5.334 | 2.83 | 5.306 |
| Net assets per share after adjustment (RMB) | 5.290 | 5.085 | 4.04 | 5.108 |

3. attached statement of profit appropriation and distribution in the report period

| Profit in the report period | Return on equity (%) | | Earnings per share(Yuan) | |
|---|---|---|---|---|
| | Fully diluted | Weighted average | Fully diluted | Weighted average |
| Profit from main operations | 64.55 | 65.57 | 3.54 | 3.54 |
| Operating profit | 3.57 | 3.63 | 0.20 | 0.20 |
| Net profit | 3.11 | 3.16 | 0.17 | 0.17 |
| Net profit after deducting non-recurring gains and losses | 3.17 | 3.22 | 0.17 | 0.17 |

4. Item of deducting non-recurring gains and losses and the amount involved (Unit: In RMB Yuan)

| Nature or content | Amount before influence of income tax | Amount after influence of income tax |
|---|---|---|
| Government subsidy income | 210,000.00 | 185,250.00 |
| Income from equity investment transfer | 1,377,792.97 | 1,171,124.02 |
| Non-operating income | 3,341,890.92 | 2,964,866.38 |
| Non-operating expense | -6,703,058.28 | -6,251,534.68 |

| | | |
|---|---|---|
| Amount influenced by minority interests | -208,807.74 | -208,807.74 |
| Total | -1,982,182.13 | -2,139,102.02 |

5. Changes in shareholders' equity in the report period (Unit: in RMB'yuan)

| Item | Amount at period-begin | Increase in the report period | Decrease in the report period | Amount at period-end |
|---|---|---|---|---|
| Share capital | 601,986,352.00 | - | - | 601,986,352.00 |
| Capital reserve | 1,858,788,726.07 | 580,000.00 | - | 1,859,368,726.07 |
| Surplus reserve | 747,286,720.22 | 27,566,579.08 | - | 774,853,299.30 |
| Including: statutory welfare fund | - | - | - | - |
| Retained profit | 62,071,568.66 | 102,638,435.58 | 88,761,872.50 | 75,948,131.74 |
| Difference of foreign currency translation | -1,649,282.98 | 4,753,646.28 | - | 3,104,363.30 |
| cash dividends which have been declared but unpaid | - | 60,198,635.20 | | 60,198,635.20 |
| Accumulated losses of subsidiaries not made up | -57,271,779.94 | -16,428,012.24 | | -73,699,792.18 |
| Total shareholders' equity | 3,211,212,304.03 | 179,309,283.90 | 88,761,872.50 | 3,301,759,715.43 |

Remarks:

1. In the report period, the increase of capital reserve is because the invested company which was accounted with equity method get the subsidy income from the government, etc. and increase its capital reserve. The Company correspondingly increased in accordance with stock proportion.
2. The increase of retained profit is because of the realization of net profit this year.
3. In the report period, the increase of surplus reserve is because of abstraction of 10% of the legal surplus reserve and 20% of the statutory surplus reserve in accordance with net profit.
4. The currency translation difference is because of the difference of exchange rate in different period.
5. The foreign CPA firm the Company engaged is Hong Kong Hu Zhiguo Certified Public Accountants.

Difference in net profit and net assets as audited by International Accounting Standards (IAS)

In RMB Yuan

| | Net assets | Net profit |
|---|---|---|
| According to International Accounting Standards | 3,306,092,345.90 | 89,366,183.70 |
| 1. Prophase adjustment to capital reserve | 6,978,000.00 | --- |
| 2. Prophase adjustment to surplus reserve | (17,909,000.00) | --- |
| 3. Government subsidy transferred from deferred income into capital reserve | 7,495,000.00 | --- |
| 4. Part of government subsidy listed as income | --- | (3,577,500.00) |
| 5. Adjustment to the losses of subsidiaries not made up | --- | 16,428,012.24 |
| 6. Welfare and reward fund withdrawn for employees | --- | 996,658.22 |
| 7. Cancellation of goodwill | (896,630.47) | (574,918.58) |
| According to the Business Accounting System | 3,301,759,715.43 | 102,638,435.58 |

# IV CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

## 1. Changes in Share Capital

**(1) By the end of Dec.31 of 2006, the total share of the Company maintained the same with that of the last year.**

(2) The changes in share capital by the end of Dec.31, 2006

Unit: Share

| | Before the change | | Change in this time (+,-) | | | | | After the change | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Proportion (%) | Allotment of new shares | Bonus shares | Capitalization of public reserve | Others | Subtotal | Number of shares | Proportion (%) |
| I. Shares subject to trading moratorium | 174,952,900 | 29.06% | | -56,048,888 | | | -56,048,888 | 118,904,012 | 19.75% |
| 1. Shares held by the State | | | | | | | | | |
| 2. Shares held by state-owned legal persons | 90,949,746 | 15.11% | | -38,557,154 | | | -38,557,154 | 52,392,592 | 8.70% |
| 3. Shares held by other domestic investors | 55,003,154 | 9.14% | | -11,452,649 | | | -11,452,649 | 43,550,505 | 7.23% |
| Among which: Shares held by domestic legal persons | 55,000,000 | 9.14% | | -11,453,437 | | | -11,453,437 | 43,546,563 | 7.23% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Shares held by domestic natural persons | 3,154 | 0.00% | | 788 | | | 788 | 3,942 | 0.00% |
| 4. Shares held by foreign investors | 29,000,000 | 4.82% | | -6,039,085 | | | -6,039,085 | 22,960,915 | 3.81% |
| Among which: Shares held by overseas legal persons | 29,000,000 | 4.82% | | -6,039,085 | | | -6,039,085 | 22,960,915 | 3.81% |
| Shares held by overseas natural persons | | | | | | | | | |
| II. Shares not subject to moratorium | 427,033,452 | 70.94% | | 56,048,888 | | | 56,048,888 | 483,082,340 | 80.25% |
| 1. RMB ordinary shares | 224,195,550 | 37.24% | | 56,048,888 | | | 56,048,888 | 280,244,438 | 46.55% |
| 2. Domestically listed foreign shares | 202,837,902 | 33.69% | | | | | | 202,837,902 | 33.69% |
| 3. Overseas listed foreign shares | | | | | | | | | |
| 4. Others | | | | | | | | | |
| III. Total shares | 601,986,352 | 100.00% | | | | | | 601,986,352 | 100.00% |

Remarks: in the report period, the shares held by national legal person, domestic legal person and foreign legal person decreased because that the Company executed the share merger reform, and they sent the consideration arrangement of share merger reform; the RMB ordinary shares and shares held by domestic natural person (senior management) increased because they received the consideration arrangement of the share merger reform.

2. Particulars about issuing and listing of shares

(1) In 2001, the Non-Listed Foreign-Funded Shares of the Company 139,036,499 shares were admitted to switch to Listed and Tradable Foreign-Funded Shares by China Securities Regulatory Committee and began to list and trade in Shenzhen Stock Exchange on Jun. 21, 2001.

(2) In the report period, the structure of the Company changed because of share merger reform. The consideration arrangement of share merger reform sent by shareholders of national legal person, domestic legal person and foreign legal person led to the decrease of shares held by national legal person, domestic legal person and foreign legal person. The RMB ordinary shares and shares held by domestic natural person (senior management) increased because they received the consideration arrangement of the share merger reform.

(3) Apart from the shares held by senior management staff of the Company, 3942 shares, there are no listed or tradable inner staff shares.

III particulars about shareholders

(1) By the end of Dec. 31, 2006, the total shareholders of the Company amounted to 110,091, of which 96,212 are A shareholders and 13,879 are B shareholders.

The number of shares held by the top ten shareholders subject to trading moratorium and trading moratorium

| No. | Name of shareholders subject to trading moratorium | Number of shares subject to trading moratorium | Date on which shares can be listed for trading | Number of additional shares can be listed for trading | Trading moratorium |
|---|---|---|---|---|---|
| 1 | OVERSEAS CHINESE TOWN GROUP COMPANY | 52,392,592 | Mar. 30, 2008 | 0 | Plearse refer to the note |
| 2 | ANHUI TIANDA ENTERPRISE GROUP CO., LTD | 43,546,563 | Mar. 30, 2008 | 0 | Plearse refer to the note |
| 3 | THOMSON INVESTMENTS GROUP LIMITED | 22,960,915 | Mar. 30, 2008 | 0 | Plearse refer to the note |

Remarks: the original non-tradable shareholders of the Company Overseas Chinese Town Group Company, Anhui Tianda(Group) Co., Ltd and THOMSON INVESTMENT GROUP LIMITED has promised not to trade or transfer the non-tradable shares of Konka Group within 24 months since the day those shares were authorized with listing and circulation rights. After the expiration of the aforesaid commitment, the total former non-tradable shares of Konka Group sold by the aforesaid three companies through listing at the Stock Exchange shall not exceed 5 percent of the Konka Group’s total share number within 12 months, and not exceed 10 percent within 24 months.

(3) Statement on the shares held by the top ten shareholders and those held by the top ten shareholders holding shares not subject to moratorium

Unit: share

| Shares held by the top ten shareholders | | | | | |
|---|---|---|---|---|---|
| **Name of shareholder** | **Nature of shareholder** | **Proportion of shares held** | **Total number of shares held** | **Number of shares subject to moratorium** | **Number of shares pledged or frozen** |
| OVERSEAS CHINESE TOWN GROUP CORPORATION | State-owned shareholder | 8.70% | 52,392,592 | 52,392,592 | 0 |
| ANHUI TIANDA ENTERPRISE (GROUP) CO., LTD | Other | 7.23% | 43,546,563 | 43,546,563 | 0 |
| HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD. | Foreign shareholder | 4.79% | 28,810,660 | 0 | Unknown |
| THOMSON INVESTMENTS GROUP LIMITED | Foreign shareholder | 3.82% | 22,960,915 | 22,960,915 | 0 |
| BUILD UNITED LIMITED | Foreign shareholder | 3.34% | 20,079,900 | 0 | Unknown |
| ABLEWELL INVESTMENTS LIMITED | Foreign shareholder | 2.34% | 14,100,000 | 0 | Unknown |
| NO. 1 SHANGHAI SECURITIES CO., LTD | Foreign shareholder | 1.98% | 11,941,282 | 0 | Unknown |
| SVA INFORMATION INDUSTRIAL CO., LTD | Other | 1.95% | 11,751,812 | 0 | Unknown |
| NOMURA SECURITIES CO.,LTD | Foreign shareholder | 1.12% | 6,750,000 | 0 | Unknown |
| SONG YI CAI | Other | 0.81% | 4,852,915 | 0 | Unknown |

| Particulars about shares held by the top ten shareholders holding shares not subject to moratorium | | |
|---|---|---|
| **Name of shareholders** | **Numbers of shares not subject to moratorium held** | **Type of shares** |
| HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD. | 28,810,660 | Tradable B shares |
| BUILD UNITED LIMITED | 20,079,900 | Tradable B shares |
| ABLEWELL INVESTMENTS LIMITED | 14,100,000 | Tradable B shares |
| NO. 1 SHANGHAI SECURITIES CO., LTD | 11,941,282 | Tradable B shares |
| SVA INFORMATION INDUSTRIAL CO., LTD | 11,751,812 | Tradable A shares |
| NOMURA SECURITIES CO.,LTD | 6,750,000 | Tradable B shares |
| SONG YI CAI | 4,852,915 | Tradable A shares |
| GU SONG HUA | 4,153,221 | Tradable A shares |
| DBS VICKERS (HONG KONG) LTD A/C CLIENTS | 3,815,850 | Tradable B shares |
| CHUANGLI DEVELOPMENT HONG KONG CO., LTD | 2,568,800 | Tradable B shares |
| Explanation on the relations among the aforesaid shareholders or concerted actions | There was no related relationship between the principal shareholder Overseas Chinese Town Group Corporation and the other shareholders, and they had not joined in any concerted action. It is unknown whether the other shareholders had joined in any concerted action or had any related relationships among them or not. | |

Remarks: when the Company performed share merger reform, the original non-tradable shareholders of the Company, Overseas Chinese Town Company paid for 35% of the consideration arrangement to Anhui Tianda(Group) Co., Ltd and THOMSON INVESTMENTS GROUP LIMITED who promised to return part of the shares to Overseas Chinese Town Company before the application of listing and trading of A shares of the Company. Therefore, the proportion of tradable A shares of the Company owned by Overseas Chinese Town Company, Anhui Tianda(Group) Co., Ltd and THOMSON INVESTMENTS GROUP LIMITED is respectively 10.27%, 6.21% and 3.27%.

(2) particulars about shareholders holding over 5% of total shares

| Name | Type of shares held | Type of enterprise | Legal representative | Date of foundation | Registered capital (RMB'0000) | Main operations |
|---|---|---|---|---|---|---|
| Overseas Chinese Town Group | Domestic legal person's shares | State-owned wholly-funded | Ren Kelei | May 1986 | RMB 200,000 | Industry, tourism, real estate, finance and |

| | | | | | | |
|---|---|---|---|---|---|---|
| Corporation | | company | | | | commerce, etc |
| Anhui Tianda Enterprise (Group) Co., Ltd | Domestic legal person's shares | Private enterprise | Ye Shiqu | August 2000 | RMB 23,372.55 | Plastic products, plastic machinery, air-conditioner parts and components and fiber-optic communication equipment |

Ⅳ information about the controlling shareholder and actual controller

(1) the controlling shareholder and actual controller

In the report period, the controlling shareholder and actual controller of the Company remained unchanged and still is Overseas Chinese Town Group Corporation. The shares it held had no problem of impawn, trusteeship and freeze.

Overseas Chinese Town Group Corporation is a large state-owned enterprise admitted by State Council and belongs to one of the central enterprises supervised by State-owned Assets Supervision and Administration Commission of the State. It was established on Nov.11, 1985 and the legal representative is Mr. Ren Kelei. The registered capital of Overseas Chinese Town Group Corporation is RMB 2 billion and the total assets amounted RMB 30billion, and covered tourism, real estate and telecommunication three core business.

(2) The property and controlling relationship between the Company and the actual controller.

State-owned Assets Supervision and Administration Commission of the State

↓100%

Overseas Chinese Town Group Corporation

↓8.70 %( A shares)

Konka Group Co., Ltd

Remarks: Overseas Chinese Town Group Company actually held 10.27% of the total shares of the Company. The details are in the remarks of "Statement on the shares held by the top ten shareholders and those held by the top ten shareholders holding shares not subject to moratorium" in the 3rd point of the same part.

(3) Particulars about legal shareholders who control more than 10% of the total shares(10% included)

Apart from the controlling shareholder of the Company, Overseas Chinese Town Group Company, the Company had no other legal shareholders who control more than 10 %( 10% included) of the total shares.

## V PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

1. Basic information

| Name | Title of office | Sex | Age | Term of office | Remarks |
|---|---|---|---|---|---|
| Hou Songrong | Chairman of Board of Directors | Male | 38 | 2004.6-2007.6 | |
| | President | | | 2004.6-2007.6 | |
| Jian Di'an | Director | Male | 57 | 2004.6-2007.6 | |
| Ye Shiqu | Director | Male | 56 | 2005.9-2007.6 | |
| Huo Jun | Director | Female | 40 | 2005.9-2007.6 | |
| Na Qinglin | Director | Male | 39 | 2005.9-2007.6 | |
| Wei Qing | Director | Male | 54 | 2004.6-2007.6 | |
| Xiao Zhuoji | Independent Director | Male | 73 | 2004.6-2007.6 | |

| | | | | | |
|---|---|---|---|---|---|
| Ye Wu | Independent Director | Male | 68 | 2004.6-2007.6 | |
| Ma Liguang | Independent Director | Female | 66 | 2004.6-2007.6 | |
| Dong Yaping | Chairman of the Supervisory Committee | Male | 53 | 2004.6-2007.6 | |
| Wang Xiaowen | Supervisor | Female | 37 | 2004.6-2007.6 | |
| Sha Gang | Supervisor | Male | 42 | 2004.6-2007.6 | Representative of Staff |
| Zeng Hui | General Vice President | Male | 46 | 2004.11-2007.6 | |
| Yang Guobing | Financial Controller | Male | 37 | 2004.6-2007.6 | |
| Wang Youlai | Vice President | Male | 45 | 2004.6-2007.6 | |
| Huang Zhongtian | Vice President | Male | 45 | 2004.6-2007.6 | |
| Chen Yuehua | Vice President | Male | 43 | 2004.11-2007.6 | |
| He Jianjun | Vice President | Male | 37 | 2005.11-2007.6 | |
| Xiao Qing | Secretary of the Board of Directors | Male | 37 | 2005.11-2007.6 | |

Among which, particulars of Directors and Supervisors in shareholding company

| Name | Name of shareholding company | Title of office | Term of office | Drawing the payment or allowance or not |
|---|---|---|---|---|
| Jian Di'an | Overseas Chinese Town Group Company | Vice President | Dec. 2001 till now | No |
| Ye Shiqu | Anhui Tianda Enterprise (Group) Co., Ltd | Board of Directors | 1992 till now | No |
| Wei Qing | Hong Kong China Travel Service(Group) Ltd | Deputy General Manager of Hong Kong China Travel International Investment Co., Ltd | 2000 till now | No |
| Na Qinglin | BUILD UNITED LIMITED | Management partner | May, 2000 till now | No |
| Dong Yaping | Overseas Chinese Town Group Company | Vice President | Jan.1994 till now | No |
| Wang Xiaowen | Overseas Chinese Town Group Company | President assistant | Oct. 2000 till now | No |

(2) Major business experience of directors, supervisors and senior executives and particulars about holding the post in other companies except for Shareholding Company

1. Directors

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

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

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

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

Manager of Investment and Planning Management Dept. in Hong Kong China Travel Service (Group) Co., Ltd.,General Manager of Hotel Management Co., Ltd. in Hong Kong China Travel Service (Group) Co., Ltd.Now he acts as Deputy General Manager of Hong Kong China Travel International Investment Co., Ltd.

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

Na Qinglin: director; male; Man nationality; born in 1967; MBA of Owen Management School of Vanderbilt University and University of Utah; work experiences: 1995-1997, engaged in investment banking work at Salomon Brothers Inc.; 1997-2000, engaged in investment banking work at Salomon Smith Barney as Vice President of investment bank in Asia-Pacific and Australian regions; 2000 till now, a co-founder and management cooperation partner at Mingda Risk Investment Company.

2. independent Directors

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

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

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

3. Supervisors

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

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

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

Now he acts as Deputy General Manager of the Digital Network Department of the Company.other senior management staff

(4) Other senior executives

Zeng Hui, General Vice President, is male and in Han Race. He was born in 1960 and is Master of University of Mons-Hainaut in Belgium and an Engineer. He had taken the posts of Deputy Controller and Controller of Human Resource Department of Overseas Chinese Town Group, Chairman of the Board of Directors in Overseas Chinese Town Xinqiao Industrial Development Co., Ltd.

Yang Guobin, Financial Controller, is male and in Han Race. He was born in 1969 and is an undergraduate and a CPA. He had taken the post of Deputy Financial Controller of Overseas Chinese Town Group.

Wang Youlai, Vice President, is male and in Han Race. He was born in 1961 and is a post graduate and a engineer. He had taken the posts of Business Manager of Quality Department of Konka Group and Assistant General Manager of the Company.

Huang Zhongtian, Vice President, is male and in Han Race. He was born in 1961 and is in Associated Degree. He had taken the post of Assistant General Manager of Konka Group.

Chen Yuehua, Vice president, is male and in Han Race. He was born in 1963 and is a undergraduate and a Senior Engineer. He had taken the posts of Designer, Business Manager, General Manager of Development Center of Konka Group, General Manager of President Office, General Manager of Dongguan Konka Electronic Co., Ltd, Deputy General Manager of Multimedia Business Department and General Manager of Development Center.

He Jianjun, Vice Presidents, is male and in Han Race. He was born in 1969 and is a undergraduate and an Economist. He had taken the posts of Deputy Director of Secretariat of Board of Directors, Deputy Controller and Controller of Strategy Development Department and Secretary of the Board of Directors.

Xiao Qing, Secretary of the Board of Directors, is male and in Han Race. He was born in 1969 and is an undergraduate and an Economist. He had taken the posts of General Manager of Central Union of Urban Credit Cooperatives of Ya’an District of Sichuan, Senior Vice President of Top Group, Executive of Konka Group Investment and Development Center.

II the remuneration of 2006

(1) The Company did not pay remunerations or allowances to directors or supervisors (independent directors excluded). In this year, the total amount of the highest three directors of the Company is RMB 150,000 which is the total amount of three independent directors. The allowance of independent of the Company is RMB50, 000 per year (tax excluded). The other treatments of the independent directors are: the travel expenses of attending Meeting of the Board of Directors and General Meeting of Shareholders and expenses needed in duty performance in accordance with the Articles of Association are written off in the Company depending on facts.

(2) The remuneration of independent directors and senior management staff are judged by the Board of Directors with the following factors: a. contents of work of the position and the responsibility it occupies; b. the benefits of the Company; c. remuneration level of the market in the same industry and the same region.

(3) Changes of shares and remuneration held by directors, supervisors and senior management staff.

| Name | Number of shares held at year-begin | Number of share held at year-end | Reasons for change | Drawing the total payment from the company in the report period(RMB’0000) |
|---|---|---|---|---|
| Hou Songrong | 0 | - | - | 33.60 |
| Jian Di’an | 0 | - | - | 0 |
| Ye Shiqu | 0 | - | - | 0 |
| Huo Jun | 0 | - | - | 0 |
| Na Qinglin | 0 | - | - | 0 |
| Wei Qing | 0 | - | - | 0 |
| Xiao Zhuoji | 0 | - | - | 5.00 |
| Ye Wu | 0 | - | - | 5.00 |

| | | | | |
|---|---|---|---|---|
| Ma Liguang | 0 | - | - | 5.00 |
| Dong Yaping | 0 | - | - | 0 |
| Wang Xiaowen | 0 | - | - | 0 |
| Sha Gang | 0 | - | - | 16.25 |
| Zeng Hui | 0 | - | - | 21.60 |
| Yang Guobin | 0 | - | - | 20.16 |
| Wang Youlai | 2,640 | 3,300 | Receive the consideration arrangement of share merger reform | 20.16 |
| Huang Zhongtian | 514 | 642 | | 20.16 |
| Chen Yuehua | 0 | - | - | 20.16 |
| He Jianjun | 0 | - | - | 20.16 |
| Xiao Qing | 0 | - | - | 20.16 |
| Total | 3,154 | 3,942 | - | 207.41 |

Remarks: in the report period, the increase of shares held by Wang Youlai and Huang Zhongtian is because they received the consideration arrangement of share merger reform.

(4) about directors and supervisors receiving no remuneration from the Company

| Name of directors and supervisors receiving no remuneration from the Comapany | Drawing the remuneration from shareholding companies or other related units or not |
|---|---|
| Jian Di'an, Ye Shiqu, Wei Qing, Na Qinglin, Dong Yaping, Wang Xiaowen | Yes |
| Huo Jun | No |

III The Company did not select or change directors, supervisors or senior management staff in the report period

IV Particulars about employees in the report period

| Unit | Shenzhen headquarter | Selling branch | Modan River Konka | Shanxi Konka | Anhui Konka | Chongqing Konka | Dongguan Konka | Konka Mould Plastic | Anhui Electrical Appliance | Boluo Konka | Changshou Konka | Chongqing Konka | Automobile Electronic | total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number | 2947 | 5294 | 726 | 1522 | 3534 | 370 | 3445 | 1683 | 438 | 225 | 452 | 319 | 145 | 21100 |

Among which, the structure of staff in Shenzhen headquarter:

| Classification | Production staff | Selling staff | Technical staff | Financial staff | Administrative staff | Higher than undergraduate | Doctor | Master | Bachelor |
|---|---|---|---|---|---|---|---|---|---|
| Number | 1023 | 473 | 653 | 151 | 647 | 1353 | 14 | 209 | 1130 |
| Proportion | 34.71% | 16.05% | 22.16% | 5.12% | 21.95% | 45.91% | 0.48% | 7.09% | 38.34% |

# Section VI. Administrative Structure

I. Corporate management

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

1. Shareholders and Shareholders' General Meeting

All the important events of the Company that need to be decided by the Shareholders' General Meeting will be submitted to the Shareholders' General Meeting for deliberation, and information disclosure on these events must be faithful, accurate and complete and in time. The related transactions of the Company all follow the principles of being fair and square. Signing of

agreements all abides by the principles of being equal, self-willing, equivalent and rewarding, and the content of the agreements will be clear and concrete. In the meantime, the Company will make full disclosure on the events that should be disclosed and the pricing principles according to relevant laws and regulations, so as to ensure all shareholders' rights to know.
2. Relationship between the holding shareholder and listed company
The behavior of the Company's holding shareholder was normative. The holding shareholder exercised the right of investor according to the regulations of the Articles of Association of the Company, and did not intervene in the Company's decision-making and operating activities directly and indirectly, and did not harm the benefit of the Company and other shareholders. The Company was independent from the holding shareholder in personnel, assets, finance, organization and business; and the operating activities of the Company's Board of Directors and Supervisory Committee and internal organization were independent.
3. Directors and the Board of Directors
The Board of Directors was responsible for the shareholders' general meeting. The Board exert its rights according to the Articles of Association of the Company and authorized by the shareholders' general meeting; the number, election and composing of the Board were in compliance with the requirement regulated in the Articles of Association of the Company; every director of the Company knew the rights, obligation and responsibility, and could study and know the relevant laws and regulations, and carefully and responsibly attended the Board meeting and shareholders' general meeting; the Board of Directors set down the Rule of Procedure of the Board of Directors according to Administration Rules of Listed Companies and performed seriously in line with it; the holding and discussion of the Board meeting had the completely record and files of resolutions and proposals for keeping; the resolutions of the Board meeting implemented the information disclosure timely.
4. Supervisors and the Supervisory Committee
The number of supervisors in the Supervisory Committee and the member composition has been in accordance with the Company Law. Right now, the Supervisory Committee has 3 supervisors, of which 1 was elected by workers' representatives. The Supervisory Committee of the Company has established the Rules of Procedure of the Supervisory Committee, and, according to the spirit of being responsible for all shareholders of the Company, it has conducted effective supervision over the finance of the Company as well as the Board of Directors and senior executives of the Company.
5. The achievements evaluation and encouragement mechanism
The management team was responsibility for the Board of Directors. The engagement, and dismissal of the management team were open and transparent, which was compliance with the relevant laws and regulations and regulations of the Articles of Association; the remuneration of the management team was perform in public according to the regulations.
The Company is actively starting to establish scientific, fair and transparent achievements evaluation and encouragement mechanism for directors, supervisors and senior executives based on original achievements evaluation and encouragement mechanism, which cause the Company's management system healthiness and efficiency.
6. Relations with the relevant beneficiaries
The Company could give enough respect to the legal rights and interests of the banks and other creditors, employees, consumers, suppliers, and the communities, etc. In future, the Company will pay more attention to the welfare, environment protection, public welfare cause, etc of the communities and its social responsibilities while seek for sustainable development and maximization of shareholders' interests.
7. Information disclosure and transparency
The Company has been paying enough attention to the outward information disclosure. Secretary of the Board is the person special for the information disclosure and handling visits of shareholders. The Company can actively support the work of the Secretary of the Board strictly according to the laws, regulations and Articles of Association. As to the events needed to be disclosed as according to relevant laws, regulations and Articles of Association, the Company has made full disclosure according to the principle of being faithful, accurate, complete and punctual, so as to ensure that all shareholders have equal opportunity to get the information. The information disclosure of the Company was affirmed by the regulatory section and investors and was appraise as "excellent information Disclosure Company" by Shenzhen Stock Exchange.

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

| Name of Independent Directors | Times of attending the Board meeting in this year | Presence by oneself (Times) | Entrusted presence (Times) | Absence (Times) | Notes |
|---|---|---|---|---|---|
| Xiao Zhuoji | 7 | 6 | 1 | 0 | Business trip |
| Ye Wu | 7 | 7 | 0 | 0 | |
| Ma Liguang | 7 | 6 | 1 | 0 | Business trip |

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

III. The Company's "Five Separations" from the holding shareholder
Particulars about the Company's "Five Separations" from the holding shareholder in respect of business, personnel, assets, organization and finance:
1. In respect of personnel: The Company was independent in the management of labor, personnel and salaries. The holding the post of directors, supervisors and senior executives was implemented according to the relevant laws and regulations.
2. In respect of assets: The Company had independent operating and complete asset; and strictly divided ownership between the Company and the holding shareholder. There existed no situation that the holding shareholder occupied capital and assets of listed company.
3. In respect of organization: The Company established shareholders' general meeting, the Board of Directors, the Supervisory Committee and the Management Team completely according to the relevant of Company Law and Administration Rules of Listed Company. The Company has complete administration structure of corporation. The office organization and production location completely divided from the holding shareholder.
4. In respect of finance: The Company has established independent financial department, and established independent accounting settlement system and financial management system. The Company has independent bank account.
5. In respect of business: The products operated by the Company have completed marketing network. There existed no competition in the same trade between the Company and the holding shareholder.
The Company completely separated from the holding shareholder in personnel, assets, organization and finance and business and realized business independence, personnel independence, complete assets, organization perfect and finance independence.

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

# Section VII. Particulars about Shareholders' General Meeting

In the report period, the Company had held 1 Shareholders' General Meetings and 1 share merger

reform relevant shareholders' meeting:
I. Shareholders' General Meeting 2005 of Konka Group Co., Ltd was held at 9:30 a.m. on Jul.10, 2006 at the central meeting room on the 1st floor of office building of the Shenzhen Overseas Chinese Town Group Corporation, China. 12 shareholders (agencies) had attended the meeting, representing 172,940,972 shares, i.e. 28.73 percent of the Company's total share capital. Part of directors and supervisors of the Company attended the meeting. Chairman of the Board Mr. Hou Songrong presided at the meeting. Following resolutions had been examined and approved through ballots at the meeting:
(1). Examined and approved the Work Report 2005 of the Board of Directors;
(2). Examined and approved the Work Report 2005 of the Supervisory Committee.
(3)Examined and approved the Auditors' Report 2004 of the CPAs
(4) Examined and approved the Annual Report 2005 and Summary of Annual Report 2005.
(5) Examined and approved the Proposal on Modifying the Regulation of the Company in special resolution.
(6) Examined and approved the Proposal on Modifying the Official Rules of General Meeting of Shareholders in special resolution.
(7) Examined and approved the Proposal on the Profit Distribution Plan for 2005
(8) Examined and approved the Proposal on Anti-guarantee of Credit Authorization
(9) Examined and approved the Proposal on Engaging Auditing Agencies and Auditing Expenses
(10) Examined and approved the Proposal on Purchasing Responsibility Insurance;
(11) Examined and approved the Work Report of Independent Director (Xiao Zhuoji)
(12) Examined and approved the Work Report of Independent Director (Ye Wu)
(13) Examined and approved the Work Report of Independent Director (Ma Liguang)
Public notices on the resolutions of the aforesaid Shareholders' General Meeting were published on Jun,11,2006 in China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as on the designated internet website http://www.cninfo.com.cn.
II. Konka Group Co., Ltd held the share merger reform relevant meeting in Mar.2006 and it adopted the way of spot voting, assigning the Board of Directors to vote and Internet voting. The spot meeting commenced from 14:00 of Mar. 6, 2006 and the Internet voting time is from Mar.2, 2006 to Mar.6, 2006.The meeting was held in central meeting room of Overseas Chinese Town Group, Nanshan District, Shenzhen, Guangdong. The meeting had been in conformity with the Company Law and the Articles of Association of the Company.
A shareholders who attended the relevant meeting on spot or on line were 5,795, representing 230,671,734 shares, i.e. 57.79% of the total shares which had the voting rights. The tradable A shareholders were 5,792 and representing shares were 55,271,988 shares, i.e. 24.85% of the shares which had the voting rights and 13.96% of the total shares. This relevant shareholders' meeting examined and approved the project on share merger reform of Konka Group Co. Ltd.
Public notices on the resolutions of the relevant Meeting were published on Mar.7,2006in China Securities Journal, Securities Times, Shanghai Securities News and as well as on the designated internet website http://www.cninfo.com.cn.

## Chapter 8 Report of the Directors

I. Main operation condition of the company within the report period
A. Main operation conditions within the report period
The company is mainly engaged in the production and sales of color TVs, digital mobile phones and accessories (such as high frequency heads, moulds, injection molds and packaging materials, etc.). Currently, it belongs to the electronics manufacturing and communication manufacturing industry.
2006 is the first year of the three year strategy plan of the Company. The Company had overcome the double pressure of increasing price of resource and decreasing price of cost, closely encircled deployment of three projects(quality project, Masterpiece project and creative project) to develop work so as to promote the steady development of all business and served sordid foundation for the three year strategy plan.
In 2006, the overall sales income of the Company reached 12.656billion, increased by 10.48% compared with that of the last year, realize the net profit 102.64million and increased by 42.75% compared with last year. The domestic sales of colored television won the 1st place in the market share and foreign sales of colored television gain new history record, placing the first three highest in the same industry. The business of mobile phones realized profits in the situation of increasing income, the overseas sale breakthrough and completed 750,000; the business volume of white

electric doubled and reached the best level in history.
In 2006, the Company had won IF prize which was called Oscar Prize in the global industry design area, Shenzhen Quality Awards, Excellent Prize in Chinese Property, Ten Publicizing Events in China, inspection-free certificate for export, the 2nd session of National Excellent Enterprise Citizen and one of the 500 enterprises who gain largest volume of import and export, etc.
II. Work in the report period
1. In the masterpiece project
In 2006, the Company promoted the masterpiece project in an all-around way circling the value operation strategy and set up design studio in South Korea, Japan and Europe respectively and took it as the window, strengthened international communication, broadened design horizon and developed a series of new products good in outlook, high in quality and excellent in market performance. That not only elevated the added value of the products but also competition capacity and market share of the products.
—the 20th series of liquid crystal television won “Excellent outlook in industry design in data products” and “Red star prize” awarded by China Industry Design Institute; 26th series won the Creative Design In China Consumption Electronic Annual Meeting 2007, “ magic mirror ” , “Magnificence” and “Cup Culture” were awarded important prizes. And the 319 series CRT television acquired good market performance and become one of the most important channels of profit.
— The D163, 263 and 363 products of mobile phones were awarded “IF design award China 2006” of Germany and “Excellent Design in Chinese Industry 2006”. D163 also won the gold prize of Chinese enterprises “Creative Design of Products” , which was the star type in the same kind of products by highest in price, largest in the volume and most in the profit.
2. in creative project
In 2006, the creative projects of the Company mainly included three areas: creation in technology and product, creation in management and operation, and creation in enterprise culture and activities of Party construction.
In technology and products creation: the Company has researched nearly 1000 new products in 2006, among which120 are the key and new products in colored television, 60 are key and new products in mobile phones. The white electric promoted masterpiece refrigerator in Ocean and Angel series which was energy-saving and existed no FI. The Company also got breakthrough in WCDMA 3G mobile phones, Linux operating system, IPV6 terminals and IPTV; the Company had applied for 383 projects in the whole year2006 and created the best level of Konka history, one of which has gained “Excellent Property in China ”. It was the sole excellent property in national colored television industry of 2006 and also the highest level of property prize.
In management and operation creation: on one hand, the Company completed the integrate product research system with Konka characteristic, it referred to profound reform of organizing structure and moving system, is the most important management creation fruit in these years and one of the most important competition power of Konka currently.
On the other hand, in order to adjust to channel reform and elevate responding speed, the Company built up promotion system combining the subsidiary line management of production line and segmentation management of market, and strengthened not only controlling power of whole production supply chain and association campaign competence of subsidiaries in various regions. The establishment of promotion system steadily accelerated the selling of the Company.
Apart from that, the Company set up a whole system of efficient planned control and operation management detection, by means of key operating indicator system and operating analysis meeting, examined and forecasted production, sale, storage, contract and notes receivable, in order to find and solve problems happened in business unit and daily operation in time, prevent operating risk and make sure the healthy operation of enterprises. The Company continuously optimized and perfected risk detection system and made the risk control of storage controlling and notes receivable in well order.
In enterprise culture and Party construction activities creation: the Company encircled the enterprise culture theory “ create excellence and fulfill the dream ” , and held a series of enterprise culture and Party activities clear in theme, novel in style and profound in influence, such as the oath-taking rally in Taishan Mountain in New Year’s Day, another walk on Long March enduring one month and covering 6800km and staff sports meeting participated by 1500 people. These activities reflected creative atmosphere of enterprise culture and Party construction activities in certain extent.

3. On Quality Engineering:
On the fulfillment of quality engineering, on one hand, the Company advanced optimization and improvement of quality management system. In the year of 2006, quality index of all kinds KONKA products have improved, and the Company joined in the first group enterprise who obtained the “export products check-free certificate” among the color TV enterprises; on the other hand, the Company introduced excellent Baldrige Management Model actively, and corrected operation management by strict standard of excellent performance management model, which enable the Company obtained the Mayor Quality Award of Shenzhen 2006.
4. Main work held by the Company in the year of 2006
(1) Complement of technology stratagem design: according to the technology development trend in the future 3 to 5 years, the Company chose the 13 items core technology among three main fields (Household Digital, Personal Digital and Carrier Digital) which is competition advantage the Company planned to construct.
(2) Fulfillment of international stratagem client development: so as to laying a solid base for fulfillment of more quick achievement increase, optimization of client structure and improvement of operation lever, the Company cooperated with a great number of international top brand providers and channel partner, like SHARP, DSG,WAL-MARKT,CARREFOUR, TESCO, etc.
(3) Complement of Share Merger Reform; share merger reform plan gained the agreement of shareholders, which provided a capacious capital platform for the future development of the Company.
(4) Realization of strategic shift on mobile phone operation: the Company grasped the key market operation, conformed and optimized the mobile phone marketing system audaciously with staff cutting and expense decreasing. At the same time, the Company entered overseas market at any expense, which turned the loss-making to profit, and realized the strategic shift on mobile phone operation with a historic breakthrough in overseas market.
(5) Series public relation transmission activities: the Company joined in the sports marketing field, and took part inwhich pushed the KONKA transmission image up to a new stage in sports marketing field, with novelty form and continuous highlights.
Besides, the Company primary set up the talent development plan based on diathesis model, enhanced financial accounting and Risk Monitoring Control, preformed “Three in One Integrity” discipline inspection system, fulfilled upgrade of business aptitude project and auto-office system, joined in CES and the 9th high-tech achievements exhibition, and successfully deal with the all-round tasks, which covered enterprise operation, human resource, finance management, forensic audit, information construction, stock bidding, etc., like EU anti-dumping charge.
(Ⅲ) Possible accounting policies change and accounting estimate change subsequent to implementation of new accounting standards and the impact on the Company's financial status and operating results
1. According to the regulation of Accounting Standard for Business Enterprises No.
2 - Long-term equity investments， parent company adopts cost method calculation on the long-term investment of subsidiary, and adjusts in accordance with equity method as workout of consolidated financial statements, which will influent current loss and profit of parent company, but it can not influent on consolidated statement. While the Company adopted equity method on subsidiary under current policies.
2. According to the regulation of Accounting Standard for Business Enterprises No.
6 - Intangible assets, development cost of enterprise internal research & development items should list alone on the balance sheet as development layout item and amortization with reason during the usage life-span provided it accord with the requirement of capitalization. Research & development expense of the Company listed into expenditure capitalization of R&D in accordance with the regulations, which will decrease period expense of the Company during the capitalization period, and increase profit of the Company & shareholders’ equity during the capitalization period. But these changes will increase period expense of the Company during the amortization period, and increase the profit & shareholders’ equity of the Company during the amortization period. While research & development expenses were listed into current loss and profit under current policies.
3. According to the regulation of Accounting Standard for Business Enterprises No.8-Impairment of assets, enterprise should judge whether assets probably exists sign of devaluation at the end of accounting period. If there exists that sign, enterprise should estimate

recoverable amount, and then affirm the loss of assets devaluation. All kinds of devaluation to be calculated and switched back currently should calculate under the item of assets devaluation loss. According to the Accounting Standard for Business Enterprises No.8-Impairment of assets, assets devaluation loss once affirmed, it can not switch back during the later accounting period. This change will prevent assets devaluation loss from switch back in later period.

4. According to the regulation of Accounting Standard for Business Enterprises No. 16 - Government grants, government grants should calculate into government grants related to assets & profit, while government grants was accounted into item of capital reserve in accordance with current accounting policy. Also, government grants related to assets account into deferred income, which calculate loss & profit in installments according to usage life-span; government grants related to income calculate into current loss and profit. These changes will increase the current profit of the Company.

5. According to the regulation of Accounting Standard for Business Enterprises No. 22 - Recognition and measurement of financial instruments, priced stock, bound and fund purchased by the Company at animated market did not divide to that kind calculation as fair value and its changes accounted into financial assets of current loss & profit or hold to the end of investment expire in accordance with current policies. Under new accounting standard, those are taken into the item of available-for-sale securities, and calculated by fair value which account into owners equity. As disposal of available-for-sale securities, the Company should account balance between gained price and book value into investment income. At the same time, the Company should calculate disposal parts corresponded with changes accumulation of fair value into investment income. While it was accounted into item of owners equity under current policies. Take financial assets into transacting financial assets. This will be sold in latest and lists it into item of current loss & profit calculated by fair value. These changes probably increase current income of the Company.

6. According to the regulation of Accounting Standard for Business Enterprises No. 18 - Income taxes, the accounting method of income tax of The Company changed from tax payable method to tax effect accounting method; consider the temporary difference between book value of assets and liabilities affirmed by new Accounting Standard and tax base affirmed by the Tax Law as deferred income tax assets or liabilities. The current income tax and deferred income tax was accounted in current profits and losses. This change would effect deferred income tax of the Company and further effect profits and losses of the Company and shareholders' equity.

7. According to the regulation of Accounting Standard for Business Enterprises No. 32 - Interim financial reporting, the Company would take the minority shareholders' equity in the consolidated balance sheet from listing separately to listing as minority shareholders' equity under the item shareholders' equity; and change from listing separately in minority shareholders' equity in the income statement to listing as minority shareholders' equity under the item of net profit. This changed only the ways of listing but not have substantial effects.

(Ⅳ). Income from the principal business and profit composition

1. Industries and products of principal business

| Sector/products | | Income from principal business (in RMB'000) | | | Costs of principal business (in RMB'000) | | | Gross profit rate (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | 2005 | Increase / decrease (%) | 2006 | 2005 | Increase / decrease (%) | 2006 | 2005 | Increase / decrease |
| Multi-media | Color television | 10,154,982.07 | 9,345,458.86 | 8.66 | 8,387,104.16 | 7,695,535.60 | 8.99 | 17.41 | 17.65 | -0.24 |
| Communication | Mobile phone | 1,777,535.44 | 1,694,717.41 | 4.89 | 1,452,904.47 | 1,491,378.31 | -2.58 | 18.26 | 12.00 | 6.26 |
| Others | | 723,633.48 | 415,715.33 | 74.07 | 682,529.73 | 384,126.14 | 77.68 | 5.68 | 7.60 | -1.92 |
| Total | | 12,656,150.99 | 11,455,891.61 | 10.48 | 10,522,538.35 | 9,571,040.05 | 9.94 | 16.86 | 16.45 | 0.41 |

2.areas of principal business Unit: RMB'000

| Areas | 2006 | 2005 | Increase / decrease (%) |
|---|---|---|---|
| Mainland of China | 10,548,249.36 | 9,977,030.27 | 5.73 |
| Hongkong and overseas | 3,868,383.19 | 2,694,968.19 | 43.54 |
| Consolidation groups | 12,656,150.99 | 11,455,891.61 | 10.48 |

Notes: there was no associated transaction.

(Ⅴ). Analysis on the major financial indicators
1. The gross profit ratio of color TV had decreased because the Company developed sales promotion for enlarging scope and increasing market share. The gross profit ratio of mobile phone had increased fairly large, mainly because the Company controlled the cost efficiently on the premise of keep average sales price steady.
2. The net profit had increased by a large margin, mainly because that in the report period, while the color TV business continuously keep fairly good profit, the profit capacity of mobile phones increased steadily and elevated the profit of the whole company.
3. Cash capital had increased mainly because the notes receivable was returned in time.
4. The investment yield had decreased by a large margin compared with the last period, mainly because of the reduction of depreciation preparation in stock investment on Guangzhou Huadu Longfeng Real Estate Co., Ltd.
5. The profit of other business increased by a large margin mainly because the income of selling waste increased and the wholly—owned subsidiary of the Company,.

Ⅱ. Operation and performance of the Principal Subsidiaries and Holding Companies
(1) Shenzhen Konka Communications Technology Co., Ltd.
With its equity directly and indirectly held by the Company by 100% and registered capital of RMB 120 million, KONKA Communications is engaged in the business of developing, producing and selling digital mobile communication equipment and mobile phone products. At the end of the report period, the Company's total assets were RMB 817,117,516.65, the sales income in 2006 was RMB 1,777,535,437.85 and net profit was RMB2,073,392.83.
(2) Dongguan KONKA Electronics Co., Ltd.
With registered capital of RMB 200 million, Dongguan KONKA is one of the Company's solely owned subsidiaries, and is engaged in production and operation of color TV and acoustic products, etc. At the end of the report period, the Company's total assets were RMB 429,013,560.34, the sales income in 2006 was RMB 181,054,010.91 and net profit was RMB -2,640,142.96.
(3) Mudanjiang KONKA Industrial Co., Ltd.
With its equity held by the Company by 60% and registered capital of RMB 60 million, Mudanjiang KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 120,540,505.12, the sales income in 2006 was RMB 41,375,180.77 and net profit was RMB -6,139,679.28.
(4) Shanxi KONKA Electronics Co., Ltd.
With its equity held directly and indirectly by the Company by 60% and registered capital of RMB 69.5 million, Shanxi KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 142,717,652.12, the sales income in 2006 was RMB 164,897,947.59 and net profit was RMB 6,705.502.63
(5) Anhui KONKA Electronics Co., Ltd.
With its equity held by the Company by 78% and registered capital of RMB 140 million, Anhui KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 441,267,174.35, the sales income in 2006 and net profit was RMB 534,859,777.88 and net profit was RMB 8,693,720.32.
(6) Chongqing KONKA Electronics Co., Ltd.
With the equity held by the Company by 60% and registered capital of RMB 45 million, Chongqing KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 74,108,028.44, the sales income in 2006 was RMB 48,947,582.32 and net profit was RMB 87,584.75.
Ⅲ. Major suppliers and customers
The total purchase amont from the top five suppliers was RMB 1,953,983,359, accounting for 18.63% of the Company's total purchase amount. The total sales revenue from the top five distributors was RMB 975,536,146.11, accounting for 7.72% of the Company's total sales amount.
Ⅳ. Operation problems, difficulties and solutions
(Ⅰ) Flat-panel TV pricing is still dropping with the fierce competition.
Solution proposal: facing the competition of Flat-panel TV, the Company will reinforce the innovation project; truly improve product design competence and executive competence, which covers the whole life cycle of the products, based on further grasping perfect project. Also, the Company will make accurate product-line plan, product definition and diversification plan, based on the consumer research and market segmentation. Continuously reinforce of company

distribution channel and customer service network, make cost and expense control, and establish a positive defense system in order to face price fight.
(Ⅱ) Product export of the Company confront a greater pressure with continuous increase value of RenMinBi.
Solution Proposal: the Company negotiates with bank about contract on long-term locking exchange settlement rate; try the way of the long-term foreign exchange transaction, options, etc. through increase money receive, notes and bills receivable discounted, and enlarge the import material stocking proportion calculated in USD, so as to avoiding the risk brought by USD depreciation. Meanwhile, the Company took advantages of overseas base; enhanced the project's processing of southeastern Asia and Turkey plants; improved negotiation suited for material stocking in local, so as to transferring the cost of processing charge, shell, etc. to those countries with lower cost and more stable exchange rate.
(Ⅲ) fierce competition of mobile phone industry
Solution proposal: the Company renovated on marketing & products. According to the tactic of "rhythm & speed", the Company master tactic driving rights in market competition: (1) take market as lead of product plan & layout, and balance the development previews and cost advantages, so as to taking up market chance and retaining enough supply funds; (2) take main machine type as a core to form the best competition tactic; (3) partial market leads to profundity marketing.
(Ⅳ) LCD Screen TV replaced Color Kinescope TV rapidly, which lead to a must of setting up new competition advantage.
Resolution proposal: (1) expedite the construction of color TV production base (mainly construct advanced color TV production line, like flat-panel, digital, 16:9, etc.); (2) fulfill perfect project tactic; pay much attention on product innovation, quality, service to fully improve product trait (appearance, function, quality, service and so on.); (3) enhance management; take advantage of potential of equipment and staff; (4) perfect system process construction; continuously improve operation efficiency of color TV and market reaction speed.
Ⅴ. Investment of the Company
(Ⅰ) In the report period, the Company raised no funds through share offering and had no material investments.
(Ⅱ) Projects invested with funds not raised through share offering.
The Company had no significant projects invested with non-raised proceeds in the report period.
Ⅵ. Financial Position Unit: in RMB'000

| Item | At the end of 2006 | At the end of 2005 | Increase/ decrease (%) | Major reason for the change |
|---|---|---|---|---|
| Total assets | 9,952,185.21 | 9,120,452.30 | 9.12 | Increase of current assets |
| Net accounts receivable | 951,277.32 | 677,364.20 | 40.44 | Change of part of the sales policies |
| Net inventories | 3,551,896.72 | 3,385,558.30 | 4.91 | Preparation of goods in midseason |
| Net long-term investment | 75,325.75 | 64,475.70 | 16.83 | Increase long-term share equity investment |
| Net fixed assets | 1,268,113.98 | 1,298,792.50 | -2.36 | Investment control in fixed assets |
| Long-term liabilities | 27,494.99 | 20,179.10 | 36.25 | Increase of special accounts payable |
| Shareholders' equity | 3,301,759.72 | 3,211,212.30 | 2.82 | Net profit made |
| Item | 2006 | 2005 | Increase/ decrease (%) | Major reason for the change |
| Profit from main operation | 2,131,447.55 | 1,883,466.32 | 13.17 | Increase of the sales income, decrease of gross profit ratio |
| Net profit | 102,638.44 | 71,898.95 | 42.75 | Increase of profitability of the mobile phone operation, continuous profit making of color TV operation |

Ⅶ. Management plan in the new year
(Ⅰ) 2007 operation environments analysis
1. On macro-economic
In the year of 2007, macro status is in good condition both in domestic and overseas. Electronics Industry Market in consume still keep stable increase, also exists uncertain factors. Especially, potential changes of exchange rate bring greater pressure on the Company.
2. On Industry

In the year of 2007, the Company faces a austere challenge.
(1) LCD Television more rapid replaced CRT Television. The Company owns enough advantages in the operation of traditional CRT Television, including cost advantages and dimension advantages. However, these advantages become weaker and weaker in LCD Television operation, and new competition advantages need to be set up and strengthen. At the same time, it is hard to control the price-dropping with the continuous and rapid decrease.
(2) Fulfillment of high patent expense brings a great pressure on cost.
(3) International brand further play a important role in Chinese market, which will bring more pressure on the Company. Orderless development of the domestic middle and small-size industry with low quality products enable the orderless market worse and worse.
(Ⅱ). Management plan on 2007
1. Emphasizing on setting up two consciousnesses
In the year of 2007, based on further development of the value operation conception, the Company will build two consciousnesses: on one hand, profit orientation consciousness; on the other hand, renovation consciousness.
(1) Profit orientation consciousness: the Company will set up profit orientation consciousness in the round, and direct & enhance the development of all kinds operation by this consciousness.
(2) Renovation consciousness: as long as set up a strong renovation consciousness to deal with changes, competition, in current increased competition, the Company can survive in the future challenge. The Company will participate in & approve renovation actively, and assume cost & risk brought by the renovation, which can enable renovation become to a normal.
2. Grasp 6 items important work in the year of 2007
(1) Continuously deepen value operation concept, further push the development of three main projects.
On prefect project: the Company will introduce prefect product series with international lever aimed at Olympic Games. Those products must be the excellent products in all aspects (appearance & sculpt, product quality, operation function, financial index, market performance, etc.), and it can set trend for Olympic products with the above traits.
In quality project: continue the style and culture of quality-management --- “Hard heart, Incorruptible face, Iron hand”, use the strictest and severest conceptions and administration to improve quality.
In creation project: 1. Accomplish the production task on time with full regard of the quality. 2. Grasp the creation and breakthroughs of the digital skills. 3. Make great efforts in the structuring of organization and management and the creating of flow system.
(2) Set up the SCM System; enhance the reform of supply chain
The features of the flat TV and mobile phone industry demand super-high abilities in controlling the supply chain : 1. Set up project group for optimizing supply chain, for systematizing the administering flow of the correlative supply chain to find weak point and problem; 2. Use the supply chain’s administration of flat products as the experimental unit, build organization structure and flow system which is named SCM System internationally, containing the whole flow of the supply chain’s administration; 3. Set clear KPI guideline for supply chain and assign the work to specific undertakers with tracking and supervising periodically, make advancing plan according to the reality and raise the business level fundamentally ; 4. Optimizing the system of inner business, let it be the tool for every another operation to enhance its competitiveness.
(3) Start the distribution of transnational native operation
Currently, the company’s two main operations -- color TV set and mobile phone could make further progress in the domestic market, but the larger expanding space will be out of the country. New space will bring new progress. Therefore, with steadying the domestic market, the company will start the distribution of transnational native business, plan the global market scientifically, institute and actualize the strategies reasonably, accelerate the process of Konka’s internationalization to achieve the rapid growth of the operation.
(4) Push the plan of the development of talent
Talent is the most fundamental resource for Konka’ future. Recently, the company has operations to make further progress, has new operations to be start quickly, has administration to be innovated and accelerated. All these businesses need a lot of manpower. For the sake of the development of talent, the company basing on the project on administering administrator’s knowledge and ability, builds Konka’s “Talent Developing Building”, which systematically describes the thoughts,

methods and tools of talent's developing, and starts application on enhancing backbone's ability.
(5) Inspirit the reform of mechanism
In 2007, the company will positively explore and build the more efficient mid-and-long term of inspiriting mechanism. The policy of inspiriting should profit the best talent, and let them develop with the company.
(6) Enhance the healthy development of new operations
New operations are important points of the new round of strategic development and the key point of optimizing operations' distribution and eluding the risks in business. Therefore, the company will build loose developing circumstance and agile working system to encourage and enhance the development of new operations.
Furthermore, the company will pay attention to every aspect of administration and operation developing such as financial management, forensic audit, information construction, investments, party-construction and corporation culture, stocking, manufacturing, R & D, quality-control, selling and market etc.; Commence works efficiently and steadily with creative thinking to help Konka gain much achievement.

Ⅷ. Routine work of the Board of Directors
( Ⅰ ) Meetings held in the report period and content of the resolutions.
During the report period, the Board of Directors of the Company held 7 meetings in total, i.e. the $13^{th}$, $14^{th}$, $15^{th}$, $16^{th}$, $17^{th}$, $18^{th}$ and $19^{th}$ of the $5^{th}$ Board of Directors. Details of the meeting and resolutions made are as follows:
1. the $13^{th}$ meeting of the $5^{th}$ Board of Konka Group Co., Ltd was held on the morning of Apr. 14, 2006 at Venice Hotel in Shenzhen. Notice on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Apr. 3, 2006. 9 directors should attend the meeting, and actually 8 did. Director Mr. Wei Qin was on a business trip, and he had entrusted Chairman of the Board Mr. Hou Rongsong to attend the meeting and exercise voting on his behalf. All supervisors of the Supervisory Committee and some of the Company's senior executives also joined the meeting. Chairman of the Board Mr. Hou Rongsong presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, the meeting considered and approved proposal on the Anti-guarantee of Line of Credit. Associated director Mr. Jian Di'an avoided voting as the Board of Director voting on the associated transaction. And other directors approved the proposal.
2. the $14^{th}$ meeting of the $5^{th}$ Board of Konka Group Co., Ltd was held at meeting room of Shenzhen Overseas Chinese Town Group Corporation on the morning of Apr. 25, 2006 ( Tuesday ). Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Apr. 15, 2006. 9 directors should attend the meeting, and actually 8 did. Director Mr. Xiao Zhuoji was on a business trip, and he had entrusted Independent Director Mr.Ye Wu to attend the meeting and exercise voting on his behalf. All supervisors of the Supervisory Committee and some of the Company's senior executives also joined the meeting. Chairman of the Board Mr. Hou Rongsong presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, following resolutions had been examined and approved:
(1) Examined and approved the Annual Report 2005 of the Company and the Summary.
(2) Examined and approved the First Quarter Report for 2006 of the Company.
(3) Examined and approved the Profit Distribution Plan for 2005.
(4) Examined and approved the Petition on Daily Associative Transactions Forecast.
(5) Examined and approved the Preplan of Profit Distribution for 2006.

3. The $15^{th}$ meeting of the $5^{th}$ Board of Konka Group Co., Ltd was held at meeting room of Venice Hotel in Shenzhen on the morning of Jun. 7, 2006 (Wednesday). Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on May 27, 2006. 9 directors should attend the meeting, and actually 7 did. Director Mr. Jian Di'an and Mr. Wei Qing were on a business trip, and they had entrusted Chairman of the Board Mr. Hou Rongsong and Director Ms. Huo Jun to attend the meeting and exercise voting on their behalf, respectively. All supervisors of the Supervisory Committee and some of the Company's operation staff also joined the meeting. Chairman of the Board Mr. Hou Rongsong presided at the meeting. The meeting had been in

conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, following resolutions had been examined and approved:
(1) Examined and approved the Work Report of the Board of Directors for 2005.
(2) Examined and approved the Proposal on Revising the Articles of Association.
(3) Examined and approved the Proposal on Revising Rule of Procedure of Shareholders' Meeting.
(4) Examined and approved the Proposal on employing Auditing Unit and Auditing Expense.
(5) Examined and approved the Proposal on Liability Insurance Purchasing.
(6) Examined and approved the Report on Work of Independent Director for 2005 (Xiao Zhuoji).
(7) Examined and approved the Report on Work of Independent Director for 2005 (Ye Wu).
(8) Examined and approved the Report on Work of Independent Director for 2005 (Ma Liguan).
(9) Examined and approved the Proposal on Holding Shareholders' General Meeting 2005.
(10) Examined and approved the Proposal on Assigning Part Equity of Ankang Electronic Company.

4. The 16$^{th}$ meeting of the 5$^{th}$ Board of Konka Group Co., Ltd was held on the morning of Aug. 17, 2006 (Thursday) at meeting room in office building of Shenzhen Overseas Chinese Town Group Corporation. Notices on this meeting were sent to all shareholders through either e-mails, or written notices or faxes on Aug. 7, 2006. 9 directors should attend the meeting, and actually 8 did. Independent Director Ms. Ma Liguang was on a business trip, and she had entrusted Independent Director Mr.Ye Wu to attend the meeting and exercise voting on his behalf. All supervisors of the Supervisory Committee and some of the Company's senior executives also joined the meeting. Chairman of the Board Mr. Hou Rongsong presided at the meeting. The meeting had been in conformity with the Company Law of the People's Republic of China and the Articles of Association. After adequate deliberation, examined and approved the Mid-term Report 2006 of the Company and the Summary.

5. The 18$^{th}$ meeting of the 5$^{th}$ Board of Konka Group Co., Ltd was held on the morning of Oct. 23, 2006. Directors voted on the meeting in the way of fax. Examined and approved the 3$^{rd}$ Quarter Report for 2006 of the Company.

Resolutions of the aforesaid 7 Board meetings were published in China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as the internet website designated www.Cninfo.com.cn on Mar. 2, 2006, Apr. 27, 2006, Aug. 19, 2006 and Oct. 25, 2006 respectively.

(Ⅱ) Implementation of the resolutions of the Shareholders' General Meeting by the Board.
The Board of Directors had dutifully implemented the resolutions of the Shareholders' General Meeting: revised the Article of Association and Rule of Procedure of Shareholders' Meeting.

Ⅸ. Profit distribution or capitalization of capital reserve plan for the report period
For the year 2006, the net profit of the Company after auditing was RMB 102，638，435.58. In accordance with the actual status of the Company and long-term development demand, the Board of Directors decided the profit distribution plan for the year 2006 after serious deliberation at the 21$^{st}$ meeting of the 5$^{th}$ Board of Directors 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.
This plan still needs the approval of the Shareholders' General Meeting.
In the opinion of the Company's independent directors, the profit distribution preplan of the Company complied with relevant provisions of the Company Law and the Articles of Association

of the Company and did not harm the interests of middle and small shareholders.

Ⅹ. Special explanation on the capital current with related parties and external guarantees
(Ⅰ) Explanation on the implementation of the Notice on Problems of Standardizing the Capital Current between Listed Companies and Related Parties and the External Guarantees of List Companies (CSRC [2003] No. 56 Document):
Full text of the special explanation given by the CPAs on the capital occupations by the controlling shareholder and other related parties is as follows:
Special Explanation on the Capital Occupations
by the Controlling Shareholder and Other Related Parties
of Konka Group Co., Ltd.

SH (2007) ZSZ No. 129

China Securities Regulatory Commission, China Securities Regulatory bureau, Shenzhen Stock Exchange
We, CPAs of Shenzhen Dahua Tiancheng Certified Public Accountants (hereinafter referred to as the CPA), have audited the Financial Statements of Konda Group Co., Ltd (hereinafter referred to as the Company) and Consolidated Balance Sheet of the Company & Consolidated Balance Sheet ended Dec. 31, 2006, Consolidated Income Statement and Profit Appropriation Statement of the Company & Consolidated Income Statement and Profit Appropriation Statement of the year 2006, as well as Consolidated Cash Flow Statement and Notes of Financial Statements of the Company & Consolidated Cash Flow Statement and Notes of Financial Statements of the year 2006, and issued the SH (2007) GSZ No.029standard unqualified Auditors' Report on April,17, 2007.
According to the Notice on Problems of Standardizing the Capital Current between Listed Companies and Related Parties and the External Guarantees of Listed Companies (CSRC [2003] No. 56) issued by the CSRC, the Company compiled Annual Controlling Shareholder and Other Related Parties Funds Occupation Statement (hereinafter referred to as Statement) ended Oct. 31, 2006 listed affix of this explanation.
It is the Company's responsibility to faithfully compile and disclose this Statement as well as to guarantee the authenticity, legitimacy and completeness. We have checked the materials recorded in the Statement against the accounting materials and relevant content of the accounting statements during our auditing of the accounting statements ended Dec. 31, 2006 and have found no difference in any important aspects. Except for the relevant auditing on the related transactions during the auditing of the accounting statements ended Dec. 31, 2006 of the Company, we have conducted no extra auditing on the materials recorded in the Statement.
This Special Explanation has been provided by us on the requirements of the CSRC and its Branch institution as well as the Shenzhen Stock Exchange, and it cannot be applied for other uses. Should any consequences be generated due to inappropriate application, it will have noting to do with the CPAs and the accounting agency that have conducted this business.
Attachment: Statement on shareholders and other related capital currents of the Listed Company in 2006.

Shenzhen Dahua Tiancheng Certified Public Accountants CPA
Shenzhen ·China CPA
Apr. 17, 2007

**Attachment Ⅰ: Statement on shareholders and other related capital currents of the Listed Company in 2006**

| Sort of the occupier | Name of the occupier | Related relationship between the occupier and the Listed Company | Accounting item calculated by the List Company | Balance of the capital occupied at the beginning of 2006 | Accumulated amount occupied in 2006 | Accumulated amount repaid in 2006 | Balance of capital occupied at the end of 2006 | Reasons for the occupation | Nature of the occupation |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders, actual controller and affiliated enterprises | Shenzhen Konka Power Source Technology Co., Ltd. | Subsidiary of the principal shareholder | Accounts receivable | 113.00 | - | - | 113.00 | Current accounts | Operating current |
| | Shenzhen OCT Real Estate Co., Ltd. | Subsidiary of the principal shareholder | Other accounts receivable | 121.95 | 96.91 | 91.68 | 127.18 | Rent for dorm and deposit | Operating current |
| | Shenzhen OCT Property Management Co., Ltd. | Subsidiary of the principal shareholder | Other accounts receivable | 7.69 | 0.50 | 0.50 | 7.69 | Deposit for property management | Operating current |
| | Shenzhen Special conomic Zone Water and Power Company | Subsidiary of the principal shareholder | Other accounts receivable | 183.13 | 1,078.71 | 1,037.72 | 224.12 | Advance payment of water and power charges | Operating current |
| Subtotal | - | - | - | 425.77 | 1,176.11 | 1,129.89 | 471.99 | | - |
| Related natural persons & the legal person controlled by them | | | | | | | | | |
| Subtotal | - | - | - | - | - | - | - | - | - |
| Other related persons & their affiliated enterprises | | | | | | | | | |
| | | | | | | | | | |
| Subtotal | - | - | - | - | - | - | - | - | - |
| Subsidiaries of the List Company and the affiliated enterprises | | | | | | | | | Non-operation current |
| | | | | | | | | | Non-operation current |
| | | | | | | | | | Non-operation current |
| Subtotal | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | 425.77 | 1,176.11 | 1,129.89 | 471.99 | - | - |

Legal Representative in Company: Hou Songrong Chief Accountant: Yang Guobin Leader of Accountant Institute: Ruan Renzong

(Ⅱ) the special explanation and independent opinions of independent directors on the guarantees provided by the Company and its implementation of the Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties issued by CSRC (ZJH 2003 No. 56 Document).

According to the requirements of the Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties issued by CSRC (ZJH [2003] No. 56 Document), we examined and verified the guarantees provided by Konka Group Co., Ltd. ("the Company") and carefully read 2006 auditor's report and the Special Statement on Fund Occupation by the Controlling Shareholder and Related Parties of Konka Group Co., Ltd. issued by Shenzhen Dahua Tiancheng Certified Public Accountants. Independent directors unanimously held the following opinion: in the report period, the fund transfer between the Company and its related parties was normal and in small amount. The accounting treatment was reasonable and conservative. As of Dec. 31, 2006m the Company did not provide any guarantee to others, operated in a standardized way and did not violated the requirements of ZJF (2003) No. 56 Document.

Independent directors: Ma Liguang and Ye Wu

Ⅺ. Other matters

(Ⅰ) the Company chose China Securities Journal, etc. as the newspapers for information disclosure.

(Ⅱ) the Company employ Shenzhen Dahua Tiancheng Certified Public Accountants to take charge auditing of the Company 2006.

## Section Ⅸ Report of the Supervisory Committee

Ⅰ. Work of the Supervisory Committee

In the report period, the 5th Supervisory Committee of the Company held 3 meetings in total, i.e., the 7th, 8th ,9th and10 th meeting of the 5th Supervisory Committee. The particulars of the meetings and resolutions are as follows:

(Ⅰ) the 7th meeting of the 5th Supervisory Committee of the Company was held in Shenzhen OCT Group Corporation on the morning of Apr. 26, 2006 (Wednesday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. Upon full discussion, the meeting examined and unanimously believed that compiling and considering process on 2005 Annual Report of Konka Group Co., Ltd is accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the 2005 Annual Report can reflect the financial status, operation achievement, legal person administration and operation development actually, accurately and integrally.

(Ⅱ) The 8th meeting of the 5th Supervisory Committee of Konka Group Co., Ltd was held on the morning of Jun. 7, 2006 (Wednesday) at meeting room of Venice Hotel in Shenzhen. Notices on this meeting were sent to all supervisors through either e-mails, or written notices or faxes on May 27, 2006. 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. Upon full discussion, the meeting considered and approved 2005 Annual Work Report of Supervisory Committee of the Company with all full votes.

(Ⅲ) The 9th meeting of the 5th Supervisory Committee of Konka Group Co., Ltd was held at meeting room in office building of Shenzhen OCT Group Corporation on the morning of Aug.17, 2006 (Thursday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. Upon full discussion, 3 supervisors unanimously believed that compiling and considering process on 2006 Mid-term Report & Summary of Konka Group Co., Ltd is accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form of 2006 Mid-term Report & Summary in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the 2006 Mid-term Report & Summary can reflect the financial status, operation achievement, legal person administration and operation development of 2006 mid-term actually, accurately and integrally.

The resolutions of the above 3 meetings of the supervisory committee were published in the newspapers designated by CSRC, i.e., China Securities Journal, Securities Times, Shanghai Securities News and Ta Kung Pao, designated website www.cninfo.com.cn respectively on Apr. 27, 2006, Jun. 9, 2006, and Aug. 19, 2006.

(Ⅳ) The 10 th meeting of the 5th Supervisory Committee of Konka Group Co., Ltd was held at meeting room in office building of Shenzhen OCT Group Corporation on the morning of Oct.23, 2006 (Monday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. Upon full discussion, 3 supervisors unanimously believed that compiling and considering process on 2006 3rd Quarterly Report & Summary of Konka Group Co., Ltd is accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form of 2006 3rd Quarterly Report & Summary in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the 2006 3rd Quarterly Report & Summary can reflect the financial status, operation achievement, legal person administration and operation development of 2006 3rd Quarter actually, accurately and integrally.

**II. Independent Opinions of the Supervisory Committee**

(Ⅰ) The operation of the Company according to law

In 2006, the operation of the Company complied with relevant laws and regulations including the Company Law, the Securities Law and Listing Rules and provisions of the Articles of Association of the Company. The Company's directors and senior executives implemented resolutions of shareholders' general meetings and board meetings, worked diligently and constantly improved internal control system. The Company's directors and senior executives neither violated laws national laws and regulations and the Articles of Association of the Company nor harmed the interests of the Company when they performed their duties.

(Ⅱ) Inspection of the financial status of the Company

The supervisory committee seriously and carefully inspected the Company 's financial system and financial position and held the opinion that the Company's financial management was canonical, and the funds usage was reasonable. The financial report of the Company for 2006 truly reflected its financial position and operating results and the standard unqualified auditing opinions issued by Shenzhen Dahua Tiancheng Certified Public Accountants were objective and fair.

(Ⅲ)Utilization of raised proceeds of the Company

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

(Ⅳ) Acquisition and disposal of assets by the Company

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

5. Related transactions

1. The Company was involved in related transactions with the subsidiaries of the controlling shareholder of the Company, including the paying of property management fee water and electricity expenses, land use fee and purchase of goods, which were all fair transactions and carried out at normal market price. The related transactions did not harm the interests of the Company and its other shareholders.
2. In the report period, there existed related transaction of shares transfer with Anhui Tianda. Making procedure of contract of the above related transaction was in compliance with Stock Listing Rules of Shenzhen Stock Exchange and procedure regulated in the domestic laws and rules, the price was fair and reasonable, which did not harm the interests of medium- and small shareholders, and was fair and reasonable for the Company and all shareholders.
3. In the report period, the Meeting of Board of Directors of the Company and the Shareholder's General Meeting considered and approved that the Company provides 4 billion counter-guarantee for OCT Group Corporation with the Company assets, from Feb. 11, 2006 to Dec. 5, 2006. And the counter-guarantee has been at term. The content of this transaction was fair, reasonable; process was legal and accorded with the benefit of the Company and shareholders.
4. In the report period, the Company was not involved in joint external investment with related parties.

## Section X. Significant Events

I. Material lawsuits and arbitration

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

II. Significant acquisitions, takeovers and mergers

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

III. Significant related transactions

(Ⅰ) In 2006, the Company was involved in the related transactions with the subsidiaries of the controlling shareholder of the Company (OCT Group Corporation), including the paying of payment property management fee, water and electricity expenses, land use fee and purchase of goods, which were all fair transactions and carried out at normal market price. The related transactions did not harm the interests of the Company and its other shareholders. Refer to "(5) Transactions with related companies" and "(6) Current accounts with related companies" of Note 6 to the financial statements in the financial report for details.

(II)Related transactions concerning routine operation

| Type of related transaction | Further classification according to product or labor service | Related parties | Total amount | | Proportion taking up the amount of the same kind of transactions |
|---|---|---|---|---|---|
| Purchase of raw materials | Raw materials of packing | Shanghai Huali Packing Co., Ltd | 54,089,736.02 | 105,002,952.25 | 0.58% |
| | | Shenzhen Huali Packing & Trading Co., Ltd | 29,048,590.63 | | 0.31% |
| | | Mudanjiang Huali Packing Co., Ltd | 11,759,349.34 | | 0.13% |
| | | Anhui Huali Packing Co., Ltd. | 10,105,276.26 | | 0.11% |

1. The Company has published the Forecasting Public Notice on Routine Related Transaction (public notice No. 2006-18) 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. 27, 2006. 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. Shenzhen Huali Packing & Trading Co., Ltd, Mudanjiang Huali Packing Co., Ltd was basically in compliance with the forecasting.

2. The operation between the Company and above affiliated enterprises ran in accordance with the market managing rule, and obeyed fair & justice market principle. The Company treated equally as other transaction enterprise, and there was no damage on benefits of the Company and all the shareholders.

3. Affiliated transactions of the Company with the above associated parties belong to daily operation activities of the Company, which is a necessity. The Company will continuously cooperate with them in fair and justice, provided the stable development of the Company's operation. The above affiliated transactions are benefiting the long-term cooperation between the Company and associated parties; also, it can help the operation and production development of the Company with the realization of advantage complementation & merit exertion. At the same time, long-term and favorable cooperation between the Company and affiliated parties decrease the adaptive cost each other.

(Ⅲ) Associated transactions of assets and shares transferring

In the report period, the 15th meeting of the 5th Board of Directors considered and approved that, the Company purchased 13% shareholding of Anhui Konka Electronic Co., Ltd. holding by Anhui Tianda Group Co., Ltd.. Anhui Tianda Company holds 13% shareholing of Ankang Electronic Company with book value of RMB 27,901,909.47. And its evaluation value was RMB 31,780,937.98, after evaluated by Sinocoms Appraisal Co., Ltd.. The Company resigned 13% shareholding of Ankang Electronic Company holding by Anhui Tianda Company with evaluation RMB 31,780,937.98.

Asset evaluation increment of Ankang Electronic Co., Ltd. mainly depends on the evaluation increment of building and land use rights, among which increment rate of building and use rights were 14.18% and 125.71% respectively after evaluation. And except that, other assets evaluation decrement was RMB 1,529,000.27. Evaluation of building and land use rights adopted the way of market value, which is fair & justice, and the increment is the normal reflection from changes of market value. In the process of evaluation, two parties employed assets evaluation institute in accordance with principles of independent, objective, scientific. There was no benefit relationship existing between evaluation relationships and evaluation parties. Therefore, evaluation results were reasonable, credible and justice.

(Ⅳ) Guarantees between the Company and affiliated parties

In the report period, the Company signed Commitment Loan Agreement with China Bank Group Co., Ltd. Shenzhen Branch on Feb. 10, 2006, on which Shenzhen Branch promised to provide General Commitment Loan RMB 4 billion for the Company, so as to satisfy the Company's need for daily operation funds 2006, and assure stable and continuity of the Company operation funds. According to the requirement of Shenzhen Branch, OCT Group Corporation had provided guarantee for Commitment Loan of Shenzhen Branch with RMB 4 billion. The meeting of the Board of Directors and Shareholders' General Meeting considered and approved that, the Company provides counter-guarantee of 4 billion for OCT Group Corporation with assets of the Company from Feb. 11, 2006 to Dec. 5, 2006. And the counter-guarantee has been ended. The content of this transaction is fair, reasonable, and process is legal, which satisfy the long-term benefit of shareholders.

IV. Significant contracts and their performance

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

( Ⅱ ) Guarantees

1. In the report period, the Meeting of Board of Directors of the Company and the Shareholder's General Meeting considered and approved that the Company provides 4 billion counter-guarantee for OCT Group Corporation with the Company assets. Details published in 3rd "Significant Associated Transaction (Ⅳ)" in the 10th chapter of 2006 Annual Report.

2. Except the above guarantee, in the report period, the Company did not provide guarantees to others.

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

V. Commitments

( Ⅰ ) In the report period, former non-tradable shareholders of the Company, OCT Group Corporation, Anhui Tianda (Group) Co., Ltd. and Thomson Investment Group Limited, promised in the share merger reform as follows:

| Name of shareholders | Particular promise events | Fulfillment of promise | Note |
|---|---|---|---|
| OCT Group Corporation | Promise to pay 35% of consideration arrangement for share merger reform by Anhui Tianda (Group) Co., Ltd and THOMSON INVESTMENTS GROUP LIMITED. | Per-payment | |
| Anhui Tianda (Group) Co., Ltd.<br>Thomson Investment Group Limited | Promise to return shares paid by Overseas Chinese Town Group Company before A shares of the Company listed and trade in the market. | Not apply for list and trade | |
| OCT Group Corporation<br>Anhui Tianda (Group) Co., Ltd.<br>Thomson Investment Group Limited | (1) Promise non-tradable shares of Konka Group will not get listed or traded within 24 months since the day get the listing and trading option in the A share market. (2) After the promise period, every non-tradable shareholder sell no more than 5% of total shares of Konka Group within 12 months and no more than 24% within 24 months in Shenzhen Stock Exchange. | There is no shares subject to moratorium listed or transferred | |

( Ⅱ ) There is no other commitments disclosed on designed newspaper and network by the Company and shareholders with over 5% shares.

VI. Certified public accountants' firm and remuneration

As examined and adopted at the annual shareholders' general meeting 2005, the Company engaged Shenzhen Dahua Tiancheng Certified Public Accountants to be responsible for 2006 audit of the Company. So far, this firm has provided audit services to the Company for five consecutive years.

In 2006, the Company paid financial audit fee of RMB 0.73 million for A shares to Shenzhen Dahua Tiancheng Certified Public Accountants, as well as RMB 0.45 million for B shares to K. C. OH & Company Certified Public Accountants.

VII. About share merger reform of the Company

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

The key points of share merger reform are as follows:

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

2. 35% of consideration need performed by Anhui Tianda Enterprise (Group) Co., Ltd. and Thomson Investment Group Limited, shareholders holding non-tradable shares, was paid in advanced by OCT Group Corporation (the first largest shareholder of the Company) instead of them. Anhui Tianda Enterprise (Group) Co.,Ltd. and Thomson Investment Group Limited promised that they must refund all shares to OCT Group Corporation that OCT Group Corporation paid in advance instead of them before listing for trade of Konka Stock A held by them.

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

Ⅷ. In the report period, related particulars on reception of inspection and interview of the Company

In the report period, the Company answered the call and received visit & inspection from investors, and explained related questions provided by them. In the process of reception, the Company provided published disclosure material in accordance with the regulations of Guidelines on Fair Information Disclosure of Companies Listed on the Shenzhen. Stock Exchange, Administrative Measures on Information Report and Disclosing of Konka Group Co., Ltd. and Investor Relations Management System of Konka Group Co., Ltd., The Company provided objective, actual, accurate and complete information for visitors, which reflected actual operation and management, meanwhile, it failed to disclose non-public significant information. In the report period, reception of inspection and interview are as follows:

| Time | Place | Manner | Reception object | Discussion content and material |
|---|---|---|---|---|
| Mar. 2006 | Meeting room of the Company | Oral | Huili Fund Management Company Limited | Operation status of the Company; product structure and R&D of new product |
| Mar. 2006 | Meeting room of the Company | Oral | Hongli Asset Management (HK) Ltd. | Basic information of the Company's operation; industry status of the Company |
| Jun. 2006 | Meeting room of the Company | Oral | Ping An Securities Co., Ltd. | Industry development trend; industry status of the Company |
| Jun. 2006 | Meeting room of the Company | Oral | Zhongxin Investment & Research Co., Ltd. | Related policies and regulations of industry; particulars of subsidiaries; developing tactic of the Company |
| July 2006 | Meeting room of the Company | Oral | Boshi Fund Management Co., Ltd. | Particulars of industry development; current products structure & particular of market; D & R of new products and marketing tactic |
| Aug. 2006 | Meeting room of the Company | Oral | Huaxia Securities Institute | Core competence of the Company; developing tactic; market futurity of new products and related developing |

| | | | | |
|---|---|---|---|---|
| Sep. 2006 | Meeting room of the Company | Oral | Guotai Junan Securities Co.Ltd. | Core competence of the Company; developing tactic; market futurity of new products and related developing |

## Ⅸ. Other significant events

(Ⅰ) In the report period, the Company, Directors, Supervisors and Senior managers of the Company failed to punish by the securities supervisory & administrant department.
(Ⅱ) Notice on Changes of Stock Structure: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Ta Kung Pao (HK), and notice was published on designated website www.cninfo.com.cn (No. of notice: 2006-10) on Mar. 30, 2006.
(Ⅲ) Resolution and Public Notice of 13th Meeting of the 5th Board of Directs and Notice on the Counter-guarantee Provided to Associated Parties: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Ta Kung Pao (HK), and notice was published on designated website www.cninfo.com.cn (No. of notice: 2006-13) on Apr. 18, 2006.
(Ⅳ) Forecast Notice of Daily Affiliated Transaction: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Ta Kung Pao (HK), and notice was published on designated website www.cninfo.com.cn (No. of notice: 2006-18) on Apr. 27, 2006.
(Ⅴ) Notice on Affiliated Transaction: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Ta Kung Pao (HK), and notice was published on designated website www.cninfo.com.cn (No. of notice: 2006-21) on Jun. 9, 2006.

## Section Ⅺ Financial Report

**Report of the auditors to the members ofKonka Group Co., Ltd.**
(Incorporated in the People's Republic of China with limited liability by shares)

We have audited the accompanying financial statements of Konka Group Co., Ltd., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Konka Group Co., Ltd. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**K. C. Oh & Company**

**Certified Public Accountants**
**Hong Kong : April 17, 2007**

# Section XI. DOCUMENTS FOR REFERENCE

Ⅰ. Accounting statements carried with the signatures and seals of legal representative, CFO and person in charge of accounting.
Ⅱ. Originals of domestic and overseas auditor's report carried with the seal of Certified Public Accountants, the signature and seal of certified public accountants.
Ⅲ. Originals of all documents and manuscripts of public notices disclosed on the newspapers designated by CSRC in the report period.
Ⅳ. Other relevant materials.

**Board of Directors of**
**Konka Group Co., Ltd.**

Apr. 19, 2007

**Konka Group Co., Ltd.**

**(Incorporated in the People's Republic of China)**

**Report of the auditors and financial statements**
**for the year ended December 31, 2006**

**Konka Group Co., Ltd.**

**(Incorporated in the People's Republic of China)**

| **Contents** | **Pages** |
|---|---|

**Report of the auditors to the members of**
**Konka Group Co., Ltd.**
*(Incorporated in the People's Republic of China with limited liability by shares)*

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**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Konka Group Co., Ltd. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**K. C. Oh & Company**
**Certified Public Accountants**

**Hong Kong : April 17, 2007**

**Konka Group Co., Ltd.**

**Consolidated income statement for the year ended December 31, 2006**

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Turnover** | 5 | 12,656,151 | 11,455,892 |
| **Cost of sales** | | ( 10,524,703 ) | ( 9,572,425 ) |
| **Gross profit** | | 2,131,448 | 1,883,467 |
| Other revenue | 6 | 34,884 | 39,210 |
| Distribution costs | | ( 1,528,856 ) | ( 1,419,200 ) |
| Administrative expenses | | ( 504,952 ) | ( 445,364 ) |
| **Operating profit** | | 132,524 | 58,113 |
| Finance costs | | ( 13,845 ) | ( 12,353 ) |
| Share of profit/(loss) from associates | | 574 | ( 833 ) |
| **Profit before taxation** | 7 | 119,253 | 44,927 |
| Income tax | 8 | ( 22,394 ) | ( 11,514 ) |
| **Profit for the year** | | 96,859 | 33,413 |
| **Attributable to :** | | | |
| Equity holders of the parent | | 89,366 | 19,552 |
| Share of results of minority interests | | 7,493 | 13,861 |
| **Profit attributable to equity holders of the parent** | | 96,859 | 33,413 |
| **Profit per share to equity holders of the parent - basic** | | RMB0.148 | RMB0.032 |

The calculation of the basic earnings per share is based on the current year's profit of RMB89,366,000 (2005 - RMB19,552,000) attributable to the equity holders of the parent and on the existing number of 601,986,352 shares in issue during the year.

**Konka Group Co., Ltd.**

**Consolidated balance sheet as at December 31, 2006**

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 1,308,162 | 1,332,475 |
| Land use rights – non-current portion | 10 | 26,428 | 27,059 |
| Goodwill | 11 | 4,840 | 989 |
| Intangible assets | 12 | 16,341 | 19,928 |
| Interests in associates | 13 | 46,151 | 44,284 |
| Other investments | 14 | 15,290 | 10,290 |
| | | 1,417,212 | 1,435,025 |
| **Current assets** | | | |
| Land use rights – current portion | 10 | 630 | 630 |
| Inventories | 15 | 3,551,897 | 3,385,558 |
| Properties held for sale | 16 | 4,172 | 4,172 |
| Account receivables | 17 | 950,048 | 676,234 |
| Prepayments, deposits and other receivables | 18 | 276,215 | 231,918 |
| Note receivables | 19 | 3,144,956 | 2,759,689 |
| Cash and bank balances | | 678,240 | 629,160 |
| | | 8,606,158 | 7,687,361 |
| **Total assets** | | 10,023,370 | 9,122,386 |

*(to be cont'd)*

**Konka Group Co., Ltd.**

**Consolidated balance sheet as at December 31, 2006**

*(cont'd)*

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 20 | 601,986 | 601,986 |
| Reserves | | 2,704,106 | 2,609,987 |
| **Equity attributable to equity holders of the parent** | | 3,306,092 | 3,211,973 |
| **Minority interests** | | 243,669 | 261,722 |
| **Total equity** | | 3,549,761 | 3,473,695 |
| **Non-current liabilities** | | | |
| Deferred income | | 7,495 | 10,493 |
| Other long-term liabilities | | 27,495 | 20,179 |
| | | 34,990 | 30,672 |
| **Current liabilities** | | | |
| Tax payable | | 10,088 | 4,536 |
| Account payables | | 1,217,777 | 1,430,260 |
| Other payables and accrued expenses | | 1,081,080 | 813,038 |
| Note payables | | 4,114,674 | 3,342,185 |
| Short-term bank loans | 21 | 15,000 | 28,000 |
| | | 6,438,619 | 5,618,019 |
| **Total liabilities** | | 6,473,609 | 5,648,691 |
| **Total equity and liabilities** | | 10,023,370 | 9,122,386 |

**The financial statements on pages 2 to 32 were approved and authorized for issued by the board of directors on April 17, 2007 and are signed on its behalf by :**

| | | |
|---|---|---|
| Director | Director | Director |
| Director | Director | Director |
| Director | Director | Director |

## Konka Group Co., Ltd.
## Consolidated statement of changes in equity for the year ended December 31, 2006

### Reserves

| | Share capital RMB'000 | Capital reserves RMB'000 | Surplus reserves RMB'000 | Accumulated profit/(loss) RMB'000 | Dividend reserve RMB'000 | Exchange reserve RMB'000 | Total reserves RMB'000 | Attributable to equity holders of the parent RMB'000 | Minority interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2005 | 601,986 | 1,820,452 | 1,133,044 | (361,412) | - | (378) | 2,591,706 | 3,193,692 | 247,827 | 3,441,519 |
| Profit for the year of 2005 | - | - | - | 19,552 | - | - | 19,552 | 19,552 | 13,861 | 33,413 |
| Funds from discretionary surplus reserve to make good the accumulated loss | - | - | (375,757) | 375,757 | - | - | - | - | - | - |
| Appropriation to statutory surplus reserve | - | - | 7,909 | (7,909) | - | - | - | - | - | - |
| Increase in minority interests | - | - | - | - | - | - | - | - | 34 | 34 |
| Exchange difference from translation of foreign operations | - | - | - | - | - | (1,271) | (1,271) | (1,271) | - | (1,271) |
| As at December 31, 2005 | 601,986 | 1,820,452 | 765,196 | 25,988 | - | (1,649) | 2,609,987 | 3,211,973 | 261,722 | 3,473,695 |
| Profit for the year of 2006 | - | - | - | 89,366 | - | - | 89,366 | 89,366 | 7,493 | 96,859 |
| Appropriation to statutory surplus reserve | - | - | 27,567 | (27,567) | - | - | - | - | - | - |
| Proposed final dividend | - | - | - | (60,199) | 60,199 | - | - | - | - | - |
| Dividend to minority interests | - | - | - | - | - | - | - | - | (22,823) | (22,823) |
| Decrease in minority interests | - | - | - | - | - | - | - | - | (2,723) | (2,723) |
| 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 | 792,763 | 27,588 | 60,199 | 3,104 | 2,704,106 | 3,306,092 | 243,669 | 3,549,761 |

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 year ended December 31, 2006**

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating profit before taxation | 119,253 | 44,927 |
| **Adjustment items :** | | |
| Interest income | ( 5,000 ) | ( 7,488 ) |
| Income from government grant | ( 2,998 ) | ( 2,997 ) |
| Other payables waived | - | ( 1,207 ) |
| Interest expenses | 4,146 | 4,456 |
| Depreciation of property, plant and equipment | 139,300 | 139,540 |
| Loss on disposal of property, plant and equipment | 1,211 | 1,815 |
| Reversal for impairment loss on property, plant and equipment | - | ( 260 ) |
| Amortization of land use rights | 631 | 630 |
| Impairment loss of goodwill | 38 | - |
| Amortization of intangible assets | 6,414 | 5,550 |
| Profit on partial disposal of a subsidiary | ( 1,378 ) | - |
| Share of results from associates | ( 574 ) | 833 |
| Reversal for impairment loss on associates | - | ( 8,391 ) |
| Provision for inventory obsolescence | 34,835 | 50,053 |
| Inventories written off | 22,592 | 27,040 |
| Provision for doubtful debts on account receivables | 14,634 | 18,271 |
| Provision for doubtful debts on other receivables | 1,712 | 2,148 |
| Net operating cash inflow before movements in working capital | 334,816 | 274,920 |
| Exchange reserve movement | 4,753 | ( 1,271 ) |
| (Increase)/decrease in inventories | ( 223,766 ) | 118,126 |
| Increase in account receivables | ( 288,448 ) | ( 123,489 ) |
| Increase in prepayments, deposits and other receivables | ( 46,009 ) | ( 34,815 ) |
| (Increase)/decrease in note receivables | ( 385,267 ) | 173,963 |
| Increase/(decrease) in account payables | ( 212,483 ) | 159,207 |
| Increase/(decrease) in other payables and accrued expenses | 268,042 | ( 7,012 ) |
| Increase/(decrease) in note payables | 772,489 | ( 635,138 ) |
| Cash generated from/(absorbed in) operations | 224,127 | ( 75,509 ) |
| Interest paid | ( 4,146 ) | ( 4,391 ) |
| Corporate and profits tax paid | ( 16,842 ) | ( 9,123 ) |
| **Net cash inflow/(outflow) from operating activities** | 203,139 | ( 89,023 ) |

*(to be cont'd)*

**Konka Group Co., Ltd.**

**Consolidated cash flow statement for the year ended December 31, 2006**

*(cont'd)*

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | | 203,139 | ( 89,023 ) |
| **Investing activities** | | | |
| Interest received | | 5,000 | 7,488 |
| Purchases of property, plant and equipment | | ( 136,245 ) | ( 120,738 ) |
| Proceeds from disposal of property, plant and equipment | | 20,047 | 6,137 |
| Purchases of intangible assets | | ( 2,827 ) | ( 14,464 ) |
| Returns from partial investment in associates | | 6,641 | 2,400 |
| Increase in investment in an associate | | ( 2,000 ) | - |
| Repayments to associates | | ( 5,934 ) | ( 3,967 ) |
| Acquisition of other investments | | ( 5,000 ) | - |
| **Net cash outflow from investing activities** | | ( 120,318 ) | ( 123,144 ) |
| **Financing activities** | | | |
| Bank loans repaid | 22 | ( 13,000 ) | ( 20,149 ) |
| Other long-term liabilities raised | 22 | 7,316 | 9,680 |
| Dividend paid to minority interests | 22 | ( 22,823 ) | - |
| Increase/(decrease) in minority interests | 22 | ( 5,234 ) | 34 |
| **Net cash outflow from financing activities** | | ( 33,741 ) | ( 10,435 ) |
| **Increase/(decrease) in cash and cash equivalents** | | 49,080 | ( 222,602 ) |
| **Cash and cash equivalents as at beginning of year** | | 629,160 | 851,762 |
| **Cash and cash equivalents as at end of year** | | 678,240 | 629,160 |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | | 678,240 | 629,160 |

## 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 Group has newly adopted the following new and amended IAS and Int. issued by IFRIC in the financial statements for the current year :

| | |
|---|---|
| IAS 21 | Amendment - The Effects of Changes in Foreign Exchange Rates |
| IAS 39 | Amendment - Financial Instruments: Recognition and Measurement |
| IFRIC - Int. 4 | Determining whether an Arrangement Contains a Lease |

The adoption of the above new IAS and Int. does not have any financial impact on the Group's financial statements for the years presented.

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 December 31, 2006 and on the operating results for the year 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.

## 3. Basis of consolidation

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

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

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

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

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

(a) Subsidiaries

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

As at December 31, 2006, the Company held the following subsidiaries :

| Name of the company | Place of incorporation/ registration | Registration capital '000 | Percentage of interest held Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Dongguan Konka Electronic Co., Ltd. | PRC | RMB200,000 | 100 | - | Production of TV sets, hi-fi, etc. |
| Konka Pacific Pty. Ltd. * | Australia | AUD1,000 | 100 | - | Sale of electronic products |
| Konka (U.S.A.) Ltd. * | U.S.A. | USD3,000 | 100 | - | Research and development |
| Konka America, Inc. | U.S.A. | USD1,000 | 100 | - | Sale of electronic products |
| Anhui Konka Electronic Co., Ltd. (1) | PRC | RMB140,000 | 78 | - | Manufacture and sale of TV sets |

## 3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

| Name of the company | Place of incorporation/ registration | Registration capital '000 | Percentage of interest held Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 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. (2) | 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 |

## 3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

| **Name of the company** | **Place of incorporation/ registration** | **Registration capital '000** | **Percentage of interest held Direct %** | **Indirect %** | **Principal activities** |
|---|---|---|---|---|---|
| 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 products |

* 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 increased an additional equity interest in the subsidiary Anhui Konka Electronic Co., Ltd. by 13% at a consideration of RMB31,781,000, amongst which a sum of RMB3,889,000 was goodwill.

(2) The Company increased an additional equity interest in the subsidiary Anhui Konka Electrical Co., Ltd. by 45% at a consideration of RMB6,793,000.

(3) The Company disposed of its 49% equity interest in the subsidiary Shenzhen Konka Precision Mould Co., Ltd. for RMB25,060,000, ending in a disposal profit of RMB1,378,000.

(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.

## 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 December 31, 2006, the Group held the associates as follows :

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

* This company was jointly invested by the Group and other four companies for developing a property development project, namely "Huadoushi Furong Village". During the year, the Group received a return of its partial investment in Huadoushi Longfeng Properties Development Co., Ltd. in the sum of RMB6,641,000.

## 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% |

## 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.

## 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.

## 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.

## 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.

## 4. Significant accounting policies (cont'd)

(q) Foreign currency conversion

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

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

(r) Leasing

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

i) The Group as lessor

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

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

## 4. Significant accounting policies (cont'd)

(r) Leasing (cont'd)

ii) The Group as lessee

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

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

(s) Impairment loss

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.

## 4. Significant accounting policies (cont'd)

(u) Income tax

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

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

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

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

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

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

## 5. Business and geographical segments

| | 2006 | | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Colour TV RMB'000** | **Mobile phone RMB'000** | **Others RMB'000** | **Elimination RMB'000** | **Consolidated RMB'000** | **Colour TV RMB'000** | **Mobile phone RMB'000** | **Others RMB'000** | **Elimination RMB'000** | **Consolidated RMB'000** |
| **Income statement** | | | | | | | | | | |
| External sales | 10,678,277 | 1,775,893 | 201,981 | - | 12,656,151 | 9,566,275 | 1,693,656 | 195,961 | - | 11,455,892 |
| Inter-segment sales | 4,531,770 | 1,642 | 588,738 | ( 5,122,150 ) | - | 3,748,258 | 1,062 | 219,754 | ( 3,969,074 ) | - |
| | 15,210,047 | 1,777,535 | 790,719 | ( 5,122,150 ) | 12,656,151 | 13,314,533 | 1,694,718 | 415,715 | ( 3,969,074 ) | 11,455,892 |
| Operating profit/(loss) | 164,509 | 4,292 | ( 36,265 ) | ( 12 ) | 132,524 | 264,154 | ( 193,178 ) | ( 27,422 ) | 14,559 | 58,113 |
| Finance costs | | | | | ( 13,845 ) | | | | | ( 12,353 ) |
| Share of profit/(loss) from associates | 574 | - | - | - | 574 | ( 833 ) | - | - | - | ( 833 ) |
| Income tax | | | | | ( 22,394 ) | | | | | ( 11,514 ) |
| Minority interests | | | | | ( 7,493 ) | | | | | ( 13,861 ) |
| Profit to equity holders of the parent | | | | | 89,366 | | | | | 19,552 |
| Balance sheet | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Segment assets | 8,659,864 | 817,118 | 480,775 | - | 9,957,757 | 8,038,250 | 624,487 | 400,903 | - | 9,063,640 |
| Interests in associates | 46,151 | - | - | - | 46,151 | 44,284 | - | - | - | 44,284 |
| Unallocated assets | | | | | 19,462 | | | | | 14,462 |
| | | | | | 10,023,370 | | | | | 9,122,386 |
| Liabilities | | | | | | | | | | |
| Segment liabilities | 5,498,870 | 708,726 | 223,518 | - | 6,431,114 | 4,791,401 | 640,679 | 168,432 | - | 5,600,512 |
| Unallocated liabilities | | | | | 42,495 | | | | | 48,179 |
| | | | | | 6,473,609 | | | | | 5,648,691 |

## 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 :

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Inside PRC | 10,548,249 | 9,977,030 |
| Outside PRC | 2,107,902 | 1,478,862 |
| | 12,656,151 | 11,455,892 |

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

| | Carrying amount of segment assets | | Capital additions | |
|---|---|---|---|---|
| | 2006<br>RMB'000 | 2005<br>RMB'000 | 2006<br>RMB'000 | 2005<br>RMB'000 |
| Inside PRC | 9,492,038 | 8,711,578 | 138,698 | 135,086 |
| Outside PRC | 531,332 | 410,808 | 374 | 116 |
| | 10,023,370 | 9,122,386 | 139,072 | 135,202 |

## 6. Other revenue

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Income from government grant (*) | 2,998 | 2,997 |
| Profit on partial disposal of a subsidiary | 1,378 | - |
| Impairment loss on associates reversed | - | 8,391 |
| Income from raw material less cost | 7,413 | 3,853 |
| Income form scrap products less cost | 17,307 | 10,714 |
| Liabilities waived | - | 1,207 |
| Other non-operating net incomes | 5,788 | 12,048 |
| | 34,884 | 39,210 |

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

## 7. Profit before taxation

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Profit before taxation has been arrived at : | | |
| After charging : | | |
| Auditors' remuneration | 800 | 800 |
| Directors' emoluments | - | - |
| Depreciation of property, plant and equipment | 139,300 | 139,540 |
| Amortization of land use rights | 631 | 630 |
| Loss on disposal of property, plant and equipment | 1,211 | 1,815 |
| Impairment loss of goodwill | 38 | - |
| Amortization of intangible assets | 6,414 | 5,550 |
| Provision for inventory obsolescence | 34,835 | 50,053 |
| Inventories written off | 22,592 | 27,040 |
| Provision for doubtful debts on account receivables | 14,634 | 18,271 |
| Provision for doubtful debts on other receivables | 1,712 | 2,148 |
| Interest expenses | 4,146 | 4,456 |
| Research and development expenditures | 111,198 | 98,632 |
| Rentals of land and buildings | 16,691 | 16,838 |
| Staff costs | 260,186 | 257,038 |
| And after crediting : | | |
| Interest income | 5,000 | 7,488 |
| Reversal for impairment loss on property, plant and equipment | - | 260 |
| Profit on partial disposal of a subsidiary | 1,378 | - |
| Other payables waived | - | 1,207 |

## 8. Income tax

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| PRC corporate tax | 17,946 | 8,167 |
| Hong Kong profits tax | 4,448 | 3,347 |
| | 22,394 | 11,514 |

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% (2005 - 15%) on the estimated assessable income for companies established in Shenzhen and 33% (2005 - 33%) for other PRC companies. Hong Kong profits tax is calculated at 17.5% (2005 - 17.5%) of the estimated assessable profits for the year.

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

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Profit before taxation | 119,253 | 44,927 |
| Tax at the applicable income tax rate of 15% (2005 - 15%) | 17,888 | 6,739 |
| Tax effect of : | | |
| - disallowable expenses | 1,011 | 266 |
| - non-taxable revenue | ( 10,581 ) | ( 401 ) |
| - different tax rates in different regions | 14,251 | ( 2,654 ) |
| - recognized tax losses | ( 10,737 ) | ( 9,967 ) |
| - tax losses unrecognized | 10,562 | 17,531 |
| Actual tax expense at 18.78% (2005 – 25.63%) | 22,394 | 11,514 |

No deferred tax asset is recognized as it is uncertain whether taxable profit will be available against which deductible temporary differences can be utilized in the near future. As at December 31, 2006, the net unprovided deferred tax asset was RMB65,948,000 (2005 – RMB105,954,000).

**9. Property, plant and equipment**

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Machinery & equipment RMB'000 | Electronic equipment RMB'000 | Motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Cost/valuation | | | | | | | |
| As at January 1, 2005 | 864,655 | 5,788 | 638,451 | 595,061 | 66,011 | 64,533 | 2,234,499 |
| Additions | 12,073 | 749 | 48,369 | 46,840 | 4,518 | 8,189 | 120,738 |
| Disposals | ( 516 ) | - | ( 14,055 ) | ( 16,951 ) | ( 11,100 ) | ( 1,123 ) | ( 43,745 ) |
| Reclassifications | 19,213 | - | 20,151 | - | - | ( 39,364 ) | - |
| As at December 31, 2005 | 895,425 | 6,537 | 692,916 | 624,950 | 59,429 | 32,235 | 2,311,492 |
| Additions | 69 | 5,855 | 60,250 | 39,169 | 12,245 | 18,657 | 136,245 |
| Disposals | ( 7,549 ) | - | ( 14,258 ) | ( 15,473 ) | ( 8,750 ) | - | ( 46,030 ) |
| Reclassifications | 16,041 | - | - | - | - | ( 16,041 ) | - |
| As at December 31, 2006 | 903,986 | 12,392 | 738,908 | 648,646 | 62,924 | 34,851 | 2,401,707 |
| Accumulated depreciation | | | | | | | |
| As at January 1, 2005 | ( 145,208 ) | ( 3,296 ) | ( 327,588 ) | ( 355,486 ) | ( 43,952 ) | - | ( 875,530 ) |
| Additions | ( 22,256 ) | ( 1,794 ) | ( 49,665 ) | ( 60,738 ) | ( 5,087 ) | - | ( 139,540 ) |
| Disposals | 103 | - | 11,892 | 13,598 | 10,200 | - | 35,793 |
| Reversal for impairment loss | - | - | 254 | - | 6 | - | 260 |
| As at December 31, 2005 | ( 167,361 ) | ( 5,090 ) | ( 365,107 ) | ( 402,626 ) | ( 38,833 ) | - | ( 979,017 ) |
| Additions | ( 22,574 ) | ( 2,105 ) | ( 66,860 ) | ( 40,280 ) | ( 7,481 ) | - | ( 139,300 ) |
| Disposals | 2,479 | - | 1,918 | 12,745 | 7,630 | - | 24,772 |
| As at December 31, 2006 | ( 187,456 ) | ( 7,195 ) | ( 430,049 ) | ( 430,161 ) | ( 38,684 ) | - | ( 1,093,545 ) |
| Net book value | | | | | | | |
| As at December 31, 2006 | 716,530 | 5,197 | 308,859 | 218,485 | 24,240 | 34,851 | 1,308,162 |
| As at December 31, 2005 | 728,064 | 1,447 | 327,809 | 222,324 | 20,596 | 32,235 | 1,332,475 |

The Group's certain property, plant and equipment with a net book value of RMB52,120,000 have been pledged to secure general banking facilities granted to the Group.

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

## 10. Land use rights

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Cost | | |
| As at beginning of the year | 39,420 | 31,326 |
| Reclassifications | - | 8,094 |
| As at end of the year | 39,420 | 39,420 |
| Accumulated amortization | | |
| As at beginning of the year | ( 11,731 ) | ( 3,007 ) |
| Charged for the year | ( 631 ) | ( 630 ) |
| Reclassifications | - | ( 8,094 ) |
| As at end of the year | ( 12,362 ) | ( 11,731 ) |
| Net book value | 27,058 | 27,689 |
| Classified as current portion | ( 630 ) | ( 630 ) |
| Classified as non-current portion | 26,428 | 27,059 |

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

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Cost | | |
| As at beginning of the year | 3,217 | 3,217 |
| Additions | 3,889 | - |
| As at end of the year | 7,106 | 3,217 |
| Accumulated amortization/impairment loss | | |
| As at beginning of the year | ( 2,228 ) | ( 2,228 ) |
| Impairment loss | ( 38 ) | - |
| As at end of the year | ( 2,266 ) | ( 2,228 ) |
| Net book value | 4,840 | 989 |

## 12. Intangible assets

| | Trademarks RMB'000 | Technical know-how RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost | | | |
| As at January 1, 2005 | 1,562 | 23,860 | 25,422 |
| Additions | 47 | 14,417 | 14,464 |
| As at December 31, 2005 | 1,609 | 38,277 | 39,886 |
| Additions | 27 | 2,800 | 2,827 |
| As at December 31, 2006 | 1,636 | 41,077 | 42,713 |
| Accumulated amortization | | | |
| As at January 1, 2005 | ( 852 ) | ( 13,556 ) | ( 14,408 ) |
| Charged for the year | ( 165 ) | ( 5,385 ) | ( 5,550 ) |
| As at December 31, 2005 | ( 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 ) |
| Net book value | | | |
| As at December 31, 2006 | 428 | 15,913 | 16,341 |
| As at December 31, 2005 | 592 | 19,336 | 19,928 |

## 13. Interests in associates

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Share of net assets | 48,075 | 52,142 |
| Impairment loss provision | ( 2,797 ) | ( 2,797 ) |
| Amounts due from associates | 1,230 | 1,130 |
| Amounts due to associates | ( 357 ) | ( 6,191 ) |
| | 46,151 | 44,284 |

## 14. Other investments

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Unconsolidated subsidiaries, at cost | 136,567 | 136,567 |
| Impairment loss provision | ( 136,567 ) | ( 136,567 ) |
| | - | - |
| Unlisted shares, at cost * | 6,885 | 1,885 |
| Impairment loss provision | ( 1,400 ) | ( 1,400 ) |
| | 5,485 | 485 |
| Listed share, at cost ** | 9,805 | 9,805 |
| | 15,290 | 10,290 |

* The Company entered into a venture agreement with seven companies to form Shanlian Information Technological Engineering Co., Ltd. for a total investment cost of RMB52,000,000 whereby the Company was required to contribute its share of 9.61525%, which was equal to RMB5,000,000.

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

## 15. Inventories

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Raw materials | 1,313,546 | 1,416,730 |
| Work-in-progress | 71,962 | 198,685 |
| Finished goods | 2,427,368 | 1,996,287 |
| | 3,812,876 | 3,611,702 |
| Provision for inventory obsolescence | ( 260,979 ) | ( 226,144 ) |
| | 3,551,897 | 3,385,558 |

## 16. Properties held for sale

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

## 17. Account receivables

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Amount receivables | 1,102,754 | 814,306 |
| Provision for doubtful debts | ( 152,706 ) | ( 138,072 ) |
| | 950,048 | 676,234 |

As at December 31, 2006, the aging of amount receivables is analyzed as follows :

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Within one year | 913,441 | 605,465 |
| Over one year but within two years | 14,255 | 20,970 |
| Over two years but within three years | 10,145 | 7,552 |
| Over three years | 164,913 | 180,319 |
| | 1,102,754 | 814,306 |

## 18. Prepayments, deposits and other receivables

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Advance payments | 61,839 | 53,457 |
| Prepayments | 46,718 | 76,721 |
| Other receivables | 175,944 | 108,314 |
| | 284,501 | 238,492 |
| Provision for doubtful debts | ( 8,286 ) | ( 6,574 ) |
| | 276,215 | 231,918 |

## 19. Note receivables

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Bills receivable | 86,783 | 135,862 |
| Promissory notes issued by banks | 3,021,670 | 2,594,001 |
| Promissory notes issued by debtors | 36,503 | 29,826 |
| | 3,144,956 | 2,759,689 |

## 20. Share capital

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Registered, issued and paid-up | | |
| "A" shares of RMB1 each | 399,148 | 399,148 |
| "B" shares of RMB1 each | 202,838 | 202,838 |
| | 601,986 | 601,986 |
| "A" shares, listed and tradable | 280,244 | 224,199 |
| "B" shares, listed and tradable | 202,838 | 202,838 |
| | 483,082 | 427,037 |
| Listed but temporarily not tradable | 118,904 | 174,949 |
| | 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.

As at the effective date of the share reform, each shareholder of listed and tradable "A" share with name registered in the register of shareholders was entitled 2.5 shares for every 10 shares on hand. As a result, the shareholders of listed but temporarily not tradable shares had compensated to such "A" share shareholders in the total entitlement of 56,045,734 shares.

## 21. Short-term bank loans

| | Note | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Bank loans, secured | 9, 10 | 15,000 | 28,000 |

## 22. Analysis of financing

| | | Bank loans RMB'000 | Other long-term liabilities RMB'000 | Minority interests RMB'000 |
|---|---|---|---|---|
| As at beginning of the year | | 28,000 | 20,179 | 261,722 |
| Net cash inflow / (outflow) from financing | | ( 13,000 ) | 7,316 | - |
| Gain on partial disposal of a subsidiary | | - | - | ( 1,378 ) |
| Decrease in minority interests | | - | - | ( 1,345 ) |
| Dividend paid to minority shareholders | | - | - | ( 22,823 ) |
| Share of results of minority interests | | - | - | 7,493 |
| As at end of the year | | 15,000 | 27,495 | 243,669 |

## 23. Commitments

As at December 31, 2006, the Group did not have any material commitments under non-cancellable operating leases and capital expenditures.

## 24. Contingent liabilities

At December 31, 2006, the Group did not have any significant contingent liabilities.

## 25. Related party transactions

During the year ended December 31, 2006, the Group had certain material transactions with Overseas Chinese Town Holdings Co. (major shareholder of the company) and its subsidiaries with details as follows :

| | | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Overseas Chinese Town Holdings Co. | Operating lease paid | 335 | 335 |
| Shenzhen Dekon Electronics Co., Ltd. | Purchase of merchandises | 71,109 | 52,017 |
| Shanghai Huali Packaging Co., Ltd. | Purchase of merchandises | 54,090 | 56,144 |
| Shenzhen Huali Packaging Co., Ltd. | Purchase of merchandises | 29,049 | 27,615 |
| Mudanjiang Huali Packaging Co., Ltd. | Purchase of merchandises | 11,759 | 11,891 |

## 25. Related party transactions (cont'd)

| | | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Anhui Huali Packaging Co., Ltd. | Purchase of merchandises | 10,105 | - |
| Anhui Tin Dai Enterprises Group Co., Ltd. | Increase in equity interest in subsidiaries | 38,574 | - |

## 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 | 102,638 | 3,241,561 |
| 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 |
| Accumulated losses of subsidiaries | ( 16,428 ) | - |
| Government grant transfer from capital reserves to deferred income | 580 | ( 7,495 ) |
| Government grant recognized as income | 2,998 | - |
| Transfer of welfare funds recognized as expense | ( 997 ) | - |
| Impairment loss of goodwill reversed | 575 | 896 |
| As restated in conformity with IFRS | 89,366 | 3,306,092 |

## 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.

## 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.