

**KONKA GROUP CO., LTD.
INTERIM REPORT 2008**

KONKA GROUP CO., LTD.

CHAIRMAN OF THE BOARD: HOU SONG RONG

23 AUGUST 2008

KONKA GROUP CO., LTD

INTERIM REPORT 2008

Important Notice

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

This Interim Report has been examined and approved by the 13th meeting of the 6th Board of Directors of the Company.

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

After careful examination, the 9th meeting of the 6th Supervisory Committee believes that the Interim Report 2008 and its Summary have faithfully, accurately and completely reflected the financial status, business achievement, corporate administration and business development of the Company in the interim of 2008.

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

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

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.

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I. Company Profile

(I). Basic information of the Company

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

(II). Major financial data and indexes

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

Items	At the end of report period	At the end of last year	Increase/decrease (%)
Total assets	8,726,105,294.07	9,277,974,998.92	-5.95
Owners' equity (or shareholders' equity)	3,604,038,746.25	3,547,827,071.63	1.58
Net profit attributable to shareholders of listed company per share	2.993	2.947	1.56
Items	In the report period (Jan. – Jun.)	The same period of last year	Increase/decrease (%)
Operating profit	101,806,096.01	45,480,204.76	123.85
Total profit	100,838,348.99	47,182,156.02	113.72
Net profit	80,555,227.21	42,473,932.57	89.66
Net profit after deducting non-recurring gains and losses	77,683,147.56	40,727,914.33	90.74
Basic earnings per share	0.0669	0.0353	89.54
Diluted earnings per share	0.0669	0.0353	89.54
Return on equity	2.24%	1.27%	Up by 0.97percentage point
Net cash arising from operating activities	-42,686,785.790	157,640,706.13	-127.08
Net cash per share arising from operating activities	-0.0355	0.1309	-127.09

Note: According to resolutions of the Shareholders' General Meeting 2007, the Company actualized capitalization of public reserve, which based on the total share capital of the Company for the end of 2007 amounting to 601,986,352 shares, capitalizing public reserve at the rate of 10 shares for every 10 shares. Total share capital increased by 1,203,972,704 shares after capitalization. Net profit attributable to shareholders of listed company per share, basic earnings per share, diluted earnings per share and net cash per share arising from operating activities in the above form will relatively adjust in accordance with total share capital after capitalization.

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

Nature of content	Amount before deducting impact on income tax	Amount after deducting impact on income tax
1. Gains and losses from non-current assets disposal		
(I) Income from long-term assets disposal	7,641,091.84	6,676,362.08
Including: Income from liquidation of fixed assets	40,273.49	32,956.10
Income from transfer of intangible assets	2,281,860.76	2,281,860.76
Income from shares transfer	5,318,957.59	4,361,545.22
Subtotal	7,641,091.84	6,676,362.08
(II) Expenditure of long-term assets disposal	2,412,998.20	2,328,713.25
Including: Net loss on fixed assets disposal	2,412,998.20	2,328,713.25
Loss on share transfer		
Subtotal	2,412,998.20	2,328,713.25
Net gains and losses from disposal of non-current assets	5,228,093.64	4,347,648.83
2. Tax rebate and tax exemption that exceeded mandate of examination and approval or without formal approval document		
3. Government subsidies recorded into current profit and loss (excluding government subsidies with close relationship with the Company's business and rationed government grants in line with the united standard)	15,000.00	14,250.00
4. Capital occupied from non-financial enterprise recorded into current profit and loss (excluding capital occupied that financial institute with operation qualification established by relevant department of the State draws from non-financial enterprise)		
5. Gain/loss from combination costs and the fair value of the identifiable net assets when the enterprise combination		
6. Gains and losses form exchange of non-monetary assets		
7. Gains and losses from entrusted investment		
8. Provisions for impairment of recorded assets due to the force majeure factor, such as natural disaster		
9. Gains and losses from debt restructuring		
10. Expense of enterprise reorganization		
11. Gains and losses from that of trading price higher than fire value		
12. Net current profit and loss of subsidiaries due to enterprise combination under the same control form period-begin till combination date		
13. Gains and losses from projected liabilities without relationship with main operation		
14. Net amount of non-operating income and expense except the aforesaid items		
(1) non-operating income	2,800,414.45	2,300,222.38
Subtotal	2,800,414.45	2,300,222.38
(2) Less: non-operating expenditure	3,692,297.40	3,570,320.62
Subtotal	3,692,297.40	3,570,320.62
Net non-operating income and expenditure	-891,882.95	-1,270,098.24
15. Other non-recurring gains and losses subject to definition recognized by CSRC		
Including: Switching back impairment loss of fixed assets, engineering in construction, intangible assets, etc.		
Total non-recurring gains and losses before deducting minority	4,351,210.69	3,091,800.58
Less: Impact on minority gains and losses	-210,581.72	-219,720.94
Total non-recurring gains and losses after deducting minority	4,140,628.97	2,872,079.65

II. Change in Share Capital and Particulars about Shares Held by Major Shareholders

(I) Change in shares

1. In the report period, total shares and structure of shares of the Company have changed.
2. Statement on change in shares of the Company was as follows:

	Before the change		Increase/decrease in this time (+, -)					After the change	
	Amount	Proportion (%)	Issuance new stock	dividend	Capitalization of public reserves	Others	Subtotal	Amount	Proportion (%)
I. Shares subject to trading moratorium	118,904,012	19.75	-	-	+99,193,445	-19,710,567	+79,482,878	198,386,890	16.48
1. Shares held by the state	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal person	52,392,592	8.70	-	-	+99,190,970	+46,798,378	+145,989,348	198,381,940	16.48
3. Shares held by other domestic investors	43,550,505	7.23	-	-	+2,475	-43,548,030	-43,545,555	4,950	0.00
Including:									
Shares held by domestic legal person	43,546,563	7.23	-	-	-	-43,546,563	-43,546,563	-	-
Shares held by domestic natural person (senior managements)	3,942	0	-	-	+2,475	-1,467	+1,008	4,950	0.00
4. Shares held by foreign investors	22,960,915	3.81	-	-	-	-22,960,915	-22,960,915	0	0
Including:									
Shares held by foreign legal person	22,960,915	3.81	-	-	-	-22,960,915	-22,960,915	0	0
Shares held by foreign natural person	-	-	-	-	-	-	-	-	-
II. Shares not subject to trading moratorium	483,082,340	80.25	-	-	+502,792,907	19,710,567	+522,503,474	1,005,585,814	83.52
1. RMB ordinary shares	280,244,438	46.55	-	-	+299,955,005	19,710,567	+319,665,572	599,910,010	49.83
2. Domestically listed foreign shares	202,837,902	33.69	-	-	+202,837,902	0	+202,837,902	405,675,804	33.69
3. Foreign shares listed in overseas	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total shares	601,986,352	100	-	-	+601,986,352	0	+601,986,352	1,203,972,704	100

Note: 1. According to resolutions of the Shareholders' General Meeting 2007, the Company actualized capitalization of public reserve, which based on the total share capital of the Company for the end of 2007 amounting to 601,986,352 shares, capitalizing public reserve at the rate of 10 shares for every 10 shares. Total share capital increased by 1,203,972,704 shares after capitalization.

2. In accordance with Judgment Paper received by the Company on 23 Nov. 2007 from China International Economic and Trade Arbitration Commission and Settlement Agreement entered into between OCT Group Corporation and Anhui Tianda Enterprise Group Co., Ltd, the Equity Transfer Agreement of Konka Group Co., Ltd. entered into between OCT Group Corporation Anhui Tianda Enterprise Group Co., Ltd. on 28 Aug. 2004 was released, which Anhui Tianda Enterprise Group Co., Ltd. Returned 43,546,563 shares of the Company that were recorded under its name to OCT Group Corporation. As confirmed by China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 24 Jan. 2008, the transfer procedure that Anhui Tianda Enterprise Group Co., Ltd. returned 43,546,563 shares of the Company that were recorded under its name to OCT Group Corporation has been completed.

3. In accordance with commitments made in Explanation on Share Merger Reform of Konka Group Co., Ltd , OCT Group Corporation, the original nontradable shareholder of the Company, has paid 35% of consideration for TIG Holdings Limited (former name is Thomson Investments Group Limited), amounting to 3,251,815 shares and taking up 0.54% of total capital shares of the Company. In accordance with Agreement on Repayment of Shares Advanced signed by OCT Group Corporation and TIG Holdings Limited, TIG Holdings Limited has paid the consideration advanced in share merger reform to OCT Group Corporation on 18 Apr. 2008, at present, the transfer procedure of repayment advanced consideration has been completed. OCT Group Corporation would held 16.48% equity of the Company when repayment of consideration advanced.

4. In 2007, in accordance with diluting total amount of new share capital after completion of capitalization of public reserves, basic earnings per share and diluted earnings per share both were RMB 0.174, Net assets per share attributable to shareholders of listed company was RMB 2.947; In the 1st quarter of 2008, basic earnings per share and diluted earnings per share both were RMB 0.039, Net assets per share attributable to shareholders of listed company was RMB 2.964.

(II) Time to list and traded in the market for shares subject to moratorium

Time	Number of shares that can be listed newly after expiration of moratorium	Balance of shares subject to trading moratorium	Balance of shares not subject to trading moratorium	Remark
30 Mar. 2008		99,616,835	138,183,305	1,065,789,399

30 Mar. 2009	60,198,635	77,984,670	1,125,988,034
30 Mar. 2010	77,984,670	0	1,203,972,704

Note: 1. Shares subject to trading moratorium held by original shareholder of the Company TIG Holdings Limited was applied to release moratorium, while TIG Holdings Limited held 19,709,100 shares of the Company, taking up 3.27% of total share capital; Since implementation on capitalization of public reserves, TIG Holdings Limited held 39,418,200 shares of the Company, taking up 3.27% of total share capital. When calculated number of shares that can be listed newly after expiration of moratorium in the above table, shares held by TIG Holdings Limited amounted to 39,418,200.

2. In accordance with commitments made by OCT Group Corporation and THOMSON INVESTMENTS GROUP LIMITED (original nontradable shareholders of the Company) when implemented share merger reform, the shares subject to trading moratorium can be listed for trading or transferred since 30 Mar 2008. But, as of 23 Aug. 2008, OCT Group Corporation and TIG Holdings Limited holding shares subject to trading moratorium failed to apply for Shenzhen Stock Exchange for release of shares subject to trading moratorium.

3. Shares subject to trading moratorium in the table excluded shares subject to trading moratorium held by senior managements.

(III) Particulars about shares held by top ten shareholders and top ten tradable shareholders at the end of report period:

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

No.	Name of shareholders subject to moratorium	Number of shares held subject to moratorium	Number of shares subject to trading moratorium applied actually	Time to be listed and traded	Newly increased shares to be listed and traded	Moratorium
1	Overseas Chinese Town Group Company	198,381,940	198,381,940	30 Mar. 2008	60,198,635	Notes
				30 Mar. 2009	60,198,635	
				30 Mar. 2010	77,984,670	

Notes: 1. The original shareholder of the Company, Overseas Chinese Town Group Company, promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights in A share market. After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months

2. In accordance with commitments made by OCT Group Corporation (original nontradable shareholders of the Company) when implemented share merger reform, the shares subject to trading moratorium can be listed for trading or transferred since 30 Mar. 2008. But, as of 23 Aug. 2008, OCT Group Corporation holding shares subject to trading moratorium failed to apply for Shenzhen Stock Exchange for release of shares subject to trading moratorium.

3. In the table, shares subject to trading moratorium held by senior managements of the Company were out of consideration.

(IV) Particulars about the shares held by the top ten shareholders and the top ten shareholders holding shares not subject to trading moratorium

Unit: Share

Total number of shareholders						98,729
Particulars about shares held by top ten shareholders						
Name of shareholder	Nature of shareholder	Proportion of share held (%)	Total shares held	Shares held subject to trading moratorium	Shares pledged or frozen	
Overseas Chinese Town Group Company	State-owned legal person	16.48	198,381,940	198,381,940	0	
GAO-LING FUND,L.P.	Foreign legal person	4.77	57,449,626	0	Unknown	
TIG HOLDINGS LIMITED	Foreign legal person	3.27	39,418,200	0	Unknown	
GUOTAI JUNAN SECURITIES HONG KONG LIMITED	Foreign legal person	2.50	30,052,800	0	Unknown	
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	Foreign legal person	2.30	27,636,867	0	Unknown	
NOMURA SECURITIES CO.LTD	Foreign legal person	1.12	13,500,000	0	Unknown	
NAM NGAI	Foreign natural person	0.86	10,410,280	0	Unknown	
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT	Foreign legal person	0.63	7,591,700	0	Unknown	
Orient Securities - Bank of China - Orient Red No. 2 Plan on Collective Assets Management	Domestic non-state-owned legal person	0.36	4,327,400	0	Unknown	
GLHH FUND II, L.P.	Foreign legal person	0.35	4,246,962	0	Unknown	

Particulars about shares held by the top ten shareholders not subject to moratorium		
Name of shareholder	Numbers of shares not subject to moratorium held	Type of shares
GAO-LING FUND,L.P.	57,449,626	Domestically listed foreign shares
TIG HOLDINGS LIMITED	39,418,200	Renminbi ordinary shares
GUOTAI JUNAN SECURIES HONG KONG LIMITED	30,052,800	Domestically listed foreign shares
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	27,636,867	Domestically listed foreign shares
NOMURA SECURITIES CO.LTD	13,500,000	Domestically listed foreign shares
NAM NGAI	10,410,280	Domestically listed foreign shares
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT	7,591,700	Domestically listed foreign shares
Orient Securities - Bank of China - Orient Red No. 2 Plan on Collective Assets Management	4,327,400	Renminbi Ordinary shares
GLHH FUND II, L.P.	4,246,962	Domestically listed foreign shares
Chuangli Development (Hong Kong) Co., Ltd	3,800,000	Domestically listed foreign shares
Explanation on associated relationship among the top ten shareholders or acting-in-concert	Overseas Chinese Town Group Corporation, the first principal shareholder, neither has any related relationship with other shareholders, nor has joined in any consistent actions; GAO-LING FUND, L.P. and GLHH FUND II, L.P. existed associated relationship and belonged to acting-in-concert. The Company is not aware whether the other shareholders have joined in any consistent action or have related relationships among them.	

(V) Particulars about shareholders holding over 5% equity

Name	Type of shares held	Nature of enterprise	Legal representative	Date of foundation	Registered capital (RMB'0000)	Main operations
Overseas Chinese Town Group Company	Domestic legal person shares	Wholly State-fund company	Ren Kelei	Nov. 1985	RMB 200,000	Development and operation of real estate and hotels; operation of tourism and relevant cultural industries; manufacture of electronics and supporting packing products.

(VI) Particulars about controlling shareholder and actual controller

In the report period, the first principal shareholder and actual controller of the Company remained unchanged, both being Overseas Chinese Town Group Corporation.

III. Particulars about Directors, Supervisors and Senior Managements

(I) Shares held by directors, supervisors and senior managements of the Company

- Shares held by held by directors, supervisors and senior managements remained unchanged in the report period.
- Owing to implementation on capitalization of public reserves, distributing shares at rate of 10 shares for every 10 shares in the report period, shares held by Vice President, Mr. Wang Youlai and Mr. Huang Zhongtian relatively increased; besides, shares held by other senior managements of the Company remained unchanged.

Name	Title of office	Shares held at year-begin	Increased of shares held in this period	Decrease of shares held in this period	Shares held at report-end	Reason of change
Wang Youlai	Vice President	3,300	3,300	0	6,600	Increase of shares due to implantation on capitalization of public reserves
Huang Zhongtian	Vice President	642	642	0	1,284	

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

(II) Change of directors, supervisors and senior managements of the Company in report period

- Members of the Board changed in report period
 - Mr. Ye Shiqu and Mr. Liu Peng, who were nominated by Anhui Tianda Enterprise Group Co., Ltd resigned from director on 27 Mar. 2008 due to Anhui Tianda Enterprise Group Co., Ltd didn't hold shares of the Company no longer.
 - Shareholders' General Meeting 2007 elected Mr. Su Zheng and Ms. Wang Xiaowen as director of the 6th Board of Directors.
- Member of the Supervisory Committee changed in the report period:
 - Mr. Zhang Jianhuai, who was nominated by Anhui Tianda Enterprise Group Co., Ltd resigned from supervisor on 27 Mar. 2008 due to Anhui Tianda Enterprise Group Co., Ltd didn't hold

- shares of the Company no longer.
- (2) Shareholders' General Meeting 2007 elected Mr. Dong Yaping as supervisor of the 6th Supervisory Committee.

IV. Report of the Board of Directors

(I) Overall operation in the report period

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

In the report period, faced several disadvantaged factors such as natural disaster, RMB appreciation and raising price of raw material, the Company strengthened technology innovation, advanced value operation strategy, carried out profit-oriented consciousness and reform consciousness, caught chance brought by Olympic Games, actively cooperate with "policy of pushing household electrical appliance to the rural market" of the state, and general operating achievements kept stable development. Overall business stably developed and kept leading position.

In the report period, the Company realized sale revenue RMB 5.621 billion, equaling year-on-year; realized net profit amounting RMB80.5552million, up89.66 % year-on-year; realized earning per share amounting to RMB0.0669, up89.54% year-on-year.

1. Although influenced by disaster weather (snow disaster, earthquake and flood), sales revenue was equal to the same period in last year.

Heavy snow disaster before the Spring Festival of 2008 led products cannot reach to disaster area, which brought disadvantage effect on sale during the Spring Festival; Earthquake in Sichuan Province made the business in disaster area was in stagnant status, which seriously influenced sales in May 2008. It was forecasted that sales revenue of the Company decreased by 0.6 billion and gross profit decreased by 0.12 billion due to snow disaster and earthquake. Sales of March, April and June 2008 bounced back rapidly after the disaster weather, influence of disaster weather on sales revenue was weakened.

2. Net profit in interim of 2008 increased by89.66% year-on-year, which was mainly because sales of high gross profit rate bounced by a large margin.

In the report period, the Company sequentially persisted and deepened operation with value strategy, based on the three projects of masterpiece, quality and innovation, implemented different operation strategy, which promoted profit capacity of the Company; meanwhile, the Company carried out overall profit-oriented consciousness and reform consciousness, mainly engaged in manufacturing and sales of high-ended products with high gross profit ration, which made the proportion of sales products with high gross profit ration increased by a large margin and promoted profit capacity of the Company

3. Inventories decreased by 8.95% compared with year-end of 2007, operating efficiency continuously promoted.

Inventories decrease by 17.38 % compared with the same period of 2006, decreased by decreased by 8.95% compared with year-end of 2007, which was mainly because the Company further strengthened inventories management, speeded turnover of flat panel products, effectively reduce inventoried of finished products, and promoted turnover efficiency.

(II) Analysis on financial indexes of the Company

Unit: RMB

Items	Jan.– Jun. 2008	Jan.–Jun. 2007	Increase/decrease year-on-year (%)
Operating income	5,620,525,986.16	5,614,106,475.21	0.11
Operating cost	4,580,703,057.04	4,607,069,074.69	-0.57
Administrative expense	212,269,696.54	200,527,060.77	5.86
Operating expense	721,722,597.42	742,726,059.82	-2.83
Financial expense	17,826,655.80	15,049,905.76	18.45
Operating profit	101,806,096.01	45,480,204.76	123.85
Net profit	80,555,227.21	42,473,932.57	89.66
Net cash flow from operating activities	-42,686,785.79	157,640,706.13	-127.08
Items	30 Jun. 2008	31 Dec. 2007	Increase/decrease

			proportion (%)
Total assets	8,726,105,294.07	9,277,974,998.92	-5.95
Shareholders' equity	3,604,038,746.25	3,547,827,071.63	1.58
Account receivable	1,107,781,550.46	1,040,182,919.53	6.50
Fixed assets	1,287,797,489.98	1,291,655,083.85	-0.30
Remained profit	352,026,860.14	271,471,632.93	29.67

Explanation and analysis on major items changed:

1. Financial expense increased 18.45% compared with last period, which was mainly because loss from interest of cash note and exchange increase.
2. Owing to sales of products with high gross profit ratio increase by a large margin and promoting of profit capacity, operating profit realized in current period increased by 123.85% year-on-year.
3. Operating profit pushed increase of net profit, which caused net profit realized in current period increased 89.66% year-on-year; net profit realized in current period amounted to RMB80,555,227.21, up 29.67% compared with that of the year-begin.
4. Net cash flow from operating activities decreased by a large margin year-on-year, which was mainly because proportion of bank' acceptance bill in sales payment increased while proportion of cash decreased, but contrarily in purchase expenditure, and colligation of both caused decrease of net cash flow from operating activities. At the end of report period, monetary assets possessed by the Company was RMB 708 million, banks' acceptance bill cashed at any time was RMB 2.354 billion, and idle cash and cash equivalent amounted to RMB 3.062 billion, cash flow status of the Company was favorable.

(III) Particulars about main operations classified according to industries, products and regions and statement of their comparison with those of the same period of last year

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

Industries	Products	Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)	Comparison with that of the same period of last year		
					Increase/decrease of income (%)	Increase/decrease of cost (%)	Increase/decrease of gross profit ratio (%)
Electronics manufacture	Color TV	4,053,345,367.75	3,275,475,112.45	19.19	-0.45	-4.75	3.65
	White electrical	722,663,399.40	623,018,683.63	13.79	46.65	64.26	-9.24
Telecommunication	Mobile phone	525,107,654.04	482,874,041.63	8.04	-34.61	-26.54	-10.10
	LED Display	143,739,969.95	93,598,483.88	34.88	215.77	134.74	22.48
	Others	76,822,919.69	41,886,784.89	45.48	-50.21	-32.47	-14.33

Note: There was no related transaction.

3. Main operations classified according to regions Unit: RMB

Region	Operating income	Increase/decrease year-on-year (%)
Mainland China	5,097,542,592.68	0.96
Hong Kong and overseas regions	861,381,785.34	-17.90
Offsetting each other among segments in each area	-338,398,391.86	30.11

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

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

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

1. Disaster weather (snow disaster, earthquake and flood) made great effect on manufacture and sales of the Company in the first half year of 2008;
2. Product export of the Company confront a greater pressure with appreciation of RMB by a larger margin, US subprime mortgage crisis, trade barrier of Europe and America and patent expense.

(VI) Business development plan in the half second year of 2008

1. Business development plan

(1) Further push and strengthen technology innovation. The Company will carried out “quality project, masterpiece project and innovation project” to make high-ended masterpieces, keep ahead in appearance, function, difference, etc, and promote image of products and brand; meanwhile, the Company will push competitive products by innovation design with low cost, which lower the cost and enlarge profit.

(2) In sales aspect, depend on Olympic masterpiece, innovate cooperation union with strategy of “Manufacturer of LCD-Manufacture of complete machine-retail channel ”, with core of sales During period of Olympic Games, with time core of holiday, continuously develop and effectively execute scientific programming on public relationship, and faithfully promote sales and extend market.

(3) Exploitation of rural market make material progress. The Company will continuously strengthen and promote original competitive advantage of rural clients; change administrative model of rural market, move the centre down; establish comprehensive team of overall department to harmonize and solve problems meet in process of reconstruction of rural market and guarantee for reconstruction of rural market.

(4) As for mobile phone business, the Company will develop small market, and keep competitive advantage in product difference and sales difference.

(5) Accelerating development of white electrical business. Based on further push the three projects “Quality project”, “Masterpiece project” and “Innovation Project”, the Company further enlarge production capacity of white electrical business, actively seek chance of acquisition and purchase, further push quick development of white electrical business.

(6) Actively explore extending to mould manufacturing from complete manufacturing in LCD TV industry chain; establish strategic cooperation relationship with supplier of LCD, realize mutual benefit by advantage complementary.

2. Risks faced and countermeasures in the second half year of 2008

(1) Risks in operation of the second half year of 2008

A. Rising price of raw material bring operation pressure of the Company

B. Product export of the Company confront a greater pressure with appreciation of RMB by a lager margin, US subprime mortgage crisis, trade barrier of Europe and America and patent expense.

(2) Countermeasures

A. Strength innovation to promote enterprise competition and confront complicated economic situation, Firstly, push operation with value and innovation such as technology innovation, applied function innovation, appearance innovation, development innovated products and difference products and so on, which make price of products close or event exceed price of foreign band products, promote gross profit and replace competition in value to competition in price. Secondly, reduce cost of products by technology innovation, design innovation, etc, and eliminate pressure in price of material through innovation in 2008. Thirdly, promote quantity and quality on patent application, enhance negotiation capacity on patent.

B. Actively take part in Project of Pushing Household Electrical Appliance to the Rural Market, stress on exploration of rural market. Along with increase of revenue of farmers, the Company will actively implement sales strategy of pushing flat panel to the rural market, promote upgrade of rural consumption.

C. Actively explore new market in Middle East, South Africa and Russia, establish new sales base.

D. Reduce cost with method of technology innovation and design innovation and so on.

(VII) Investment of the Company

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

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

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

(VIII) Fair value measurement

At the end of report period, assets adopted fair value measurement of the Company was financial assets available for sale, which was equity of Vanke A

As for the financial assets available for sale, the Company initially measured in accordance with fair value obtained, relevant transaction charge listed in initial confirmed amount, gains or losses

from change of fair value directly listed in owners' equity, which transferred into current gains and losses when the financial assets was confirmed. Fair value was market value of financial assets available for sale.

During the report period, impact on owners' equity in accordance with fair value measurement referred to notes to financial statement.

V. Significant Events

(I) Corporate governance

In the report period, the Company operated in accordance with the Company Law, Securities Law and relevant regulations and laws set by the CSRC and Shenzhen Stock Exchange. The Company revised Independent Director System, Implementation Rules on Financial Audit Committee of the Board of Directors, continuously perfect corporate governance structure, standardize its operation, and strengthened the information disclosure work in accordance with relevant requirements in new provisions. And the implementation of all the resolutions made at the Shareholders' General Meeting and Board of Directors has been carried out strictly. Actual situation was in accordance with normative documents relating to governance of listed companies issued by CSRC.

After completion of a special campaign on corporate governance of listed companies in 2007, the Company started a special campaign on corporate governance in Jun. 2008, performed self-inspection on corporate governance and formed Rectification Report on Corporate Governance in accordance with China Securities Regulatory Committee Official Bulletin ([2008] No. 27) and Circular on Carrying Out a Special Campaign to further Push the Corporate Governance of Listed Company issued by Shenzhen Securities Regulatory Bureau. The Rectification Report was examined and approved by the 12th Meeting of the 6th Board of Directors on 17 Jun. 2008, which was disclosed on Securities Times, China Securities Journal, Shanghai Securities News, Hong Kong Ta Kung Pao as well as internal website <http://www.cninfo.com.cn> dated 19 Jun. 2008.

(II) Particulars about profit distribution, capitalization and issuance

Examined and approved by Shareholders' General Meeting 2007, profit distribution plan 2007 and capitalization of public reserves plan were as follows:

1. The Company didn't withdraw statutory surplus reserve and arbitrary surplus reserve in 2007.
2. Capitalization plan: based on the total share capital of the Company on 31 Dec. 2007 amounting to 601,986,352 shares, capitalization of public reserves at the rate of 10 shares to every 10 shares. public reserves reduced RMB 601,986,352 after capitalization, balance of public reserves was RMB 1,282,913,098.09, which will be distributed to the next year.

The profit distribution plan and capitalization of public reserves has been implemented, the record date for A shares was 2 Jun. 2008, Ex-dividend date was 3 Jun. 2008; The last trading day for B shares was 2 Jun. 2008, Ex-dividend date was 3 Jun. 2008 and the record date was 5 Jun. 2008.

Share capital of the Company totaled 601,986,352 shares before capitalization, which increased by 1,203,972,704 shares after capitalization.

(III) Significant lawsuits and attributions

In the report period, the Company had no significant lawsuits and arbitrations.

(IV) Other significant events, its influence and analysis and explanation on and solution

1. Other equity of listed complies held

Unit: RMB

Stock code	Short form of stock	Initial investment amount	Proportion in the equity of the said company	Book value at the end of period	Gains and losses in the report period	Change in owners' equity in the report period	Accounting calculation subject	Source of shares
000002	Vanke	2,311,748.07	0.00%	2,311,748.07	0.00	-1,049,928.08	Financial assets available for sale	Subscription of new stock
600891	ST CHURIN	9,000,000.00	3.84%	9,000,000.00	0.00	0	Financial assets available for sale	Subscribing legal shares
600898	Sanlian Commerce	344,760.00	0.10%	344,760.00	0.00	0	Financial assets available for sale	Arbitration of court
Total	-	11,656,508.07	-	11,656,508.07	0.00	-1,049,928.08	-	-

Note: 1. The form was about the equity of other listed companies held by the Company, which was assessed through long-term equity investment and financial assets available for sale.

2. Gains and losses in the report period referred to the influence on the consolidated net profit in the report period caused by this investment.

2. In the report period, the Company neither hold shares of commercial enterprises such as commercial banks, securities companies, insurance companies, trust companies and futures companies nor hold shares of companies to be listed.

(V) Significant purchase, sale and reorganization of assets

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

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

(VI) Significant related transaction

1. Transactions with the controlling shareholder and its subsidiaries

During the first half year of 2008, the Company had some small-amount related transactions with the subsidiaries of the controlling shareholder Overseas Chinese Town Group Company, including charges for property management, water and power, etc, all of which were fair transactions and conducted according to normal market prices. These transactions have not done harm to the interests of the Company or other shareholders of the Company. For details, please refer to “(4) Transactions with related companies” and “(5) Current with related companies” in the “Note 10 to the accounting statement” in the financial report.

2. Implementation of the related transactions concerning daily operation

Type of related transaction	Further classification according to product or labor service	Related parties	Total implemented amount in the first half year of 2008	Proportion in the same kind of transaction
Purchase of raw materials	Paper box for color TV	Shanghai Huali Packaging Co., Ltd	6,547,901.29	18.05%
		Shenzhen Huali Packing & Trading Co., Ltd	3,343,739.35	9.22%
		Anhui Huali Package Co., Ltd.	14,220,791.27	39.21%
		Shenzhen Huayou Package Co., Ltd.	4,014,023.09	11.07%
			28,126,455.00	

The Company published Notice on the Estimation of Daily Related Transactions (Announcement No.: 2008-08) in Securities Times, Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao dated 4 Apr. 2008 and the Internet website <http://www.cninfo.com.cn> designated. The pricing terms, transaction prices, transaction amount and settling methods of the raw material purchases from the aforesaid three related parties were basically in compliance with the estimation.

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

(VII) Significant contracts and implementation

1. In the report period, the Company has no significant entrusting management, contract or lease of other companies and vice versa.

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

(VIII) Commitments made by shareholders

Name of shareholder	Special commitments	Implementation on the commitments
Overseas Chinese Town Group Company	Promised to pay 35% of consideration advanced for original nontradable shareholders, Anhui Tianda Enterprise (Group) Co., Ltd and Thomson Investments Group Limited in share merger reform	Has paid in advance
TIG Holdings Limited	Promised to repay consideration of shares advanced by Overseas Chinese Town Group Company before share held by the Company applied for circulation in A share market	Has repaid advance consideration

Overseas Chinese Town Group Company	(1) These companies promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights in A share market.	(1) Trading moratorium was expired, shares subject to trading moratorium held by Thomson Investments Group
TIG Holdings Limited	(2) After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by each company through listing at the Stock Exchange shall not exceed 5 percent of the Konka Group's total share number within 12 months, and not exceed 10 percent within 24 months.	Limited applied to list and trade in market; (2) Overseas Chinese Town Group Company had applied to list, trade or transferred.

Apart from these, the Company or shareholders had no other commitments up to the end of report period.

(IX) Particulars about investigation and interview of the Company in the report period

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

Reception time	Reception place	Reception way	Reception object	Discussed content and materials provided by the Company
26 Feb. 2008	Meeting room of the Company	Field research	Guosen Securities Co., Ltd, E Fund Management Co., Ltd	Status quo of production and operation, products structure, Research & Development of new products and outlook of the Company
3 Mar. 2008	Meeting room of the Company	Field research	Deutsche Bank	Core competitive power, developing strategy, foresight of new products and schedule of relevant work
6 Mar. 2008	Meeting room of the Company	Field research	China Jianyin Investment Securities Company Ltd	Company profile and industry status
12 Mar. 2008	Meeting room of the Company	Field research	China Galaxy Securities Co., Ltd	Developing trend of industry and industry status of the Company developing strategy of the Company
20 Mar. 2008	Meeting room of the Company	Field research	Shenyin & Wanguo Securities Co., Ltd	Policies and regulations of this industry, particulars about subsidiaries and developing strategy of the Company
9 Apr. 2008	Novotal Bauhinia Hotel	Explanatory Conference on Outstanding Achievement	Institution such as China Southern Fund Management, Rongtong Fund Management securities dealer such as CITIC Securities Co., Ltd, Guotai Junan Securities and so on	Annual Report 2008, developing strategy of the Company and outlook of the Company
10 Apr. 2008	Meeting room of the Company	Field research	Guotai Junan Securities Co., Ltd	competitive power, foresight of new products and planning of products structure
28 Apr. 2008	Meeting room of the Company	Field research	UBS SDIC Fund Management Co., Ltd	developing strategy and particulars about internal administration of the Company
15 May 2008	Meeting room of the Company	Field research	Changjiang Securities Co., Ltd	Developing strategy in future company, Status quo, developing trend and developing frame of color TV and mobile phone industry
19 Jun. 2008	Meeting room of the Company	Field research	China Jianyin Investment Securities Company Ltd	Status quo, developing trend and developing frame of color TV and mobile phone industry; particulars about internal administration of the Company

(X) Other significant events

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

(XI) Indexes of information disclosure

1. Public Notice on Process of Share Transfer with announcement No. 2008-01, published time: 26 Jan. 2008, notice event: Transfer procedure that Anhui Taida Enterprise Group Co., Ltd handed back 43,546,563 shares under its name to Overseas Chinese Town Group Company has completed.
2. Public Notice on Resignation of Directors with announcement No. 2008-05, published time:

29 Mar. 2008, notice event: Original directors of the Company, Mr. Ye Shiqu and Mr. Liu Peng resigned from position as director.

3. Public Notice on Resignation of Supervisors with announcement No. 2008-06, published time: 29 Mar. 2008, notice event: Original supervisor of the Company, Mr. Zhang Jianhui resigned from position as director.

4. Public Notice on Forecast of Daily Related Transaction with announcement No. 2008-08, published time: 8 Apr. 2008.

5. Suggestive Public Notice on Listing and Trading of Shares Subject to Trading Moratorium with announcement No. 2008-20, published time: 14 May 2008, notice event: Shares subject to trading held by original nontradable shareholders of the Company, TIG Holdings Limited (Original name was THOMSON INVESTMENTS GROUP LIMITED) released from restriction. The above public notices were published in Securities Times, Shanghai Securities News, China Securities Journal, and Hong Kong Ta Kung Pao as well as on internet website www.cninfo.com.cn.

(XII) Explanation on the capital flow between related parties and guarantee

1. Up to 30 Jun. 2008, capital flow between related parties (Unit: RMB'0000)

Name of related parties	Relationship with related company	Subject of accounting statement	Balance at the period beginning	Debit	Credit	Balance at the period end	Occupation way	Repayment way	Irregular capital occupation Prohibited in the No. 56 Document or not
Shenzhen OCT Real Estate Co., Ltd	Subsidiary of the principal shareholder	Other receivables	128.89	0.00	0.00	128.89	Boarding rent and deposit	Settlement of boarding rent	No
Shenzhen OCT Property Management Co., Ltd	Subsidiary of the principal shareholder	Other receivables	7.74	2.41	0.00	10.15	Deposit	Settlement of property management charges	No
Shenzhen OCT Water and Power Company	Subsidiary of the principal shareholder	Other receivables	357.50	443.96	59.29	742.17	Prepayment of water and power charges	Settlement of water and power charges	No
Shenzhen East OCT	Subsidiary of the principal shareholder	Accounts receivable	0.00	235.82	42.67	193.15	Sales of PTV (LED)	Monetary capital	No
Shenzhen OCT Real Estate Co., Ltd	Subsidiary of the principal shareholder	Accounts receivable	0.00	1.05	0.00	1.05	Repair of PTV	Monetary capital	No
Total	—	—	494.13	683.24	101.96	1,075.41	—	—	—

2. Guarantees

3. In the report period, the Company had never provided guarantees for subsidiary of controlling shareholders, nor other external guarantees.

4. Special explanation and independent opinion on external guarantees of the Company, and implementation of Circulation on Certain Issues Regarding Regulating Capital Flow between Listed Companies and Related Parties and Regarding Out ward Guarantee Provided by Listed Companies with ZJH [2003] No. 56 from independent directors

5. As independent directors of Konka Group Co., Ltd (hereinafter referred to as “the Company”), we specially verified capital flow between related parties and external guarantees of the Company, and expressed independent opinion as follows:

6. As of 30 Jun. 2008, principal shareholders of the Company had never occupied capital; related parties of major shareholders, such as Shenzhen OCT Real Estate Co., Ltd, Shenzhen OCT Property Management, Shenzhen OCT Water and Power Company occupied capital of the Company due to charge deposit, time difference, etc, which was normal business current.

1. In the first half year of 2008, operating capital flow between the Company and principal shareholders were as follows:

(1) Related transition on purchase of packaging material for color TV between the Company and subsidiaries indirectly controlled by major shareholder, Shanghai Huali Packing & Trading Co., Ltd, Anhui Huali Packaging Co., Ltd and Shenzhen Huayou Packaging Co., Ltd. As for the related transition, which was submitted to the Meeting of the Board of Directors, examined and approved. Relevant information has been disclosed. The Company settled with related party in accordance

with contract, and there was no non-operation capital flow.

(2) Due to business of sales and repair of PTV, there was operating capital flow with small amount between the Company and subsidiary of major shareholder, Shenzhen East OCT Co., Ltd, Shenzhen OCT Real Estate Co., Ltd.

2. In the first half year of 2008, there was no non-operating capital flow between the Company and major shareholder and its related parties.

3. As of 30 Jun. 2008, operation of the Company was standard, and there was no external guarantee.

In conclusion, we don't consider there was any violation of regulations stipulated in document with ZJH [2003] No. 56

Independent Director: Feng Yutao, Yang Haiying and Zhang Zhong

(XIII) Significant pledge of assets

1. Examined and approved by the 6th Meeting of the 6th Board of Directors and the Shareholders' General Meeting 2007, the Company applied for delaying valid date of comprehensive credit line amounting to RMB 3.5 billion which was provided to the Company by Bank of China, that is, valid date of credit line was 11 Jul. 2007. During the period, guarantee way remained unchanged, namely provided the following for guarantee: 1) Pledged with the bank acceptance bill whose book value not less than RMB1.2 billion (including: the Company provided RMB 1 billion and Shenzhen Konka Telecommunications Technology Co., Ltd provided RMB 0.2 billion); 2) pledged with real estate of Dongguan Konka Electronics Co., Ltd with original value being RMB 0.18 billion.
2. Examined and approved by the 11th Meeting of the 6th Board of Directors and the Extraordinary Shareholders' General Meeting 2008, the Company applied comprehensive loan credit not exceeding RMB 3.5 billion from Bank of China with term of two years, meanwhile, the Company provided the following assets for guarantee: 1) Pledged with the bank acceptance bill whose book value not less than RMB1.2 billion (including: the Company provided RMB 1 billion and Shenzhen Konka Telecommunications Technology Co., Ltd provided RMB 0.2 billion); 2) pledged with real estate of Dongguan Konka Electronics Co., Ltd with original value being RMB 0.18 billion.

VI. Financial Report

The interim financial report 2008 of the Company (unaudited) is attached.

VII. Documents Available for Reference

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

Board of Directors of
Konka Group Co., Ltd
23 Aug. 2008

Konka Group Co., Ltd.

(Incorporated in the People's Republic of China)

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Financial statement

Balance Sheet

Prepared by Konka Group Co., Ltd

30 Jun. 2008

Unit: RMB

Items	Amount at period-end		Amount at period-begin	
	Consolidation	Parent company	Consolidation	Parent company
Current Assets:				
Monetary funds	708,343,229.52	516,472,240.60	752,558,414.47	556,082,988.52
Settlement reserve				
Dismantle fund				
Transaction financial asset				
Notes receivable	2,401,925,564.44	2,269,515,848.67	2,652,439,759.85	2,531,404,015.11
Account receivable	1,107,781,550.46	1,569,839,244.45	1,040,182,919.53	1,784,148,943.42
Account paid in advance	165,046,646.73	63,091,225.56	151,396,359.00	47,409,754.29
Premiums receivable				
Reinsurance premiums receivable				
Receivable reinsurance contract reserves				
Interest receivable				
Other account receivable	117,982,983.34	87,603,092.21	132,318,283.67	117,507,972.15
Buying back the sale of financial assets				
Inventories	2,671,854,945.53	1,951,706,746.72	2,934,629,182.87	2,199,304,824.83
Non-current assets due within 1 year				
Other current assets				
Arbitrage project	10,391,389.64	10,564,487.64	1,222,806.47	1,268,883.47
Arbitrage tool	8,293,387.77	6,945,398.81	8,293,387.77	6,945,398.81
Dividend receivable				
Total current liabilities	7,191,619,697.43	6,475,738,284.66	7,673,041,113.63	7,244,072,780.60
Non-current assets:				
Loans and advance				
Available for sale financial assets	10,862,283.10	10,862,283.10	60,721,570.37	60,721,570.37
Held to maturity investments				
Long-term account receivable				
Long-term equity investment	26,472,430.31	866,030,315.57	51,645,230.53	898,703,115.79
Investing property				
Fixed assets	1,287,797,489.98	379,769,414.33	1,291,655,083.85	357,402,241.11
Construction in progress	74,527,850.48	69,075,449.92	61,936,696.44	56,331,802.81
Engineering material				
Disposal of fixed assets				
Production biological assets				
Oil-gas assets				
Intangible assets	40,269,195.35	3,499,805.02	47,773,502.60	3,843,152.97
Development expense				
Goodwill	3,943,671.53		3,943,671.53	
Long-term deferred expenses	26,886,716.46	6,890,762.18	23,849,638.87	4,577,085.48
Deferred tax assets	63,725,959.43	60,533,425.93	63,408,491.10	60,533,425.93
Other non-current assets				
Total of non-current assets	1,534,485,596.64	1,396,661,456.05	1,604,933,885.29	1,442,112,394.46
Total assets	8,726,105,294.07	7,872,399,740.71	9,277,974,998.92	8,686,185,175.06
Current liabilities: :				
Short-term borrowings	94,124,064.74	50,000,000.00	22,000,000.00	
Borrowing from Central Bank				
Deposits and sue to banks and other financial institutions				
Call loan received				
Transaction financial liabilities				
Notes payable	2,940,326,067.57	2,772,659,193.30	3,415,401,298.67	3,205,824,129.42
Account payable	996,941,942.96	699,363,375.21	995,897,141.52	1,058,762,163.66
Account received in advance	154,543,980.65	78,674,217.35	223,289,431.96	152,867,288.98
Financial assets sold for repurchase				
Handling charges and commissions payable				
Employee's compensation payable	131,220,065.83	62,358,808.40	162,790,579.83	78,569,552.49

Tax payable	3,789,069.32	18,047,826.73	9,047,560.13	35,495,215.00
Interest payable				
Dividend payable	8,641,288.09		3,402,196.99	
Other account payable	527,684,436.82	375,947,110.99	626,548,059.95	421,386,925.01
Reinsurance premiums payable				
Insurance contract reserves				
Money received for acting trading of securities				
Money paid for acting underwriting of securities				
Non-current liabilities due within 1 year				
Other current liabilities				
Total current liabilities	4,857,270,915.98	4,057,050,531.98	5,458,376,269.05	4,952,905,274.56
Non-current liabilities:				
Long-term borrowings				
Bonds payable				
Long-term payables				
Specific payables				
Deferred income	31,521,092.21	26,238,018.39	29,826,225.37	26,238,018.39
Accrued liabilities				
Deferred tax liabilities	-250,956.99	-250,956.99	3,783,805.52	3,783,805.52
Other non-current liabilities				
Total non-current liabilities	31,270,135.22	25,987,061.40	33,610,030.89	30,021,823.91
Total liabilities	4,888,541,051.20	4,083,037,593.38	5,491,986,299.94	4,982,927,098.47
Owner's equity (or shareholder' equity)				
Paid-up capital (or share capital)	1,203,972,704.00	1,203,972,704.00	601,986,352.00	601,986,352.00
Capital reserves	1,264,671,933.86	1,256,075,160.87	1,884,899,450.09	1,876,302,677.10
Less: Treasury Stock				
Surplus reserves	781,670,420.36	781,670,420.36	781,670,420.36	781,670,420.36
Provisions for general risks				
Retained profits	352,026,860.14	547,643,862.10	271,471,632.93	443,298,627.13
Foreign exchange difference	1,696,827.89		7,799,216.25	
Total owners' equity attributable to parent company	3,604,038,746.25	3,789,362,147.33	3,547,827,071.63	3,703,258,076.59
Minority interest	233,525,496.62		238,161,627.35	
Total owner's equity	3,837,564,242.87	3,789,362,147.33	3,785,988,698.98	3,703,258,076.59
Total liabilities and owner's equity	8,726,105,294.07	7,872,399,740.71	9,277,974,998.92	8,686,185,175.06

Profit Statement

Prepared by Konkra Group Co., Ltd

Jan.-Jun. 2008

Unit: RMB

Items	Amount at period-end		Amount at period-begin	
	Consolidation	Parent company	Consolidation	Parent company
I. Total sales	5,620,525,986.16	4,702,793,644.33	5,614,106,475.21	4,675,819,377.94
Including: Sales income	5,620,525,986.16	4,702,793,644.33	5,614,106,475.21	4,675,819,377.94
Interest income				
Premium income				
Handling charges and commission income				
II. Total cost of sales	5,526,319,698.61	4,593,246,334.05	5,568,650,327.15	4,611,141,546.14
Including: Cost of sales	4,580,703,057.04	3,866,517,856.89	4,607,069,074.69	3,928,779,054.15
Interests expenses				
Handling charges and commission expenses				
Cash surrender value				
Net amount of claims				
Net amount of withdrawn from the insurance contract reserve				
Expenditure on policy dividends				
Reinsurance premium				
Taxes and associate charges	1,034,435.32	37,041.48	1,155,970.73	13,580.49
Selling expenses	721,722,597.42	603,230,756.88	742,726,059.82	565,104,005.62
Administrative expenses	212,269,696.54	148,309,633.35	200,527,060.77	103,354,891.84
Financial expenses	17,826,655.80	-15,554,145.34	15,049,905.76	10,619,375.28
Impairment loss	-7,236,743.51	-9,294,809.21	2,122,255.38	3,270,638.76

Add: gain from change in fair value (“-” means loss)				
Gain from investment (“-” means loss)	7,599,808.46	7,365,762.03	24,056.70	489,704.91
Including: income from investment on affiliated enterprise and jointly enterprise			24,056.70	489,704.91
Foreign exchange difference (“-” means loss)				
III. Business profit (“-” means loss)	101,806,096.01	116,913,072.31	45,480,204.76	65,167,536.71
Add: non-operation income	5,137,548.70	2,303,275.91	6,265,522.04	4,469,908.97
Less: non-business expense	6,105,295.72	3,153,851.12	4,563,570.78	2,272,362.74
Including: loss from non-current asset disposal	2,412,998.20	323,710.66	1,181,800.95	438,697.55
IV. Total profit (“-” means loss)	100,838,348.99	116,062,497.10	47,182,156.02	67,365,082.94
Less: Tax expense	15,267,557.93	11,717,262.13	7,049,418.32	-1,185,824.73
V. Net profit (“-” means loss)	85,570,791.06	104,345,234.97	40,132,737.70	68,550,907.67
Attributable to owners of parent company	80,555,227.21	104,345,234.97	42,473,932.57	68,550,907.67
Minority interest	5,015,563.85		-2,341,194.87	
VI. Earnings per share				
(I) basic earnings per share	0.0669	0.0867	0.0353	0.0569
(II) diluted earnings per share	0.0669	0.0867	0.0353	0.0569

Cash Flow Statement

Prepared by Konka Group Co., Ltd

Jan.-Jun. 2008

Unit: RMB

Items	Amount at period-end		Amount at period-begin	
	Consolidation	Parent company	Consolidation	Parent company
I. Cash flows from operating activities:				
Cash received from sale of commodities and rendering of service	6,910,295,802.17	5,662,803,081.32	7,121,453,629.17	6,210,331,013.51
Net increase of deposits from customers and dues from banks				
Net increase of loans from the central bank				
Net increase of funds borrowed from other financial institutions				
Cash received from premium of original insurance contracts				
Net cash received from reinsurance business				
Net increase of savings of policy holders and investment fund				
Net increase of disposal of tradable financial assets				
Cash received from interest, handling charges and commissions				
Net increase of borrowed inter-bank funds				
Net increase of buy-back funds				
Tax refunds received	42,963,705.50	28,341.28	49,169,148.02	27,721,677.97
Other cash received relating to operating activities	110,164,473.50	41,027,393.12	72,389,916.56	17,937,312.52
Subtotal of cash inflows from operating activities	7,063,423,981.17	5,703,858,815.72	7,243,012,693.75	6,255,990,004.00
Cash paid for purchase of commodities and reception of service	5,589,742,104.05	4,689,100,363.49	5,837,726,987.01	5,330,386,157.35
Net increase of customer lending and advance				
Net increase of funds deposited in the central bank and amount due from banks				
Cash for paying claims of the original insurance contract				
Cash for paying interest, handling charges and commissions				
Cash for paying policy dividends				
Cash paid to and for employees	431,875,221.33	251,130,551.72	404,747,881.89	206,600,949.21
Various taxes paid	446,040,959.83	360,838,076.93	356,814,485.57	251,244,834.94
Payment of cash relating to operating activities	638,452,481.75	504,609,571.56	486,082,633.15	340,414,815.00
Subtotal of cash outflows from operating activities	7,106,110,766.96	5,805,678,563.70	7,085,371,987.62	6,128,646,756.50
Net cash flows from operating activities	-42,686,785.79	-101,819,747.98	157,640,706.13	127,343,247.50
II. Cash Flows from investment activities:				
Cash received from return of investments	41,682,518.25	27,685,782.74	8,640,000.00	18,394,350.47

Cash received from investment income	17,471,011.87	10,870,396.18		11,703,718.70
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	228,847.90	177,730.00	278,816.85	87,583.20
Net cash received from disposal of subsidiary or other operating business units				
Other cash received relating to investment activities				
Subtotal of cash inflows from investment activities	59,382,378.02	38,733,908.92	8,918,816.85	30,185,652.37
Cash paid to acquire fixed assets, intangible assets and other long-term assets	61,425,545.92	14,776,283.03	77,114,394.97	5,290,462.58
Cash paid to investment	84,360.00	84,360.00	1,322,240.00	100,072,240.00
Net increase of pledged loans				
Net cash paid by subsidiaries and				
Payment of cash relating to other investment activities				
Subtotal of cash outflows from investment activities	61,509,905.92	14,860,643.03	78,436,634.97	105,362,702.58
Net cash flows from investment activities	-2,127,527.90	23,873,265.89	-69,517,818.12	-75,177,050.21
III. Cash flows from Financing Activities:				
Cash received from absorbing investment				
Including: Cash received from increase in minority interest				
Cash received from borrowings	172,459,585.25	150,000,000.00	3,000,000.00	
Cash received from issuance of bonds				
Other cash received relating to financing activities				
Subtotal of cash inflows from financing activities	172,459,585.25	150,000,000.00	3,000,000.00	
Cash repayments of amounts borrowed	143,116,558.00	100,000,000.00		
Cash paid interest expenses and distribution of dividends or profit	23,714,634.51	11,664,265.83	7,574,327.69	
Including: dividends or profit paid to minority interest				
Other cash payments relating to financing activities	1,550.97		88,135.00	
Sub-total of cash outflows from financing activities	166,832,743.48	111,664,265.83	7,662,462.69	
Net cash flow from financing activities	5,626,841.77	38,335,734.17	-4,662,462.69	
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-5,027,713.03		-1,912,507.62	
V. Increase in cash and cash equivalents	-44,215,184.95	-39,610,747.92	81,547,917.70	52,166,197.29
Add : Cash and cash equivalents at year-begin	752,558,414.47	556,082,988.52	678,239,825.82	386,670,772.90
VI. Cash and cash equivalents at the end of the year	708,343,229.52	516,472,240.60	759,787,743.52	438,836,970.19

Statement of Consolidated Change in Owners' Equity

Prepared by Konka Group Co., Ltd

30 Jun. 2008

Unit: RMB

Items	Amount in current period								
	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	Paid-up capital (or share capital)	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of last year	601,986,352.00	1,884,899,450.09		781,670,420.36		271,471,632.93	7,799,216.25	238,161,627.35	3,785,988,698.98
Add: change of accounting policy									
Correction of errors in previous period									
II. Balance at the beginning of this year	601,986,352.00	1,884,899,450.09		781,670,420.36		271,471,632.93	7,799,216.25	238,161,627.35	3,785,988,698.98
III. Increase/ decrease of amount in this year ("-" means decrease)	601,986,352.00	-620,227,516.23				80,555,227.21	-6,102,388.36	-4,636,130.73	51,575,543.89
(I) Net profit						80,555,227.21		5,015,563.85	85,570,791.06
(II) Gain/loss listed to owners' equity directly		-18,241,164.23					-6,102,388.36		-24,343,552.59
1. Net amount on changes in book value of financial assets available for sale		-18,241,164.23							-18,241,164.23
2. Effect on changes in other owners' equity of invested units under equity method									
3. Effect on income tax related to items listed to owners' equity									
4. Others									
Subtotal of (I) and (II)		-18,241,164.23				80,555,227.21	-6,102,388.36	5,015,563.85	61,227,238.47
(III) Input an reduced capital of owners									
1. Input capital of owners									
2. Amount of Shares included in the owners' equity									
3. Others									
(IV) Profit distribution						0.00		-9,651,694.58	-9,651,694.58
1. Withdrawing surplus public reserve									
2. Withdrawing general risk reserve									
3. Distribution to owners (or shareholders)								-9,651,694.58	-9,651,694.58
4. Others									0.00
(V) Internal carrying forward of owners' equity	601,986,352.00	-601,986,352.00							
1. New increase of capital (or share capital) from capital reserves	601,986,352.00	-601,986,352.00							
2. Convert surplus reserves to capital (or share capital)									
3. Surplus reserves make up losses									
4. Others									
IV. Balance at the end of this period	1,203,972,704.00	1,264,671,933.86		781,670,420.36		352,026,860.14	1,696,827.89	233,525,496.62	3,837,564,242.87

Statement of Consolidated Change in Owners' Equity (Continued)

Prepared by Konka Group Co., Ltd

30 Jun. 2008

Unit: RMB

Items	Amount in last year								
	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	Paid-up capital (or share capital)	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of last year	601,986,352.00	1,859,368,726.07		778,722,687.79		125,875,446.26	3,104,363.30	243,652,037.96	3,612,709,613.38
Add: change of accounting policy									
Correction of errors in previous period									
II. Balance at the beginning of this year	601,986,352.00	1,859,368,726.07		778,722,687.79		125,875,446.26	3,104,363.30	243,652,037.96	3,612,709,613.38
III. Increase/ decrease of amount in this year ("-" means decrease)						-17,724,702.63	-4,353,526.07	-12,664,036.53	-34,742,265.23
(I) Net profit						42,473,932.57		-2,341,194.87	40,132,737.70
(II) Gain/loss listed to owners' equity directly							-4,353,526.07		-4,353,526.07
1. Net amount on changes in book value of financial assets available for sale									
2. Effect on changes in other owners' equity of invested units under equity method									
3. Effect on income tax related to items listed to owners' equity									
4. Others								-4,353,526.07	-4,353,526.07

Subtotal of (I) and (II)					42,473,932.57	-4,353,526.07	-2,341,194.87	35,779,211.63
(III) Input an reduced capital of owners								
1. Input capital of owners								
2. Amount of Shares included in the owners' equity								
3. Others								
(IV) Profit distribution					-60,198,635.20		-10,322,841.66	-70,521,476.86
1. Withdrawing surplus public reserve								
2. Withdrawing general risk reserve								
3. Distribution to owners (or shareholders)					-60,198,635.20		-10,322,841.66	-70,521,476.86
4. Others								0.00
(V) Internal carrying forward of owners' equity								
1. New increase of capital (or share capital) from capital reserves								
2. Convert surplus reserves to capital (or share capital)								
3. Surplus reserves make up losses								
4. Others								
IV. Balance at the end of this period	601,986,352.00	1,859,368,726.07		778,722,687.79	108,150,743.63	-1,249,162.77	230,988,001.43	3,577,967,348.15

Statement of Change in Owners' Equity

Prepared by Konka Group Co., Ltd

30 Jun. 2008

Unit: RMB

Items	Amount in current period								
	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	Paid-up capital (or share capital)	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of last year	601,986,352.00	1,876,302,677.10		781,670,420.36		443,298,627.13		3,703,258,076.59	
Add: change of accounting policy									
Correction of errors in previous period									
II. Balance at the beginning of this year	601,986,352.00	1,876,302,677.10		781,670,420.36		443,298,627.13		3,703,258,076.59	
III. Increase/ decrease of amount in this year ("-" means decrease)	601,986,352.00	-620,227,516.23				104,345,234.97		86,104,070.74	
(I) Net profit						104,345,234.97		104,345,234.97	
(II) Gain/loss listed to owners' equity directly		-18,241,164.23						-18,241,164.23	
1. Net amount on changes in book value of financial assets available for sale		-18,241,164.23						-18,241,164.23	
2. Effect on changes in other owners' equity of invested units under equity method									
3. Effect on income tax related to items listed to owners' equity									
4. Others									
Subtotal of (I) and (II)		-18,241,164.23				104,345,234.97		86,104,070.74	
(III) Input an reduced capital of owners									
1. Input capital of owners									
2. Amount of Shares included in the owners' equity									
3. Others									
(IV) Profit distribution									
1. Withdrawing surplus public reserve									
2. Withdrawing general risk reserve									
3. Distribution to owners (or shareholders)									
4. Others									
(V) Internal carrying forward of owners' equity	601,986,352.00	-601,986,352.00							
1. New increase of capital (or share capital) from capital reserves	601,986,352.00	-601,986,352.00							
2. Convert surplus reserves to capital (or share capital)									
3. Surplus reserves make up losses									
4. Others									
IV. Balance at the end of this period	1,203,972,704.00	1,256,075,160.87		781,670,420.36		547,643,862.10		3,789,362,147.33	

Statement of Change in Owners' Equity (Continued)

Prepared by Konka Group Co., Ltd

30 Jun. 2008

Unit: RMB

Items	Amount in last year								
	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	Paid-up capital (or share capital)	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of last year	601,986,352.00	1,865,454,242.75		778,722,687.79		234,458,062.53		3,480,621,345.07	
Add: change of accounting policy									
Correction of errors in previous period									
II. Balance at the beginning of this year	601,986,352.00	1,865,454,242.75		778,722,687.79		234,458,062.53		3,480,621,345.07	
III. Increase/ decrease of amount in this year ("-" means decrease)						8,352,272.47		8,352,272.47	
(I) Net profit						68,550,907.67		68,550,907.67	
(II) Gain/loss listed to owners' equity directly									
1. Net amount on changes in book value of financial assets available for sale									
2. Effect on changes in other owners' equity of invested units under equity method									
3. Effect on income tax related to items listed to owners' equity									
4. Others									
Subtotal of (I) and (II)						68,550,907.67		68,550,907.67	
(III) Input an reduced capital of owners									
1. Input capital of owners									
2. Amount of Shares included in the owners' equity									
3. Others									
(IV) Profit distribution						-60,198,635.20		-60,198,635.20	
1. Withdrawing surplus public reserve									
2. Withdrawing general risk reserve						-60,198,635.20		-60,198,635.20	
3. Distribution to owners (or shareholders)									
4. Others									
(V) Internal carrying forward of owners' equity									
1. New increase of capital (or share capital) from capital reserves									
2. Convert surplus reserves to capital (or share capital)									
3. Surplus reserves make up losses									
4. Others									
IV. Balance at the end of this period	601,986,352.00	1,865,454,242.75		778,722,687.79		242,810,335.00		3,488,973,617.54	

Konka Group Co., Ltd.

Notes to the Financial Statements

For the first six months of 2008

Unless otherwise specified, the currency is RMB.

Note 1. Brief Introduction to the Company

The company was restructured from the original Shenzhen Konka Electronic Co., Ltd. into a public listed company in August 1991 according to the provisions of the state regulations on public listed company and with the approval of Shenzhen Municipal People's Government. With the approval of People's Bank of China the company issued the ordinary shares (A-shares and B-shares) and listed in Shenzhen Stock Exchange. On August 25, 1995, the company was renamed to Konka Group Co., Ltd. with Enterprise Legal Person Operation License QGYSZ No. 100476 obtained and the main business scope being in the electronic industry.

The business scope approved is to produce and operate: television sets, radios, sound systems, CD players, video players, air conditioners, telephone sets, fax machines, pagers, paging switching system, talkies, language translation devices, computers, electronic watches, fire and burglary alarming devices, moulds, injection parts, copy machines, plastic products and the relevant parts and devices related to the above products, various packing materials, small household appliances, washing machines, refrigerators, refrigerating cabinets, computer peripherals, digital modem, new display devices, VCD, DVD, the development and production of self-owned brand GSM mobile phones. The company has various branches throughout the country.

Note 2. Declaration on the Financial Statements Preparation Basis and Compliance with the Accounting Standards for Enterprises

The company prepares the financial statements on the basis of the assumption of going concern, according to the actual transactions and items and by recognizing and measuring in compliance with Accounting Standards for Enterprises-Basic Standard and regulations of other accounting standards. To prepare the financial statements in compliance with China Accounting Standards for Enterprises requires the use of estimates and assumptions, which might affect the disclosure of the assets, the liabilities and the contingent liabilities on the balance sheet date and the income and expenses during the reporting period. The financial statements prepared by the company is in compliance the requirements of the Accounting Standards for Enterprises, reflecting truly and completely the relevant information such as the company's financial status, the operation results and the cash flow etc.

Note 3. Enterprise merger and consolidated financial statements

1. Shareholding subsidiaries

Name of shareholding subsidiaries	Place of registration	Business scope	Registered capital	Ending actual investment	Net investment balance substantially formed in the subsidiaries	Proportion of shares held		Proportion of voting right
						Directly	Indirectly	
I. Subsidiaries formed not through business merger								
(1) Subsidiaries under direct control								
Dongguan Konkang Electronic Co., Ltd.	Dongguan	TV sets, sound products etc	RMB200 million	RMB233.90 million	RMB233.9 million	100%	—	100%
Anhui Konkang Electronic Co., Ltd.	Anhui	Color TV sets	RMB140 million	RMB91 million	RMB91 million	78%	—	78%
Mudanjiang Konkang Enterprise Co., Ltd	Mudanjiang	Color TV sets	RMB60 million	RMB36 million	RMB36 million	60%	—	60%
Shenzhen Konkang Appliance Co., Ltd.	Shenzhen	Electronic equipment	RMB8.3 million	RMB18.62 million	RMB18.62 million	51%	—	51%
Chongqing Konkang Electronic Co., Ltd.	Chongqing	Color TV sets	RMB45 million	RMB27 million	RMB27 million	60%	—	60%
Shenzhen Konkang Video System Engineering Co., Ltd.	Shenzhen	Development and sale of commercial TV	RMB15 million	RMB9 million	RMB9 million	60%	—	60%
Chongqing Konkang Auto Electronic Co., Ltd.	Chongqing	Development and sale of auto electronics	RMB30 million	RMB17.1 million	RMB17.1 million	57%	—	57%
KONKA AMERICA, INC.	USA	Sale of electronic products	USD1 million	USD1 million	USD1 million	100%	—	100%
(2) Subsidiaries under direct and indirect control								
Shenzhen Konkang Telecommunication Technology Co., Ltd.	Shenzhen	Mobile communication products	RMB120 million	RMB100.5 million	RMB100.5 million	75%	25%	100%
Shenzhen Shushida Electronic Co., Ltd.	Shenzhen	Video products and relevant parts	RMB42 million	RMB42 million	RMB42 million	75%	25%	100%
Hong Kong Konkang Co., Ltd.	Hong Kong	Import and export of machinery, electrical and electronic products	HKD0.5 million	HKD0.6 million	HKD0.6 million	99%	1%	100%
Anhui Konkang Appliance Co., Ltd.	Anhui	Production and sale of appliance such as refrigerators	RMB78.19 million	RMB3.5 million	RMB3.5 million	92.97%	4.48%	97.45%
Shenzhen Konkang Plastic Product Co., Ltd.	Shenzhen	Plastic products	RMB9.5 million	RMB9.5 million	RMB9.5 million	49%	51%	100%
Chongqing Qingjia Electronic Co., Ltd.**	Chongqing	Electronic tuners and high frequency heads	RMB15 million	RMB6 million	RMB6 million	30%	10%	40%
Shanxi Konkang Electronic Co., Ltd.	Shanxi	Color TV	RMB69.5 million	RMB46.08 million	RMB46.08 million	45%	15%	60%
Shenzhen Konkang Information Network Co., Ltd.	Shenzhen	Production and sale of networking production	RMB30 million	RMB22.5 million	RMB22.5 million	75%	25%	100%
Shenzhen Konkang Electronic Part Technology Co., Ltd.	Shenzhen	R&D of electronic components	RMB65 million	RMB48.75 million	RMB48.75 million	75%	25%	100%

Name of shareholding subsidiaries	Place of registration	Business scope	Registered capital	Ending actual investment	Net investment balance substantially formed in the subsidiaries	Proportion of shares held		Proportion of voting right
						Directly	Indirectly	
(3) Subsidiaries under indirect control						Directly	Indirectly	
Dongguan Konka Packing Material Co., Ltd.	Dongguan	Plastic products	RMB10 million	RMB10 million	RMB10 million	—	100%	100%
Dongguan Konka Moulding Plastic Co., Ltd.	Dongguan	Moulds, plastic products	RMB10 million	RMB10 million	RMB10 million	—	63.25%	63.25%
Kondian Investment Development Co., Ltd.***	Hong Kong	Investment holding	HKD 0.5 million	HKD 0.5 million	HKD 0.5 million	—	100%	100%
Kondian International Trade Co., Ltd.***	Hong Kong	International trade	HKD 0.5 million	HKD 0.5 million	HKD 0.5 million	—	100%	100%
Konka Electronic(India) Co., Ltd.*	India	Color TV	USDD 1.16 million	USD 0.812 million	USD 0.812 million	—	100%	100%
Changshu Konka Electronic Co., Ltd.***	Changshu	Production and sale of electronic products	RMB24.65 million	RMB11.55 million	RMB11.55 million	—	60%	60%
Boluo Konka PCB Co., Ltd.***	Guangdong	Production and sale of electronic products	RMB40 million	RMB14.43 million	RMB14.43 million	—	51%	51%
Shenzhen Precision Mould Manufacturing Co., Ltd.***	Shenzhen	Various moulds	RMB 1.450 million	RMB7.395 million	RMB7.395 million	—	51%	51%
Boluo Konka Precision Technology Co Ltd.	Boluo	Production and sale of electronic products	RMB20 million	RMB11.25 million	RMB11.25 million		100%	100%

** : The company holds the actual controlling right over these companies, therefore included into the consolidated range of the financial statements.

*** : These companies are under the direct or indirect control of the company, and are included into the consolidated range of the financial statements.

2. Particulars about affiliated companies

Name of companies	Place of registration	Legal representative	Registered capital	Actual investment	Proportion of shares held	Main business
Shenzhen Dekong Electronic Co., Ltd.	Shenzhen	Qiu Weimin	RMB10 million	RMB3 million	30%	Production and sale of electronic products
Shenzhen Konka Energy Technology Co., Ltd.	Shenzhen	Dong Yaping	RMB20 million	RMB3 million	30%	Operation of new products in mobile energy
Chongqing Jingkong Plastic Product Co., Ltd.	Chongqing	Wang Xiaoyong	RMB15 million	RMB3.75 million	15%	Manufacturing and processing of mould products
Shenzhen Julong Photo-electrical Co., Ltd	Shenzhen	Yu Zhonghou	RMB10 million	RMB2 million	20%	R&D, manufacture, sale of flat photo electrical display components
Shanlian Information Technology Engineering Co., Ltd.	Beijing	He Zhiqiang	RMB52 million	RMB5 million	9.61525%	Technological development, transfer, consultation, services etc.
Shenzhen Zhongcailian Technology Co., Ltd.	Shenzhen	Fan Wenjian	RMB10 million	RMB1 million	10%	Electronics technological development and economic information consultation

3. Minority interest

Name of subsidiary	Minority interest
Mudanjiang Konka Enterprise Co., Ltd.	33,476,848.20
Shanxi Konka Electronic Co., Ltd.	41,732,680.85
Anhui Konka Electronic Co., Ltd.	48,860,534.42
Shenzhen Konka Appliance Co., Ltd.	-6,999,636.98
Chongqing Konka Electronic Co., Ltd.	18,011,961.16
Boluo Konka PCB Co., Ltd.	23,257,873.02
Shenzhen Konka Precision Mould Manufacturing Co., Ltd.	38,219,731.20
Anhui Konka Appliance Co., Ltd.	2,800,753.56
Changshu Konka Electronic Co., Ltd.	15,086,576.77
Chongqing Qingjia Electronic Co., Ltd.	16,073,493.09
Shenzhen Konka Video System Engineering Co., Ltd.	4,533,106.46
Chongqing Konka Auto Electronic Co., Ltd.	-1,528,425.12
Total	233,525,496.62

Note 4. Major accounting policies, accounting estimates and consolidated financial statements

(1) The company implements the Accounting Standards for Enterprises and the relevant regulations of the Ministry of the Finance.

(2) Fiscal year :

A fiscal year starts on January 1 and ends on December 31 of the Gregorian calendar.

(3) Functional currency:

RMB is the functional currency.

(4) Accounting basis and pricing principle:

The company employs the accrual system for accounting. Except for the pricing principles specified in the notes, the pricing principle is based on the actual cost. The assets shall be recorded according to the actual cost on acquisition. In case of asset impairment later on, the relevant impairment provisions will be made accordingly.

(5) Accounting method for foreign currency business and translation method for foreign currency financial statements

When the foreign currency transactions are recognized initially, the foreign currency shall be converted to the functional currency at the spot exchange rate of the current date when the transactions occur. The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical

cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed.

(6) Determination criteria for cash and cash equivalents:

The cash of the company refers to cash on hand and deposits that are available for payment at any time; The cash equivalents refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The cash equivalents of the company include the investment due within 3 months or shorter period that can be converted into cash on maturity.

(7) Transactional financial assets:

The financial assets can be classified into two kinds: transactional financial assets and financial which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period.

The fair values of the transactional financial assets on acquisition shall be recognized as the initial amount and the relevant expenses shall be recorded into the profits and losses of the current period.

On balance sheet date, the transactional financial assets shall be measured based on the fair values without deducting the transactional expenses to be incurred on disposal of such financial asset. The fair values variation of the transactional financial assets shall be included into the profits and losses of the current period.

(8) Accounts receivable and provisions for bad accounts:

Accounts receivable refers to the accounts receivable and other receivables. The company shall recognize the accounts receivable on the basis of the initial fair value on acquisition. The real interest method shall be employed in the subsequent measurement based on the amortized cost.

The company shall employ allowance method in the accounting of the loss of possible bad and doubtful accounts.

The company shall make an impairment test on the account receivable with significant single amounts and accounts receivable with non-significant amount. An impairment test shall be made on the account receivable with significant single amounts. The impairment-related losses shall be recognized based on the difference between the future cash flow current value and the book values and shall be recorded into the profits and losses of the current period and the provisions for the bad account shall be made.

As for the accounts receivable with non-significant single amount and the amount receivable with significant single amount without the occurrence of the impairment after the test, the impairment provisions shall be bade in the following proportion:

Aging	proportion
Within 1 year (including 1 year)	2%
1 -2 years (including 2 years)	5%
2 -3 years (including 3 years)	20%
Over 3 years	50%

The criteria that the company uses to recognize bad accounts are: Revoking, bankruptcy or death of debtor, failure to recover and seriously insufficient cash flow after the settlement with the liquidated assets or the bequest; The debtor does not fulfill the obligation of settlement and there is true evidence of impossibility to recover the account receivable. The loss of the bad account shall be recognized and the impairment provisions already made shall be sterilized

(9)Inventories:

Inventories can be classified into four categories: raw materials, goods in progress, finished products, consumables with low values.

The company shall employ the perpetual inventory system for the inventory taking system. The purchase and warehousing of inventories of various kinds are priced based on the actual cost and the delivery of the inventories shall be based on the weighted average method. One-off amortization shall be made for the consumables with low values when requested for use. The packing materials shall be included into the production cost by using the one-off amortization when requested for use.

At the end of the year, a thorough inventory taking will be made. Provision for inventories shall be made for those damaged inventories, fully or partially dated or the selling price being lower than the cost etc, and those parts for which the cost is not expected to recover. The provision shall be made based on the difference between the realizable net value of the inventory item and the cost.

(10)Long-term equity investment:

As for the Long-term equity investment formed through business merger under the same control, on the date of merger, the share of the book value of the owner's equity of the merged enterprise shall be regarded as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The direct expenses related to the business merger shall be included into the profits and losses of the current period.

For the long-term equity investment formed through business merger under different control, the merger cost shall be, on the date of merger, the fair values of the assets paid to gain the controlling right of the merged party, the liability incurred or shouldered and the fair value of the equity securities issued. The direct expenses related to the business merger shall be included into the cost.

As for the long-term equity investment of an investing enterprise that is able to control the invested enterprise and the long-term equity investment of the investing enterprise that does not do joint control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured, the company shall employ cost method.

As for the long-term equity investment of which the company has joint control or significant influences over the invested entity , the company shall measure it by employing the equity method. The company shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero, unless the company has the obligation to undertake extra losses.

If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity.

Thorough inspections shall be made one by one on the long-term investments at the end of the year. In case the

market price of the invested unit falls continuously or the operation of the invested unit deteriorates, resulting in the recoverable amount lower than the book values, a provision for the impairment of the single item shall be made on the difference of the recoverable amount and the book values. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. Once any loss of asset impairment is recognized, it shall not be switched back in the future accounting periods.

(11) The investments which will be held to their maturity:

The long-term investments which will be held to their maturity shall be measured at their original fair values. The relevant transaction expenses shall be included in the initially recognized amount. The real interest method shall be employed in the subsequent measurement based on the amortized cost.

At the end of the period, the current values of the expected future cash flow measured at the actual interest capitalized rate, in case the current value of the future cash flow is smaller than the carrying value of the financial asset, the carrying amount of the said financial asset shall be written down to the current value of the predicted future cash flow (excluding the loss of future credits not yet occurred), and the amount as written down shall be recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period. Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss recognized and originally recognized shall be reversed and be recorded into the profits and losses of the current period.

(12) Financial assets available for sale

The company shall measure initially the financial assets for sale at the fair values on acquisition. The relevant transaction expenses shall be included into the initially recognized amount.

The financial assets available for sales for which there is quoted price in the active market, and whose fair value can be reliably measured, shall be measured by employing the subsequent measurement method at the fair values. The equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument shall be measured on the basis of their costs.

The gains or losses that are related to the financial asset available for sale shall be included directly in the owner's equity with the exception of impairment losses and the gap arising from foreign exchange conversion of cash financial assets in any foreign currency, and when the said financial asset is stopped from recognition and is transferred out, it shall be recorded into the profits and losses of the current period.

Where an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, or a derivative financial asset which is connected with the equity instrument and which must be settled by delivering the equity instrument, suffers from any impairment, the gap between the carrying amount of the equity instrument investment or the derivative financial asset and the current value of the future cash flow of similar financial assets capitalized according to the returns ratio of the market at the same time shall be recognized as impairment-related losses and be recorded into the profits and losses of the current period. Once recognized, the asset impairment loss cannot be reversed in the subsequent accounting periods.

Where a financial asset available for sale is impaired, even if the recognition of the financial asset has not been terminated, the accumulative losses arising from the decrease of the fair value of the owner's equity which was

directly included shall be transferred out and recorded into the profits and losses of the current period. The impairment-related losses incurred to a sellable equity instrument investment can be reversed through profits and losses. As for the sellable debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period. The impairment-related losses incurred to a sellable equity instrument investment shall not be reversed through profits and losses.

(13) Fixed assets and the accumulative depreciation:

- a. The company shall recognize the fixed assets whose useful life is excess of one year and which are held to produce the goods, to provide labor service, to lease or operate and manage
- b. Initial measurement of fixed assets shall be made at their cost. In case those fixed assets, which might result in significant discard expenses, their current values shall be recorded into the cost of the fixed assets.. If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the fixed asset shall be ascertained based on the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be included in the current profits and losses within the credit period, unless it shall be capitalized.
- c. The depreciation of fixed assets shall be measured by employing the straight-line method and the amount of deducting its expected net salvage value(10% of the original) from the original price of the fixed asset to be depreciated. The depreciation rates are classified as follows:

Category of assets	Useful life	Depreciation rate
Buildings and structures	40 years	2.25%
Machinery equipment	10 years	9%
Electronic equipment	5 years	18%
Vehicles	5 years	18%
Other	5 years	18%

At the end of the period, a thorough check shall be made one by one on the expected useful life and the net salvage value rate. In case there is difference between the original expected value, an adjustment shall be made. If the continuous drop in the market price or the causes such as backward technology, dated equipment, damage, long period of being idle result in the difference between the recoverable amount of the fixed assets and the book values, the recoverable amount shall be expected on the basis of a single item or asset group and impairment provision shall be made on the basis of the difference between the book value and the recoverable amount. Once the asset impairment provision is made, it cannot be reversed in the subsequent accounting periods. In case the fixed asset is in the state of disposal, and no economic benefit arises from the use or the disposal, the depreciation and impairment provisions shall be stopped and the expected net salvage value shall be adjusted.

(14) Construction in progress:

Construction in progress represents buildings under construction and machinery under installation and attributable borrowing costs and exchange gains or losses. In the current period, the interest to be shouldered for the relevant projects are capitalized. The point when the purchased assets reach the state of use shall be regarded as the commencement of the construction in progress carried over to the fixed assets.

At the end of the year, a thorough check will be made on the construction in progress. An impairment provision shall be made on the basis of the difference between the recoverable amount and the book value and recorded into the profits and losses of the current period. Once any loss of asset impairment is recognized, it shall not be switched back in the subsequent accounting periods.

(15) Borrowings and borrowing cost:

The borrowings are accounted for at the cost on initial acquisition. And the borrowings are measured by employing the actual interest rate method on the basis of the amortized cost after the acquisition. The borrowing costs can be capitalized when meeting the following conditions: the assets expenditures have been incurred, the borrowing costs have been incurred, and the purchase activities have already started to make the assets available for use. The borrowing costs other than these shall be recognized as the expenses of the current period.

Where the borrowing costs incurred can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized on the basis of the interest expenses actually incurred during the current period, deducting the interest obtained by depositing the unused borrowings into the bank to get the interest income or the investment income from the temporary investment.

Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

(16) Intangible assets and R&D expenses:

Intangible assets shall be recorded at their actual costs on acquisition. If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the fixed asset shall be ascertained based on the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be included in the current profits and losses within the credit period.

The intangible assets with limited service life shall be amortized by employing the straight-line method within the expected service years minus the expected residual value.

The service life of intangible assets shall be judged in the following procedure:

- a . The service life of the intangible assets derived from any contractual right or other statutory rights shall not exceed the period specified by the contractual right or other statutory rights;
- b . The contractual right or other statutory rights are extended due to the extension, and evidence shows that the company does not need to pay significant amount of cost, the extension period shall be recorded into the service life. Where the contract or law does not specify the service life, the company shall make the judgment taking into various aspects to determine the period in which the intangible assets will bring economic benefits to the company.

If it is impossible to determine the service life in which the intangible assets will bring economic benefits to the company with the above procedure, the intangible assets shall be regarded as the intangible assets with uncertain service life. No amortization shall be made for the intangible assets with uncertain service life.

Prior to any commercial production or use, the expenses resulting from the application of the research results or other intellectual knowledge to a certain plan or design to produce a new or a material with substantial improvement, a device, a product etc shall be regarded as the development expenditure. The other expenses shall be recognized as expenses other than the expenses which satisfy the following conditions to be recognized as intangible assets:

- a. It is feasible technically to finish intangible assets for use or sale;
 - b. It is intended to finish and use or sell the intangible assets;
 - c. The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
 - d. It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;
 - e. The development expenditures of the intangible assets can be reliably measured,
- The expenditure during the research stage shall be recorded into the expenses of the current period when incurred.

At the end of the period, thorough checks shall be made item by item on the intangible assets. As for the intangible assets which have been replaced by other new technology, resulting in a more significant impact on the economic benefits to the company or due to dramatic drop in market price, and which cannot be restored within the remaining amortization period, the recoverable amount shall be expected on a single item basis. Provision for the impairment shall be made based on the difference between the book values. Once the asset impairment loss provision is recognized, it cannot be reserved during the subsequent accounting periods.

(17) Goodwill:

In case of the business merger under the same control, the difference balance between the merger costs and the fair value of the identifiable net assets it obtains from the acquiree shall be recognized as goodwill. The company shall, at the end of the period, make an impairment test by amortizing the goodwill to the relevant asset groups. The impairment provisions made shall be recorded into the profits and losses of the current period. Once the impairment provision is made, it cannot be reversed in the subsequent accounting periods.

(18) Long-term deferred expenses:

Long-term deferred expenses shall be amortized by employing the straight-line method. The amortization periods shall be determined on the basis of the beneficial periods.

(19) Financial liability:

The company shall classify the financial liability as: the financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period;

The financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, including transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses. As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. Where there is no active market for a financial liability, the company shall adopt value appraisal techniques to determine its fair value.

(20) Recognition of revenue:

The company has transferred to the buyer the significant risks and rewards of the ownership of the goods; the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the relevant amount of revenue and costs can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the company; and the cost incurred or to be incurred can be reliably measured.

The company shall ascertain the revenue incurred by selling goods in accordance with the received or receivable price stipulated in the contract or agreement signed between the company and the buyer, unless the received or receivable amount as stipulated in the contract or agreement is unfair. If the collection of the price as stipulated in the contract or agreement is delayed and if it has the financing nature, the revenue incurred by selling goods shall be ascertained in accordance with the fair value of the receivable price as stipulated in the contract or agreement.

The difference between the price stipulated in the contract or agreement and its fair value shall be amortized within the period of the contract or agreement employing the real interest method and shall be included in the current profits and losses.

Revenue from Providing Labor Services: The amount of revenue can be measured in a reliable way; The relevant economic benefits are likely to flow into the enterprise; The schedule of completion under the transaction can be confirmed in a reliable way; and The costs incurred or to be incurred in the transaction can be measured in a reliable way.

If the company can, at the end of the period, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method. a method to recognize the revenues and expenses in the light of the stage of completion under a transaction concerning the providing of labor services. The company shall adopt the measurement of the work completed (the proportion of the labor services provided against the total labor services to be provided; the proportion of the costs incurred against the estimated total costs.) to measure the schedule of completion.

(21) Government grants

No government subsidy may be recognized unless the following conditions are met simultaneously as follows:

- a. The enterprise can meet the conditions for the government subsidies; ;
- b. The enterprise can obtain the government subsidies

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

The company classifies the government subsidies into subsidies pertinent to assets and government subsidies pertinent to incomes.

The subsidies pertinent to assets refer to the government subsidies the company receives to be used to purchase or form by other means the long-term investment. Such subsidies shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. But the government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

The government subsidies pertinent to incomes refer to the government subsidies other than the government subsidies pertinent to assets. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows:

- a. Those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized;
- b. Those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.

If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows:

- a. If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses.
- b. If there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

(22) Employee Compensation:

During the accounting period, the company shall recognize the compensation payable as liabilities. The company shall, in accordance with beneficiaries of the services offered by the employee, record the compensation for the employee for producing products or providing services as the product costs and service costs, the current expense, the costs of fixed asset or intangible assets. According to the relevant regulations, the company shall calculate the insurance and public reserve fund and make payments to the labor and social security institutions on a monthly basis and the relevant expenditures shall be recorded into the current cost or expenses.

(23) Recognition of estimated debts:

The company shall recognize the obligation pertinent to the following contingencies as estimated debts when the following conditions are satisfied simultaneously: that obligation is a current obligation of the enterprise; it is likely to cause any economic benefit to flow out of the enterprise as a result of performance of the obligation and the amount of the obligation can be measured in a reliable way

Where an executor contract turns to be a loss contract, the obligation generated from the loss contract shall be recognized as an estimated debts.

Other obligations that the company shall shoulder (such as excessive heavy loss, restructuring obligations, discard expenses etc) which meet the above conditions shall be recognized as estimated debts.

(24) Income taxes:

The company shall recognize the accrued income tax of the current period and prior periods as a liability, and shall recognize the part of the income tax already paid minus the payable amount as an asset.

Except for the deferred income tax liabilities arising from the following transactions, the company shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

- a. The initial recognition of business reputation
- b. the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following:
 - a) the transaction is not business combination.
 - b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

The company shall recognize the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference.

However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:

- a. This transaction is not business combination;
- b. At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

On the balance sheet date, where there is any exact evidence showing that it is likely to acquire sufficient amount of taxable income tax in a future period to offset against the deductible temporary difference, the deferred income tax assets unrecognized in prior periods shall be recognized.

On the balance sheet day, the current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law. The deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

In case the applicable tax rate changes, the deferred income tax assets and deferred income tax liabilities which have been recognized shall be re-measured, excluding the deferred income tax assets and deferred income tax liabilities arising from any transaction or event directly recognized as the owners' rights and interests, and the amount affected by them shall be recorded into the income tax expenses of the current period during which the change occurs

The company shall record the income taxes of the current period and deferred income tax as income tax expenses or income into the current profits and losses, excluding the income taxes incurred under the following circumstances:

- a. The business combination;
- b. The transactions or events directly recognized as the owner's rights and interests.

The income taxes of the current period and deferred income tax related to the transactions or events directly recorded in the owner's rights and interests shall be recorded into the owner's rights and interests.

(25) Consolidated financial statements:

The company shall list all the subsidiaries in the scope of consolidation.

If the accounting policies adopted by the subsidiaries are different from those adopted by the parent company, an adjustment shall be made to the financial statements in accordance with the accounting policies of the parent company and then make the consolidation.

The consolidated Income Statement and consolidated cash flow statements of the subsidiaries acquired through business merger under the same control shall include the incomes, the expenses, profits and cash flow of the consolidated subsidiaries from the date of consolidation to the end of the report period.

The consolidated Income Statement and consolidated cash flow statements of the subsidiaries acquired through business merger not under the same control shall include the incomes, the expenses, profits and cash flow of the consolidated subsidiaries from the date of consolidation to the end of the report period.

Where the current losses attributable to the minority shareholders of the company exceed the proportions of the minority shareholders in the owner's equities, the balance shall be treated as follows:

- a. Where according to the Articles of Association or agreement, the minority shareholders have the obligation to assume and the minority shareholders have the ability to compensate, the balance shall offset the minority shareholder rights
- b. Where the Articles of Association or agreement does not specify that the minority shareholders have obligation to assume, the balance shall offset the parent company owner's equities. The future realizable profits of the subsidiaries shall all belong to the parent company owner's equities before compensating the minority shareholder losses assumed by the parent company owner's equities.

(26) Earnings per share:

Basic earnings per share

The company shall calculate the basic earnings per share by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. The weighted average number of ordinary shares which are issued to the public shall be calculated in the light of the formulas as follows:

The weighted average number of ordinary shares issued to the public = the number of ordinary shares issued to the public at the beginning of the period + the number of shares newly issued in the current period × the lapsed time after issuance ÷ the time during the reporting period - the number of ordinary shares repurchased in the current period × the lapsed time after repurchase ÷ the time during the reporting period

Diluted Earnings Per Share

If an enterprise has any diluted potential ordinary shares, it shall modulate the current net profits belonging to the shareholder of ordinary shares, and the weighted average number of ordinary shares issued to the public in a separately way, and then calculate the diluted earnings per share according to the adjusted results.

The term "diluted potential ordinary shares" refers to the potential ordinary shares of which the earnings per share shall be reduced on supposing they would be converted to ordinary shares in the current period. When calculating the diluted earnings per share, an enterprise shall modulate the current net profits belonging to the shareholders of ordinary shares in accordance with the items as follows:

- a. The interests of the diluted potential ordinary shares determined to be expenses in the current period;
- b. The gains or expenses to be resulted from the conversion of the diluted potential ordinary shares.

When calculating the diluted earnings per share, the weighted average number of the ordinary shares issued to the public in the current period shall be the sum of the weighted average number of ordinary shares in calculating the basic earnings per share and the weighted average number of increased ordinary shares on supposing that the diluted potential ordinary shares convert into ordinary shares already issued.

When calculating the weighted average number of increased ordinary shares resulted from that the diluted potential ordinary shares convert into ordinary shares already issued, the diluted potential ordinary shares issued in prior periods shall be supposed to be converted at the beginning of the current period. The diluted potential ordinary shares issued in the current period shall be supposed to be converted on the date of issuance.

In case the exercise prices of the share warrants and share options are lower than the average market price of the ordinary shares of the current period, the dilution shall be taken into consideration.

The diluted potential ordinary shares shall be charged to the diluted earnings per share based on the extent of dilution according to the sequential order from the big to the small, until the diluted earnings per share to be the minimum.

Recalculation

If the number of ordinary shares issued to the public or of potential ordinary shares is increased because of the distribution of stocks or dividends, the increase of capital converted by accumulation fund or share split-up, or is reduced because of reverse split-up, but causing no affect on the amount of the owner's equities, the earnings per share in each presentation period shall be recalculated in accordance with the number of post-adjustment shares.

In case the aforesaid changes occur during the period from the balance sheet date to the date on which the financial reports are authorized for issue, the earnings per share in each presentation period shall be recalculated in the light of the number of post-modulation shares.

In case any of the profits and losses of any previous year are retroactively modulated or restated in the light of the Accounting Standards for Enterprises No. 28 - Changes of Accounting Policies, Estimates and Corrections of Errors, the earnings per share during the period of presentation shall be recalculated.

(27) Segment reporting:

The company shall determine the segment reporting based on the business segments or the geographical segment. The business segment means that within the enterprise, the compositions of single or group of products or labor service can be segmented and provided. The segment assumes the risks and rewards other than those of other components. Geographical segment refers to those components of products or labor services

that can be segmented and provided within a certain economic atmosphere. The segment assumes risks and rewards other than those of other components in other economic atmosphere.

The revenue of the business segment or geographical segment is mostly revenue from external transactions and when meeting one of the following conditions, they shall be determined as segment reporting:

- a. The revenue of the segment accounts for 10% or more of the total segment revenue.
- b. The absolute amount of the profit(loss) of the segment accounts for 10% or more of the larger amount of total profits of all the segments or the absolute amount of the total loss of all the segments
- c. the segment assets of the segment accounts for 10% or more of the total assets of the segment.

The company shall determine the main reporting form and the secondary reporting form to disclose the segment information based on the different risks and rewards.

Note 5. Taxes

The main taxes and tax rates that are applicable to the units within the consolidated scope:

Taxes	Taxable basis	Tax rate
VAT	Revenue from sale of goods	17%
Business tax	Revenue from providing general labor service, sale of non-current assets	5%
Urban maintenance and construction tax	Paid VAT and business tax	In compliance with the local regulations of taxing unit
Educational surtax	Paid VAT and business tax	In compliance with the local regulations of taxing unit
Enterprise income tax	The amounts of taxable income of enterprises	The companies that established in Shenzhen are subject to tax rate of 18%; the companies that established in other city are subject to tax of 25%. The Company established in Hongkong are subject to tax rate of 17.5%.

Note 6. Notes to financial statements (unless otherwise stated, following data is provided after consolidated)

1. Monetary fund

Item	Currency	Original amount	Exchange rat	Closing balance	Starting balance
Cash	RMB	10,990.62	1.0000	10,990.62	9,687.06
	HKD	125.98	0.8790	110.73	180.64
	USD	18.02	6.8575	123.57	289.4
	EUR	8.02	10.8235	86.85	92.52
Subtotal				11,311.77	10,249.62
Bank deposit	RMB	625,934,190.85	1.0000	625,934,190.85	353,554,252.93
	HKD	12,003,967.40	0.8790	10,550,887.15	10,470,145.70
	USD	10,274,305.67	6.8575	70,456,051.11	377,765,401.64
	GBP	0.00	0.0000	0	19.16
	CAD	54,702.93	6.7923	371,558.69	8,208,567.32
	JPY	8,393,049.68	0.0645	541,670.64	1,896,299.49

	EUR	44,122.45	10.8235	477,559.32	653478.61
Subtotal				<u>708,331,917.75</u>	<u>752,548,164.85</u>
Total				<u>708,343,229.52</u>	<u>752,558,414.47</u>

2. Notes receivable

Category	Ending balance	Beginning balance
Letter of credit	26,234,255.62	9,019,114.31
Bank acceptance bill	2,354,241,308.82	2,606,915,469.49
Trade acceptance bill	21,450,000.00	36,505,176.05
Total	<u>2,401,925,564.44</u>	<u>2,652,439,759.85</u>

Please refer to Note 12 for details on notes mortgage.

3. Accounts receivable

(1). Ending balance of accounts receivable based on aging analysis:

Aging	Ending balance			Beginning balance		
	Balance	Proportion in total	Provision for bad debt	Balance	Proportion in total	Provision for bad debt
	RMB	%	RMB	RMB	%	RMB
Within 1 year	1,081,613,433.39	84.26	21,632,268.67	1,010,854,314.47	82.65	20,217,086.29
1-2 years	16,573,926.02	1.29	828,696.30	34,796,364.56	2.85	1,739,818.23
2-3 years	26,944,930.96	2.10	5,388,986.19	15,041,349.50	1.23	3,008,269.90
Over 3 years	158,479,883.06	12.35	147,980,671.81	162,298,959.60	13.27	157,842,894.18
Total	<u>1,283,612,173.43</u>	<u>100.00</u>	<u>175,830,622.97</u>	<u>1,222,990,988.13</u>	<u>100</u>	<u>182,808,068.60</u>

(2) Ending balance of accounts receivable based on risk combination analysis:

Category	Ending balance			Beginning balance		
	Balance	Proportion in total	Provision for bad debt	Balance	Proportion in total	Provision for bad debt
	RMB	%	RMB	RMB	%	RMB
Individual significant receivables	292,411,425.99	22.78	5,848,228.52	167,558,979.26	13.7	3,351,179.59
Individual transaction with not so significant amount but significant recoverable risk	158,479,883.06	12.35	147,980,671.81	162,298,959.60	13.27	157,842,894.18
Other transaction with no significant	832,720,864.38	64.87	22,001,722.64	893,133,049.27	73.03	21,613,994.83

amount						
Total	1,283,612,173.43	100.00	175,830,622.97	1,222,990,988.13	100	182,808,068.60
Total of first five accounts	275,207,169.11	21.44	5,504,143.38	167,558,979.26	13.7	3,351,179.59
Accounts receivable occupied by related parties	0.00	0.00		1,130,000.00	0.09	---

Details of individual transaction with significant amount as follows:

Category	Balance	Proportion of bad debt provision	Basis
Nanning Gome Logistical Co., Ltd,	24,019,251.88	2%	Within 1 year
Gansu Gome Logistical Co., Ltd.	51,191,339.41	2%	Within 1 year
Beijing Pangu Investment Ltd	93,021,620.00	2%	Within 1 year
ELDORADO COMPANY	87,337,596.96	2%	Within 1 year
AAAA WORLD IMPORT-EXPORT,INC.	19,637,360.86	2%	Within 1 year
SPICE LIMITED (India)	17,204,256.88	2%	
Total	292,411,425.99		

Individually significant receivables refer to balance of accounts receivable over RMB 17 million on the balance sheet date.

Individually insignificant receivables with high credit risk in group assessment refer to the items: the aging of accounts receivable is over 3 years.

1. Accounts receivable listed above do not include any arrears of shareholders holding 5% (or above) shares;
2. Ending balance of accounts receivable is increased by RMB60,621,185.30 over the beginning balance, up by 4.96%, mainly by increase in the accounts receivable for payment from customers;
3. For certain accounts receivable from customers which are hardly recoverable judging from current evidences due to the lawsuit or bankruptcy of the customer, 100% bad debt provision is made thereupon.

Details of accounts receivable are list as follows:

(1) Ending balance of accounts receivable based on aging analysis:

Aging	Ending balance			Beginning balance		
	Balance	Proportion in total	Provision for bad debt	Balance	Proportion in total	Provision for bad debt
	RMB	%	RMB	RMB	%	RMB
Within 1 year	1,543,097,683.37	89.44	11,866,556.28	1,758,825,578.22	90.29	13,562,806.05
1-2 years	4,745,482.55	0.28	237,274.13	20,284,796.70	1.04	1,076,351.32
2-3 years	26,460,378.68	1.53	5,292,075.74	14,240,668.00	0.73	2,848,133.60
Over 3 years	151,024,904.87	8.75	138,093,298.88	154,702,785.84	7.94	146,417,594.37
Total	1,725,328,449.47	100.00	155,489,205.02	1,948,053,828.76	100	163,904,885.34

(2). Ending balance of accounts receivable based on risk combination analysis:

Category	Ending balance			Beginning balance		
	Balance	Proportion in total	Provision for bad debt	Balance	Proportion in total	Provision for bad debt
	RMB	%	RMB	RMB	%	RMB
Individual significant receivables	1,012,273,702.25	58.67	1,504,211.83	910,826,741.61	46.76	1,521,085.71
Individual transaction with not so significant amount but significant recoverable risk	151,024,904.87	8.75	138,093,298.88	154,702,785.84	18.53	146,417,594.37
Other transaction with no significant amount	562,029,842.35	32.58	15,891,694.31	882,524,301.31	45.3	15,966,205.26
Total	1,725,328,449.47	100.00	155,489,205.02	1,948,053,828.76	100	163,904,885.34
Total of first five accounts	823,059,580.74	47.70		834,772,456.07	42.85	---
Accounts receivable occupied by related parties	949,769,869.53	55.05		1,080,685,275.82	55.48	---

Details of individual significant receivables as listed as follows:

Category	Balance	Proportion of bad debt provision	Basis
Nanning Gome Logistical Co., Ltd,	24,019,251.88	2%	Within 1 year
Gansu Gome Logistical Co., Ltd.	51,191,339.41	2%	Within 1 year
Shenzhen Konka Information Internet Co., Ltd.	44,885,196.44		Related current
Shenzhen Konka Appliance Co., Ltd.	68,405,684.63		Related current
Dongguan Konka Moulding Plastic Co., Ltd.	116,418,072.88		Related current
Hong Kong Konka Co., Ltd.	121,483,153.61		Related current
Dongguan Konka Electronic Co., Ltd.	142,203,123.45		Related current
Shenzhen Konka Telecommunication Technology Co., Ltd.	107,155,118.82		Related current
Shenzhen Konka Video System Engineering Co., Ltd.	336,512,761.13		Related current
Total	1,012,273,702.25		

4. Accounts prepaid

Aging	Ending balance		Beginning balance	
	Balance	Proportion	Balance	Proportion
	RMB	%	RMB	%
Within 1 year	163,355,773.71	98.98	148,072,677.26	97.8
1- 2 years	1,027,777.96	0.62	2,749,625.45	1.82
2-3 years	466,763.22	0.28	2,588.45	---
Over 3 years	196,331.84	0.12	571,467.84	0.38
Total	165,046,646.73	100.00	151,396,359.00	100.00

The ending balance of accounts prepaid is increased by RMB 13,650,287.73, up by 9.02%.

5. Other receivables

(1). Ending balance of other receivables based on aging analysis:

Aging	Ending balance			Beginning balance		
	Balance	Proportion	Provision for bad debts	Balance	Proportion	Provision for bad debts
	RMB	%	RMB	RMB	%	RMB
Within 1 year	67,015,292.32	49.96	1,340,305.85	81,349,412.89	55.13	1,626,988.26
1- 2 years	6,080,361.93	4.53	304,018.10	6,214,026.17	4.21	310,701.31
2-3 years	3,921,995.42	2.92	784,399.08	1,459,268.51	0.99	291,853.70
Over 3 years	57,117,124.70	42.58	13,723,068.00	58,542,206.10	39.67	13,017,086.73
Total	134,134,774.37	100.00	16,151,791.03	147,564,913.67	100	15,246,630.00

(2). Ending period of other receivables based on risk combination analysis:

Category	Ending balance			Beginning balance		
	Balance	Proportion	Provision for bad debts	Balance	Proportion	Provision for bad debts
	RMB	%	RMB	RMB	%	RMB
Individual transaction with significant amount	39,959,363.87	29.79	-	82,259,363.87	55.74	---
Individual transaction with not so significant amount but significant recoverable risk	17,157,760.83	12.79	13,723,068.00	32,849,354.23	22.26	13,017,086.73
Other transaction with no significant amount	77,017,649.67	57.42	2,428,723.03	32,456,195.57	21.99	2,229,543.27

Total	134,134,774.37	100.00	16,151,791.03	147,564,913.67	100	15,246,630.00
Total of first five accounts	61,454,434.04	45.82		91,845,257.80	62.24	191,717.88
Accounts receivable occupied by related parties	8,882,394.18	6.62		4,973,217.94	3.37	---

Details of single accounts receivable with large amount are listed as follows:

Item	Amount	Rate of bad debt provision	Basis
Payment for housing purchased at Yi Kang Building	14,898,486.55		Recoverable without withdrawing bad debt provision
Payment for housing purchased at Kang Jia Garden	25,060,877.32		Recoverable without withdrawing bad debt provision
Total	39,959,363.87		

Individually significant receivables refer to balance of other receivables over RMB 10 million on the balance sheet date.

Individually insignificant receivables with high credit risk in group assessment refer to the items: the aging of other receivables is over 3 years.

1. Other receivables listed above do not include any arrears of shareholders holding 5% (or above) shares;

Details of other receivables are listed as follows:

(1). Ending balance of other receivables based on aging analysis:

Aging	Ending balance			Beginning balance		
	Balance	Proportion	Provision for bad debts	Balance	Proportion	Provision for bad debts
	RMB	%	RMB	RMB	%	RMB
Within 1 year	39,445,912.11	38.45	788,918.24	69,837,608.64	53.19	1,396,752.17
1- 2 years	3,166,100.47	3.09	158,305.02	3,173,389.14	2.42	158,669.46
2-3 years	3,547,343.76	3.46	709,468.75	794,943.78	0.61	158,988.76
Over 3 years	56,441,146.37	55.01	13,340,718.48	57,490,442.18	43.79	12,074,001.20
Total	102,600,502.71	100.00	14,997,410.50	131,296,383.74	100	13,788,411.59

(2). Ending balance of other receivables based on risk combination analysis:

Category	Ending balance			Beginning balance		
	Balance	Proportion	Provision for bad debts	Balance	Proportion	Provision for bad debts
	RMB	%	RMB	RMB	%	RMB
Individual transaction with significant amount	39,959,363.87	38.95	-	82,259,363.87	62.65	---

Individual transaction with not so significant amount but significant recoverable risk	16,481,782.50	16.06	13,340,718.48	31,797,590.31	24.22	12,074,001.20
Other transaction with no significant amount	46,159,356.34	44.99	1,656,692.02	17,239,429.56	13.13	1,714,410.39
Total	102,600,502.71	100.00	14,997,410.50	131,296,383.74	100	13,788,411.59
Total of first five accounts	61,454,434.04	59.90		91,845,257.80	69.95	---
Accounts receivable occupied by related parties	8,882,394.18	8.66		4,973,217.94	3.79	---

Details of single accounts receivable with large amount are listed as follows:

Item	Amount	Rate of bad debt provision	Basis
Payment for housing purchased at Yi Kang Building	14,898,486.55	---	Recoverable without withdrawing bad debt provision
Payment for housing purchased at Kang Jia Garden	25,060,877.32	---	Recoverable without withdrawing bad debt provision
Total	39,959,363.87		

6. Inventories and provision for devaluing of inventories:

(1) Details of inventories are listed as follows:

Items	Beginning book value	Increase for the current period	Decrease for the current period	Ending book value
1. Raw materials	1,092,414,518.97	4,518,220,215.17	4,451,125,460.17	1,159,509,273.97
2. Goods in process	149,702,989.50	1,241,083,936.96	1,247,643,112.62	143,143,813.84
3. Finished goods	1,984,947,069.08	10,426,690,047.96	10,750,044,220.27	1,661,592,896.77
Total	3,227,064,577.55	16,185,994,200.09	16,448,812,793.06	2,964,245,984.58

(2) Provision for falling price of inventories

Provision for falling price of inventories	Beginning balance	Increase	Decrease			Proportion in ending balance	Ending balance
			Reversal	Transferred out for other reasons	total		
1. Raw materials	43,777,795.87			13,877.16	13,877.16	0.03%	43,763,918.71
2. Goods in process	4,507,107.16				0.00	0.00%	4,507,107.16
3. Finished goods	244,150,491.65	4,904.29		35,382.76	35,382.76	0.01%	244,120,013.18
Total	292,435,394.68	4,904.29		49,259.92	49,259.92	0.02%	292,391,039.05

7. Hedged projects

Items	Ending balance	Beginning balance
1. Mortgage with fixed deposit book	1,425,175,315.55	1,032,235,139.55
2. Mortgage with notes receivable	58,155,169.50	263,937,600.00
Subtotal	1,483,330,485.05	1,296,172,739.55
3. USD loan mature in one year	1,472,939,095.41	1,294,949,933.08

Total	<u>10,391,389.64</u>	<u>1,222,806.47</u>
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In the current period the Company mainly used USD in payment for overseas purchases and, in order to curb the exchange rate risk, the Company conducted NDF hedging combined business, with total of 57 said transactions in USD loans on mortgage with fixed bank deposit books or bank acceptance bills, and meantime continued the “one-year USD exchange rate risk lockup” NDF value maintenance business, by signing the NDF contract with the bank.

8. Hedging instrument

Items	Ending balance	Beginning balance
Valuation gains of NDF hedging combined business*	8,293,387.77	8,293,387.77
Total	<u>8,293,387.77</u>	<u>8,293,387.77</u>

* : please refer to Note 7, Note 28 and Note 12 (4) for details.

9. Financial assets available for sale

Item	Ending balance	Beginning balance
1. Bonds available for sales	---	---
2. Equity instrument available for sales	---	---
3. Stock investment	10,862,283.10	60,721,570.37
Total	<u>10,862,283.10</u>	<u>60,721,570.37</u>

1. Short-term stock investment is recorded in the category of financial assets available for sale.

2. As by current period ending, the Company still held total investment costs of RMB 11,656,508.07 for purchasing of new shares, added public shares and original legal person shares, and the variation gain & loss of fair value calculation is RMB -1,254,784.97.

10. Long-term equity investment

(1) Details are listed as follows:

Items	Ending balance			Beginning balance		
	Book balance	Reserve for impairment	Book value	Book balance	Reserve for impairment	Book value
Long-term equity investment	23,700,374.30	1,400,000.00	22,300,374.30	51,670,152.32	4,196,977.80	47,473,174.52
Included:						
Investment in subsidiaries	---	---		---	---	---
Investment in cooperative companies	---	---		---	---	---
Investment in associated companies	23,700,374.30	1,400,000.00	22,300,374.30	23,700,374.30	1,400,000.00	22,300,374.30
Other equity investment				27,969,778.02	2,796,977.80	25,172,800.22

Long-term creditor's rights investment	---	---	---	---	---
Other long-term investment	4,172,056.01	---	4,172,056.01	4,172,056.01	4,172,056.01
Total	27,872,430.31	1,400,000.00	26,472,430.31	55,842,208.33	4,196,977.80

Of which listed above, related information of cooperative and associated companies is provided as follows:

Unit invested	Place of registration	Scope of business	Registered capital	Proportion of share held	Proportion of voting right	Ending total asset	Total revenue for the current period	Net profit for the current period
1. Associated company								
Shenzhen Konka Energy Technologies Co., Ltd	Shenzhen	Mobile energy new products etc.	RMB20 million	30%	30%	13,849,527.84	0	-4,232.84
Chongqing Jingkang Plastic Products Co., Ltd.	Chongqing	Manufacturing and processing of molding products	RMB15 million	15%	15%	9,702,609.66	143,405.69	-246,436.77
Shenzhen Julong Optical-Electric Co., Ltd.	Shenzhen	R & D, manufacturing and distribution of panel optical-electric display parts & components	RMB10 million	20%	20%	20,000,123.60	0	0
Shan Lian Information Technologies Engineering Center Co., Ltd.	Beijing	Technical development, transfer, consultation and services	RMB52 million	9.62%	9.62%	42,012,223.83	339,347.40	-6,025,514.10
Shenzhen Zhong Cai Lian Technologies Co., Ltd.	Shenzhen	Electronics technological development and economic information consultation	RMB10 million	10%	10%	9,582,899.85	20,000.00	-60,501.64
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.*	Huadu	Holding investment, real estate development	USD9.4 million	50%	50%	--	--	--
Shenzhen De Kang Electronics Co., Ltd.	Shenzhen	Manufacturing and distribution of electronics products	RMB10 million	30%	30%	25,071,917.51	22,769,798.80	-1,716,889.74

* The Company transferred its shareholding rights in Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd. to Ao Hong Holdings Ltd. and Shenzhen Ao Hua Investment Management Co., Ltd. at RMB28 million in 2006 and, as at 30 June 2008, the payment for equity transfer amounting to RMB 8 million failed to retake.

(2) Long-term equity investment

a. Investment in the associated companies

I . Equity investment calculated on the Equity Method

Unit invested	Rate	Initial investment cost	Beginning balance	Investment addition (decrease)	Addition or decrease of current period equities	Accumulated addition or decrease of equities	Ending balance
Shenzhen Konka Energy Technologies Co., Ltd.	30%	5,983,965.19	3,663,052.53				3,663,052.53
Shenzhen De Kang Electronics Co., Ltd.	30%	3,000,000.00	7,137,424.83				7,137,424.83
Chongqing Jingkang Plastic Products Co., Ltd.	25%	3,750,000.00	3,014,896.94				3,014,896.94
Shenzhen Julong Optical-Electric Co., Ltd.	20%	2,000,000.00	2,000,000.00				2,000,000.00
Total		27,233,965.19	15,815,374.30				15,815,374.30

II. Equity investment calculated on the Cost Method

Unit invested	Rate	Initial investment cost	Beginning balance	Increase	Decrease	Ending balance
Shenzhen Chuangce Investment Development Co., Ltd.	1%	485,000.00	485,000.00			485,000.00
Feihong Electronics Co., Ltd.	8.33%	1,300,000.00	1,300,000.00			1,300,000.00
Shenzhen Foreign-invested Enterprises Society	---	100,000.00	100,000.00			100,000.00
Shan Lian Information Technological Engineering Center Co., Ltd.	9.62%	5,000,000.00	5,000,000.00			5,000,000.00
Shenzhen Zhong Cai Lian Technologies Co., Ltd.	10%	1,000,000.00	1,000,000.00			1,000,000.00
Total		7,885,000.00	7,885,000.00			7,885,000.00

b. Other equity investment

Unit invested	Rate	Initial investing cost	Beginning balance	Increase (decrease) of investment	Increase (decrease) of equities	Accumulated increase or decrease of equities	Ending balance
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd. *	50%	27,969,778.02	27,969,778.02*				

*: Please refer to Note 10 (1) for details.

c. Changing in provision for impairment

Unit invested	Beginning balance	Increase	Reversal	Ending balance
Feihong Electronics Co., Ltd.	1,300,000.00			1,300,000.00

Shenzhen Foreign-invested Enterprises Society	100,000.00		100,000.00
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	2,796,977.80	2,796,977.80	0.00
Total	<u>4,196,977.80</u>	<u>2,796,977.80</u>	<u>1,400,000.00</u>

(3) Other long-term investment

Unit invested	Beginning balance	Increase	Decrease	Ending balance
Jing Yuan Building	4,172,056.01	---	---	4,172,056.01
Subtotal	<u>4,172,056.01</u>	<u>---</u>	<u>---</u>	<u>4,172,056.01</u>

Details of long-term invested companies are listed as follows:

(1) Details listed as follows:

Items	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Long-term equity investment	863,258,259.56	1,400,000.00	861,858,259.56	898,728,037.58	4,196,977.80	894,531,059.78
Included: Investment in subsidiaries	853,373,259.56	---	853,373,259.56	860,873,259.56	---	860,873,259.56
Investment in cooperative companies	---	---	---	---	---	---
Investment in associated companies	9,885,000.00	1,400,000.00	8,485,000.00	9,885,000.00	1,400,000.00	8,485,000.00
Other equity investment				27,969,778.02	2,796,977.80	25,172,800.22
Long-term creditor's rights investment	---	---	---	---	---	---
Other long-term investment	4,172,056.01	---	4,172,056.01	4,172,056.01	---	4,172,056.01
Total	<u>867,430,315.57</u>	<u>1,400,000.00</u>	<u>866,030,315.57</u>	<u>902,900,093.59</u>	<u>4,196,977.80</u>	<u>898,703,115.79</u>

(2) Long-term equity investment

a. Investment in subsidiaries and associated companies

I . Equity investment calculated with the Equity Method

Unit invested	Rate	Initial investment cost	Beginning balance	Investment addition (decrease)	Addition or decrease of current period equities	Accumulated addition or decrease of equities	Ending balance
Shenzhen Julong Optical-Electric Co., Ltd.	20%	2,000,000.00	2,000,000.00				2,000,000.00
Total		<u>2,000,000.00</u>	<u>2,000,000.00</u>				<u>2,000,000.00</u>

II . Equity investment calculated with the Cost Method

Unit invested	Rate	Initial investment cost	Beginning balance	Increase	Decrease	Ending balance
Shenzhen Chuangce Investment Development Co., Ltd.	1%	485,000.00	485,000.00			485,000.00
Feihong Electronics Co., Ltd.	8.33%	1,300,000.00	1,300,000.00			1,300,000.00

Shenzhen Foreign-invested Enterprises Society	---	100,000.00	100,000.00		100,000.00
Shan Lian Information Technological Engineering Center Co., Ltd.	9.62%	5,000,000.00	5,000,000.00		5,000,000.00
Shenzhen Zhongcailian Technologies Co., Ltd.	10%	1,000,000.00	1,000,000.00		1,000,000.00
Dongguan Konka Electronics Co., Ltd.	100%	287,766,145.16	287,766,145.16		287,766,145.16
Hong Kong Konka Co., Ltd.	100%	781,828.61	781,828.61		781,828.61
US Konka Electronics Co., Ltd.	100\$	13,042,322.03	13,042,322.03		13,042,322.03
Pacific Konka Co., Ltd.	100%	4,663,848.69	4,663,848.69		4,663,848.69
Shenzhen Konka Electric Appliance Co., Ltd.	51%	9,658,262.72	9,658,262.72		9,658,262.72
Shenzhen Shushida Electronics Co., Ltd.	75%	31,500,000.00	31,500,000.00		31,500,000.00
Shenzhen Konka Telecom Technologies Co., Ltd.	75%	90,000,000.00	90,000,000.00		90,000,000.00
Anhui Konka Electronics Co., Ltd.	78%	118,891,578.90	122,780,937.98		122,780,937.98
Chongqing Qingjia Electronics Co., Ltd.	30%	7,500,000.00	7,500,000.00	7,500,000.00	-
Mudanjiang Konka Industries Co., Ltd.	60%	36,000,000.00	36,000,000.00		36,000,000.00
Chongqing Konka Electronics Co., Ltd.	60%	27,000,000.00	27,000,000.00		27,000,000.00
Shenzhen Konka Plastic Products Co., Ltd.	49%	4,655,000.00	4,655,000.00		4,655,000.00
Shanxi Konka Electronics Co., Ltd.	45%	41,700,000.00	44,869,809.80		44,869,809.80
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.	60%	8,738,023.34	9,000,000.00		9,000,000.00
Shenzhen Konka Information Network Co., Ltd.	75%	22,500,000.00	22,500,000.00		22,500,000.00
Chongqing Konka Auto Electronics Co., Ltd.	57%	17,100,000.00	17,100,000.00		17,100,000.00
KONKA AMERICA, INC.	100%	8,062,500.00	8,062,500.00		8,062,500.00
Anhui Konka Electric Appliance Co., Ltd.	92.97%	74,981,122.07	74,981,122.07		74,981,122.07
Shenzhen Konka Electronic Parts & Technologies Co., Ltd.	75%	48,750,000.00	48,750,000.00		48,750,000.00
Konka (Europe) Co., Ltd.	100%	261,482.50	261,482.50		261,482.50
Total		861,437,114.02	868,758,259.56	7,500,000.00	861,258,259.56

b. Other equity investment

Unit invested	Rate	Initial	Beginning	Increase	Increase	Accumulated	Ending
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		investing cost	balance	(decrease) of investment	(decrease) of equities	increase or decrease of equities	balance
Guangzhou Huadu							
Long Feng Jian Zhi Real Estate Co., Ltd.	50%	27,969,778.02	27,969,778.02	---	---	---	---

c. Change in provision for impairment

Units invested	Beginning balance	Increase	Reversal	Ending balance
Feihong Electronics Co., Ltd.	1,300,000.00	---	---	1,300,000.00
Shenzhen Foreign-invested Enterprises Society	100,000.00	---	---	100,000.00
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	2,796,977.80	---	2,796,977.80	---
Total	4,196,977.80	---	2,796,977.80	1,400,000.00

(3) Other long-term investment

Unit invested	Beginning balance	Increase	Decrease	Ending balance
Jing Yuan Building	4,172,056.01	---	---	4,172,056.01
Subtotal	4,172,056.01	---	---	4,172,056.01

11. Fixed assets & accumulated depreciation

cost	Beginning balance	Increase	Decrease	Ending balance
Buildings and structures	962,524,911.49	62,284,967.74	225,240.50	1,024,584,638.73
Machinery equipment	1,057,682,418.33	13,831,446.38	16,539,619.86	1,054,974,244.85
Electronic equipment	307,960,510.75	15,034,266.61	21,941,557.75	301,053,219.61
Vehicles	66,977,429.59	3,526,287.82	2,866,667.36	67,637,050.05
Other	199,372,648.49	3,336,610.48	21,575,111.97	181,134,147.00
Total	2,594,517,918.65	98,013,579.03	63,148,197.44	2,629,383,300.24

Accumulated depreciation	Beginning balance	Increase	Decrease	Ending balance
Buildings and structures	223,119,205.72	12,080,647.83	78,233.50	235,121,620.05
Machinery equipment	659,118,435.28	50,923,345.58	17,638,084.13	692,403,696.73
Electronic equipment	229,548,486.79	12,454,972.67	23,154,499.76	218,848,959.70
Vehicles	43,474,039.55	3,452,502.92	3,599,891.96	43,326,650.50
Other	139,316,633.37	6,595,623.92	2,313,408.10	143,598,849.19
Total	1,294,576,800.71	85,507,092.91	46,784,117.45	1,333,299,776.17

Provision for impairment	Beginning balance	Increase	Decrease	Ending balance
Buildings and structures	1,247,805.91	---	---	1,247,805.91
Machinery equipment	4,270,167.58	---	---	4,270,167.58
Electronic equipment	1,114,001.67	---	---	1,114,001.67
Vehicles	304,230.97	---	---	304,230.97
Other	1,349,827.96	---	---	1,349,827.96
Total	8,286,034.09	---	---	8,286,034.09

Book value	Beginning balance	Ending balance
Buildings and structures	738,157,899.86	788,215,212.77
Machinery equipment	394,293,815.47	358,300,380.54
Electronic equipment	77,298,022.29	81,090,258.24
Vehicles	23,199,159.07	24,006,168.58
Other	58,706,187.16	36,185,469.85
Total	1,291,655,083.85	1,287,797,489.98

1. The current increase of fixed assets is due to transferring into from construction in progress amounting RMB 853,814.41;

2. Please refer to Note 12 for details of fixed asset mortgage

12. Construction in progress

Name of works	Budget	Beginning balance	Current period increase	Fixed asset transferred into current period	Other decreases current period	Ending balance	Source of funds
SMT cable works	9,675,500	9,191,680.25				9,191,680.25	Self-financing
13 sets houses, 28/F, Zhongshan Plaza	5,289,400	5,289,380.00	5,554.00			5,294,934.00	Self-financing
Konka R & D Building	567 million	17,066,196.69	2,986,989.60			20,053,186.29	Self-financing
Phase II, Kang Jia Yuan Plant building of Anhui Konka AVAVA communication equipment	17,697,600	20,150,689.94	1,381,822.30			21,532,512.24	Self-financing
Project of satellite communication equipment	1,828,900		1,330,228.60			1,330,228.60	
Xi'an East China International Building	1,868,500	1,553,700.00				1,553,700.00	
Project of plant of Shankang	5,451,900		5,451,904.33			5,451,904.33	
	2,591,300	2,591,319.88	4,000.00			2,595,319.88	

Digital Cable						
Other project	4,092,666.77	1,994,469.62	853,814.41		5,233,321.98	Self-financing
Total	<u>61,936,696.44</u>	<u>13,444,968.45</u>	<u>853,814.41</u>		<u>74,527,850.48</u>	

13. Intangible assets

Project	Beginning balance	Current period increase	Current period decrease	Ending balance
I. Total cost	78,123,856.01	353,960.00	4,813,595.92	73,664,220.09
1. Land use right	37,886,781.88	0.00	4,611,289.41	33,275,492.47
2. overseas trademark registration fees	2,782,039.61	198,810.00	-	2,980,849.61
3. Patent & proprietary technologies	37,455,034.52	155,150.00	202,306.51	37,407,878.01
II. Accumulated depreciation	27,449,270.80	3,044,671.33	-	30,493,942.13
1. Land use right	5,206,796.71	134,429.52		5,341,226.23
2. overseas trademark registration fees	2,173,727.48	100,594.38		2,274,321.86
3. Patent & proprietary technologies	20,068,746.61	2,809,647.43		22,878,394.04
III. Total amount of provision for impairment	2,901,082.61			2,901,082.61
1. Land use right				
2. overseas trademark registration fees				
3. Patent & proprietary technologies	2,901,082.61			2,901,082.61
IV. Book value	47,773,502.60			40,269,195.35
1. Land use right	32,679,985.17	0.00		27,934,266.24
2. overseas trademark registration fees	608,312.13	0.00		706,527.75
3. Patent & proprietary technologies	14,485,205.30	0.00		11,628,401.36

14. Goodwill

Item	Source of origin	Beginning book value	Increase	Decrease	Ending book value
Equity acquired from subsidiaries		3,943,671.53	---	---	3,943,671.53
Total		<u>3,943,671.53</u>	<u>---</u>	<u>---</u>	<u>3,943,671.53</u>

15. Long-term deferred expenses

Category	Original amount	Beginning balance	Increase	Amortization	Accumulated depreciation	Ending balance
Decoration	23,397,201.92	9,961,679.39	4,655,679.09	2,270,601.31	11,050,444.75	12,346,757.17
Shoppe	31,068,838.89	2,189,841.25	456,530.00	951,186.85	29,373,654.49	1,695,184.40
License fee for software	20,662,790.29	2,455,443.26	---	321,731.58	18,529,078.61	2,133,711.68
Other	18,343,647.34	9,242,674.97	3,085,294.91	1,616,906.67	7,632,584.13	10,711,063.21
Total	<u>93,472,478.44</u>	<u>23,849,638.87</u>	<u>8,197,504.00</u>	<u>5,160,426.41</u>	<u>66,585,761.98</u>	<u>26,886,716.46</u>

The beginning balance is increased by RMB 3,037,077.59, up by 12.73%, which was mainly because of

increase of decoration fees for headquarter office and R&D charges of Video & Communication Systems Engineering Co., Ltd.

16. Deferred income tax assets

Items	Ending balance	Beginning balance
1. Provision for bad debt of accounts receivable	20,867,189.56	20,867,189.56
2. Provision for falling price of inventories	41,200,967.67	41,200,967.67
3. Provision for impairment of long-term investment	1,226,055.36	1,226,055.36
4. Other	431,746.84	114,278.51
Total	63,725,959.43	63,408,491.10

17. Provision for impairment of assets

Items	Beginning balance	Increase	Decrease		Ending balance
			Reversal	Written off	
1. Provision for bad debt	198,054,698.60	5,107,101.37	11,173,611.12	5,774.85	191,982,414.00
2. Provision for falling price of inventories	292,435,394.68	4,904.29		49,259.92	292,391,039.05
3. Provision for impairment of long-term equity investment	4,196,977.80			2,796,977.80	1,400,000.00
4. Provision for impairment of fixed assets	8,286,034.09				8,286,034.09
5. Provision for impairment of intangible assets	2,901,082.61				2,901,082.61
Total	505,874,187.78	5,112,005.66	11,173,611.12	2,852,012.57	496,960,569.75

18. Short-term loans

Category	Ending balance	Beginning balance
Credit loans	69,624,064.74	---
Mortgaged loans	24,500,000.00	22,000,000.00
Guarantee loans		---
Total	94,124,064.74	22,000,000.00

1. No overdue loans in thee ending balances. The interest rates are all general interest rates for bank loan;

2. There was an increase of RMB 72,124,064.74.00 in the ending balance over the beginning balance, at an increase of 327.84%, which was mainly due to the increase of bank loans borrowed by the Company and the subsidiary Hong Kong Konka Co., Ltd.

19. Notes payable

Category	Balance	Amount due within one year
Letter of credit	381,415,187.54	381,415,187.54
Bank acceptance bill	2,444,910,880.03	2,444,910,880.03
Trade acceptance bill	114,000,000.00	114,000,000.00

Total	2,940,326,067.57	2,940,326,067.57
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There is no amount due to shareholders who own 5% or more than 5% voting rights until 30 June 2008.

20. Accounts payable

Aging	Ending balance		Beginning balance	
	Balance	Proportion	Balance	Proportion
	RMB	%	RMB	%
Within 1 year	959,851,697.72	96.28	792,746,958.59	79.6
1 -2 years	5,058,969.51	0.51	119,745,116.60	12.02
2 -3 years	8,071,849.54	0.81	34,429,950.43	3.46
Over 3 year	23,959,426.19	2.40	48,975,115.90	4.92
Total	996,941,942.96	100.00	995,897,141.52	100

There is no amount due to shareholders who own 5% or more than 5% voting rights until 30 June 2008.

21. Advanced from customers

The ending balance is RMB 154,543,980.65. There is no amount due to shareholders who own 5% or more than 5% voting rights until 30 June 2008.

The ending balance of advanced from customers is decreased by RMB 68,745,451.31, a drop of 30.79%, which was mainly due to decrease of accounts advanced from customers for the current period.

22. Payroll payable

Items	Beginning balance	Increase	Payout	Ending balance
Salary, bonus and allowance	125,674,356.59	359,456,143.64	393,070,757.61	92,059,742.62
Employee welfare	8,831,887.00	25,508,650.93	25,934,770.25	8,405,767.68
Social insurance	16,891,870.55	50,704,143.75	47,688,066.37	19,907,947.93
Housing accumulation fund	1,176,999.39	2,232,076.42	1,968,533.75	1,440,542.06
Labor union fee and employee education fee	7,986,144.26	3,550,666.81	4,381,274.18	7,155,536.89
Non-monetary welfare	---	---	---	---
Redemption for termination of labor contract	282350	6,239,456.87	6,218,250.26	303,556.61
Other	1,946,972.04	---	---	1,946,972.04
Including: Share payment with cash settlement	---	---	---	---
Total	162,790,579.83	447,691,138.42	479,261,652.42	131,220,065.83

24. Tax payable

Types	Ending balance	Beginning balance
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VAT payable	-7,001,388.22	-21,074,351.68
Business tax	568,924.40	4,188,251.14
Urban building tax	-846,976.78	188,474.56
Enterprise income tax	9,169,767.35	20,617,608.20
Personnel income tax	1,178,372.68	4,833,428.17
Education fees	74,433.67	40,234.03
Other	645,936.22	253,915.71
Total	<u>3,789,069.32</u>	<u>9,047,560.13</u>

The ending balance of tax payable is decreased by RMB 5,258,490.81, a drop of 58.12%, which was mainly due to tax payable and business tax for the last year paid by the Company.

24. Other payables

Aging	Ending balance		Beginning balance	
	Balance	Proportion	Balance	Proportion
	RMB	%	RMB	%
Within 1 year	466,784,370.84	88.46	535,095,938.80	85.4
1 -2 years	30,213,424.29	5.73	62,847,219.43	10.03
2 -3 years	16,383,345.66	3.10	14,192,128.27	2.27
Over 3 year	14,303,296.03	2.71	14,412,773.45	2.3
Total	<u>527,684,436.82</u>	<u>100.00</u>	<u>626,548,059.95</u>	<u>100</u>

25. Deferred income

Category	Ending balance	Beginning balance
Government appropriation for flat color TV research progress	3,292,899.19	3,292,899.19
Government appropriation for LCD TV hi-tech industrialization model project	997,000.00	997,000.00
Funding for key project of corporation informatization with the “Konka Logistics Information System”	400,000.00	400,000.00
Electronics Industrial Development Fund of Information Industry Ministry (1)	---	---
Scientific & technological innovation fund	75,073.82	88,206.98
Government appropriation for alienated card digital TV receiver industrialization project	9,000,000.00	9,000,000.00
Government appropriation for LCOS digital projector & single chip LCOS projector industrialization project	700,000.00	700,000.00
Funding for state debts special technological renovation project	6,451,300.00	6,451,300.00
Financial funding for the electric injection system technological innovation project granted by the financial bureau	3,000,000.00	3,000,000.00
Funding for supply chain management information system project	1,500,000.00	1,500,000.00
Fund for IPV6 high-definition project granted by the infrastructure of Financial Bureau	2,396,819.20	2,396,819.20
Construction of high-definition TV production line	2,000,000.00	2,000,000.00
Tackle hard-nut problems on the strength of science and technology and industrialized project	108,000.00	
Funds for R&D of industrial technology for the year 2008	200,000.00	

Settlement fund for R&D export hi-tech products	400,000.00	
Input subsidy for R&D for scientific research enterprise	1,000,000.00	
Total	<u>31,521,092.21</u>	29,826,225.37

Ending balance of deferred income is increased by RMB 1,694,866.84 over the beginning balance, which is mainly because of Input subsidy for R&D for scientific research enterprise of RMB 1,000,000.00 and technology R&D and project fund amounting to RMB 708,000.00 obtained by Chongqing Konka Electronic Co., Ltd., the subsidiary of the Company.

26. Deferred income tax liabilities

Items	Ending balance	Beginning balance
Changes in fair value of financial assets available for sales	-250,956.99	3,783,805.52
Total	-250,956.99	3,783,805.52

27. Share Capital

Items	Beginning balance	Increase/decrease for this period					Subtotal	Ending balance
		Allotment of share	Bonus shares	Capitalization of share capital	Additional issuance	other		
I. Unlisted shares	I. Unlisted shares							I. Circulating shares subject to trading moratorium
1. Sponsor's shares	52,392,592.00	---	---	99,190,970.00	---	46,798,378.00	145,989,348.00	198,381,940.00
Including:								
shares held by the State	52,392,592.00	---	---	99,190,970.00	---	46,798,378.00	145,989,348.00	198,381,940.00
2. Non-sponsor's share	66,511,420.00	---	---	2,475.00	0.00	-66,508,945.00	-66,506,470.00	4,950.00
Including:								
shares held by domestic legal person	43,546,563.00	---	---		---	-43,546,563.00	-43,546,563.00	0.00
Shares held by overseas legal person	22,960,915.00	---	---		---	-22,960,915.00	-22,960,915.00	0.00
Shares held by domestic natural person	3,942.00	---	---	2,475.00	---	-1,467.00	1,008.00	4,950.00
Total unlisted shares	118,904,012.00	---	---	99,193,445.00	---	-19,710,567.00	79,482,878.00	198,386,890.00
II. Listed shares	II. Listed shares						0	I. Circulating shares not subject to trading moratorium
1. Domestically listed RMB common shares	280,244,438.00	---	---	299,955,005.00	---	19,710,567.00	319,665,572.00	599,910,010.00
2. Domestically listed foreign shares	202,837,902.00	---	---	202,837,902.00	---		202,837,902.00	405,675,804.00
Total listed shares	483,082,340.00	---	---	502,792,907.00	0.00	19,710,567.00	522,503,474.00	1,005,585,814.00
III. Total	601,986,352.00	---	---	601,986,352.00	---	0.00	601,986,352.00	1,203,972,704.00

The above-mentioned paid-in share capital has been verified by Guangdong Dahua Delu Certified Public Accountants with Shen-Hua-Yan-Zi [2008] No. 75.

28. Capital reserve

Items	Beginning balance	Increase	Decrease	Ending balance
Shares premium	1,812,471,052.00	---	601,986,352.00	1,210,484,700.00
Provision for donation accepted from non-cash assets	621,050.90	---	---	621,050.90
Provision for assets appraisal appreciation	7,300,506.21	---	---	7,300,506.21
Provision for equity investment	13,334,300.71	---	---	13,334,300.71
Appropriation from government	23,980,000.00	---	---	23,980,000.00
Other	27,192,540.27	---	18,241,164.23	8,951,376.04
Total	1,884,899,450.09	---	620,227,516.23	1,264,671,933.86

* : Decrease in capital reserve for the current period: the decrease of share premium is due to profit distribution for the year 2007, which the Company transferred capital reserve into share capital at the rate of 10 for 10 to all shareholders based on capital reserve as at 31 December 2007. The decrease of other capital reserve is due to that change in fair value financial assets available for sale amounting to RMB 1,697,573.97 recognized in prior periods is transferred out for terminating recognition, resulting in increase of predicated deferred income tax liabilities amounting to RMB 4,034,762.51.

29. Surplus reserve

Items	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserve	527,608,154.79	---	---	527,608,154.79
Arbitrary surplus reserve	254,062,265.57	---	---	254,062,265.57
Total	781,670,420.36	---	---	781,670,420.36

30. Retained profit

Beginning balance	Increase	Decrease	Ending balance
271,471,632.93	80,555,227.21	0.00	352,026,860.14

31. Operating revenue and operating cost

(1) Details of operating revenue and operating cost:

Items	January – June 2008		January – June 2007	
	Operating revenue	Operating cost	Operating revenue	Operating cost
1. Income from main operation	5,521,679,310.83	4,516,853,106.48	5,567,412,271.47	4,577,492,100.02
2. Other operating income	98,846,675.33	63,849,950.56	46,694,203.74	29,576,974.67
Total	5,620,525,986.16	4,580,703,057.04	5,614,106,475.21	4,607,069,074.69

(2) Details on the rate of the total revenue from the first five clients in the gross revenue are listed as follows:

	January – June 2008	January – June 2007
Total of first five clients in terms of sales revenue	933,059,014.20	507,698,922.06
Rate in the total sales revenue	16.60%	9.04%

(3) Segment report of main operation by products

Breakdown of main operation	January – June 2008		January – June 2007	
	Revenue of main operation	Cost of main operation	Revenue of main operation	Cost of main operation
Color TV business	4,053,345,367.75	3,275,475,112.45	4,288,614,251.77	3,473,566,409.78
Mobile phone business	525,107,654.04	482,874,041.63	803,045,484.88	657,363,575.57
Other	943,226,289.04	758,503,952.40	475,752,534.82	446,562,114.67
Subtotal	5,521,679,310.83	4,516,853,106.48	5,567,412,271.47	4,577,492,100.02
Internal offsetting among business sectors of the Company			---	---
Total	5,521,679,310.83	4,516,853,106.48	5,567,412,271.47	4,577,492,100.02

(4) Segment report of main operation by areas

Area	January – June 2008		January – June 2007	
	Revenue of main operation	Cost of main operation	Revenue of main operation	Cost of main operation
Domestic sales	4,998,695,917.35	4,026,917,811.64	5,002,372,711.88	4,054,316,467.59
Overseas sales	861,381,785.34	828,333,686.70	1,049,249,374.80	1,007,385,447.64
Subtotal	5,860,077,702.69	4,855,251,498.34	6,051,622,086.68	5,061,701,915.23
Internal offsetting among business sectors of the Company	-338,398,391.86	-338,398,391.86	-484,209,815.21	-484,209,815.21
Total	5,521,679,310.83	4,516,853,106.48	5,567,412,271.47	4,577,492,100.02

Revenue of main operation for the current period is decreased by RMB 45,732,960.64 over the same period of last year, a drop of 0.82%, which was mainly because of decrease of export sales revenue from color TV.

(5) Other operating

Category	January – June 2008			January – June 2007		
	Other operating revenue	Other operating cost	Profit	Other operating revenue	Other operating cost	Profit
Materials	66,170,057.51	56,856,555.87	9,313,501.64	18,402,536.77	20,859,436.54	-2,456,899.77

transfer

Revenue

form selling	10,219,098.62	2,048,732.87	8,170,365.75	10,065,197.89	2,728,392.33	7,336,805.56
scrap						
Other	22,457,519.20	4,944,661.82	17,512,857.38	18,226,469.08	5,989,145.80	12,237,323.28
Total	<u>98,846,675.33</u>	<u>63,849,950.56</u>	<u>34,996,724.77</u>	<u>46,694,203.74</u>	<u>29,576,974.67</u>	<u>17,117,229.07</u>

Breakdown of operating revenue and cost as follows:

(1) Details of operating revenue and operating cost:

Items	January – June 2008		January – June 2007	
	Operating revenue	Operating cost	Operating revenue	Operating cost
1. Revenue from main operation	4,558,518,503.73	3,740,249,026.50	4,624,788,241.07	3,883,273,424.24
2. Other operating revenue	144,275,140.60	126,268,830.39	51,031,136.87	45,505,629.91
Total	<u>4,702,793,644.33</u>	<u>3,866,517,856.89</u>	<u>4,675,819,377.94</u>	<u>3,928,779,054.15</u>

(2) Details on the rate of sale revenue from first five clients in the total revenue are listed as follows:

	January – June 2008	January – June 2007
Total sales revenue from first five clients	<u>933,059,014.20</u>	<u>864,604,888.06</u>
Rate in the sales revenue	<u>16.60%</u>	<u>18.49%</u>

(3) Segment report of main operation

Breakdown of main operation	January – June 2008		January – June 2007	
	Revenue of main operation	Cost of main operation	Revenue of main operation	Cost of main operation
Color TV business	4,558,518,503.73	3,740,249,026.50	4,624,788,241.07	3,883,273,424.24
Mobile phone business			---	---
Other			---	---
Subtotal	<u>4,558,518,503.73</u>	<u>3,740,249,026.50</u>	<u>4,624,788,241.07</u>	<u>3,883,273,424.24</u>
Internal offsetting among business sectors of the Company			---	---
Total	<u>4,558,518,503.73</u>	<u>3,740,249,026.50</u>	<u>4,624,788,241.07</u>	<u>3,883,273,424.24</u>

(4) Segment report of main operation by areas

Area	January – June 2008		January – June 2007	
	Revenue of main operation	Cost of main operation	Revenue of main operation	Cost of main operation
Domestic sales	4,220,120,111.87	3,401,303,136.77	4,140,578,425.86	3,397,893,150.26
Overseas sales	338,398,391.86	338,945,889.73	484,209,815.21	485,380,273.98
Subtotal	<u>4,558,518,503.73</u>	<u>3,740,249,026.50</u>	<u>4,624,788,241.07</u>	<u>3,883,273,424.24</u>
Internal offsetting among business sectors of the Company			---	---
Total	<u>4,558,518,503.73</u>	<u>3,740,249,026.50</u>	<u>4,624,788,241.07</u>	<u>3,883,273,424.24</u>

(5) Other operating

Category	January – June 2008			January – June 2007		
	Other operating revenue	Other operating cost	Profit	Other operating revenue	Other operating cost	Profit
Materials transfer	131,027,609.23	124,967,302.43	6,060,306.80	44,817,773.66	45,180,023.12	-362,249.46
Revenue form selling scrap	4,442,388.18	60,066.43	4,382,321.75	4,160,754.64	0.00	4,160,754.64
Other	8,805,143.19	1,241,461.53	7,563,681.66	2,052,608.57	325,606.79	1,727,001.78
Total	<u>144,275,140.60</u>	<u>126,268,830.39</u>	<u>18,006,310.21</u>	<u>51,031,136.87</u>	<u>45,505,629.91</u>	<u>5,525,506.96</u>

32. Financial expense

Items	January – June 2008	January – June 2007
Interest expense	14,698,199.45	11,056,462.61
Less: interest income	1,393,737.96	3,992,920.13
Exchange loss	28,519,894.61	3,154,249.48
Less: Exchange gain	27,643,892.42	186,008.30
Other	3,646,192.12	5,018,122.10
Total	<u>17,826,655.80</u>	<u>15,049,905.76</u>

There was an increase in financial expenses amounting to RMB 2,776,750.04 for current period over last period, an increase of 18.45%, mainly due to the current period rising of interest rate which caused rises in expenses of borrowings and discount interest, as well as the increase of exchange loss caused by renminbi.

33. Impairment loss of assets

Items	January – June 2008	January – June 2007
I. Loss on bad debt	-4,430,792.84	20,030.49
II. Loss on falling price of inventories	-8,972.87	2,102,224.89
II. Loss on impairment of long-term equity investment	-2,796,977.80	
Total	<u>-7,236,743.51</u>	<u>2,122,255.38</u>

34. Investment income

Category	January – June 2008	January – June 2007
Income form stock investment	4,843,782.24	---
Ending adjusted net increase/decrease of owners' equities of the companies invested		-465,648.21
Income from equity investment transfer	2,521,979.79	489,704.91
Reversal of provision for impairment of long-term equity investment		---
Other	234,046.43	
Total	<u>7,599,808.46</u>	<u>24,056.70</u>

1. Investment income for the current period is increased by RMB 7,575,751.76 than that of last year, up by 314.91%, which was mainly because of investment in subscription of new shares and sales of part of such, obtaining the income of

RMB 4,843,782.24, and investment income from transferring equity of Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd..

2. There was no significant restrict over reversal of investment income.

Breakdown of companies related to the investment income is listed as follows:

Category	January – June 2008	January – June 2007
Income from stock investment	4,843,782.24	---
Ending adjusted net increase/decrease of owners' equities of the companies invested	---	---
Subsidiaries' return of investment income	---	---
Reversal of provision for impairment of long-term equity investment	---	---
Income from equity investment transfer	2,521,979.79	489,704.91
Total	7,365,762.03	489,704.91

35. Non-operating income and expense

1. Non-operating income

Items	January – June 2008	January – June 2007
1. Total income from disposal of non-current assets	2,322,134.25	1,671,542.20
Including: income from disposal of fixed assets	40,273.49	1,671,542.20
Income from disposal of intangible assets	2,281,860.76	---
Government grants	15,000.00 *	---
Fixed assets inventory profit	3,445.00	---
Income from donations accepted	0.00	---
Net income from fines	1,822,608.69	---
Accounts payable carried forward when unable to be paid	117.77	---
Other	974,242.99	2,414,738.67
Total	5,137,548.70	6,265,522.04

Non-operating income for the current period is decreased by RMB than that of last year, a drop of 18%.

*. Breakdown of subsidy income is listed as follows:

Items	January – June 2008
Subsidy of special funds for INFOCOMMOSCOW2007	10,000.00
subsidy of independent innovation offered by Chongqing Jiangbei District Science and Technology Committee	5,000.00
Total	3,157,255.00

2. Non-operating expense

Items	January – June 2008	January – June 2007
1. Total loss on disposal of non-current assets	2,412,998.20	1,181,800.95
Including: loss on disposal of fixed assets	2,412,998.20	1,181,800.95
Loss on disposal of intangible assets	---	---
Fixed assets inventory deficit	---	98,179.97
Donation expense	2,379,562.51	611,430.50
Expense for fines	577,467.74	871,634.73

Extraordinary loss	149,094.64	14,082.48
Resigning subsidy		
Other	586,172.63	1,786,442.15
Total	<u>6,105,295.72</u>	<u>4,563,570.78</u>

Non-operating expense for the current period is increased by RMB 1,541,724.94 than that of last year, up by 33.78%, which was mainly because of the greater increase in disposal of non-current assets and donation expense.

36. Income tax

(1) Breakdown of income tax

Items	January – June 2008	January – June 2007
Income tax expense for the current period	15,585,026.26	8,448,641.93
Included: Income tax expenses accrued current period	15,585,026.26	8,448,641.93
Current period adjustment over income tax amount of the prior periods		
Deferred income tax expense	-317,468.33	-1,399,223.61
Included: Deferred income tax expenses accrued current period	-317,468.33	
Current period adjustment over deferred income tax amount of the prior periods	0	
Influence due to change in tax rate		-1,399,223.61
Total	<u>15,267,557.93</u>	<u>7,049,418.32</u>

37. Cash received relating to other operating activities

Items	January – June 2008	January – June 2007
Cash received relating to other operating activities		
Current cash	9,427,974.53	57,530,511.78
Mortgaged guarantee deposit	156,000.00	
Fixing fund advanced	1,314,004.27	
Income from interests of bank deposit	4,712,136.45	2,585,746.81
Earnest money and deposit	1,471,985.16	3,457,705.13
Income from fines and penalties	225,574.60	
Repayment for personal borrowing	1,544,740.70	5,353,952.84
Subsidy income	---	3,462,000.00
Scrap income	5,268,664.85	
Inflow of financial assets	69,158,918.41	
Other	16,884,474.53	-
Subtotal	<u>110,164,473.50</u>	<u>72,389,916.56</u>
Cash paid relating to other operating activities		
Current cash	24,801,531.06	
Cash paid with administrative expense	100,525,644.09	107,138,198.35
Cash paid with operating expense	373,165,669.06	328,454,971.63
Expense of earnest money, deposit and fixing expense	7,101,463.31	
Staff work reserve fund	11,779,566.23	9,458,300.12
Advance of expense	21,400,002.59	
Penalty expenditure	1,103,692.47	
Interest	5,227,834.37	5,209,336.58

Other		93,347,078.57	35,821,826.47
	Subtotal	638,452,481.75	486,082,633.15

38. Cash and cash equivalents

Items	January – June 2008	January – June 2007
I. Cash	708,343,229.52	759,787,743.52
Including: Cash on hand	11,311.77	636,267.71
unrestricted bank deposit	708,331,917.75	759,151,475.81
unrestricted other monetary funds		---
Accounts deposited at central bank and available for payment		---
Inter-bank deposits		---
Release of inter-bank deposits		---
II. Cash equivalent		---
Included: Bond investment due within three months		---
III. Ending balance of cash and cash equivalent	708,343,229.52	759,787,743.52

Note 7. Government grants

Category	Amount to be deferred
I. Government grants related to assets	
Government appropriation for flat color TV research progress	3,292,899.19
Government appropriation for LCD TV hi-tech industrialization model project	997,000.00
Funding for key project of corporation informatization with the “Konka Logistics Information System”	400,000.00
Scientific & technological innovation fund	75,073.82
Government appropriation for alienated card digital TV receiver industrialization project	9,000,000.00
Government appropriation for LCOS digital projector & single chip LCOS projector industrialization project	700,000.00
Funding for bonds special technological renovation project	6,451,300.00
Financial funding for the electric injection system technological innovation project granted by the financial bureau	3,000,000.00
Funding for supply chain management information system project	1,500,000.00
Fund for IPV6 high-definition project granted by the infrastructure of Financial Bureau	2,396,819.20
Construction of high-definition color TV production line	2,000,000.00
Tackle hard-nut problems on the strength of science and technology and industrialized project	108,000.00
Funds for R&D of industrial technology for the year 2008	200,000.00
Settlement fund for R&D export hi-tech products	400,000.00
Input subsidy for R&D for scientific research enterprise	1,000,000.00
Total	31,521,092.21

Note 8. Supplementary disclosure of expense

Items	January – June 2008	January – June 2007
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1 . Raw materials and other consumed	549,077.23	1,007,744.07
2 . Staff salaries, remunerations and expenses accrued	359,456,143.64	327,462,638.48
3 . Depreciation (rejection) withdrawn	85,686,518.65	65,676,011.74
4 . Amortization of intangible assets and others	3,044,671.33	3,159,344.30
5 . Asset devaluing provision withdrawn	-6,061,605.46	2,122,255.38
6 . Interest accrued	14,698,199.45	11,056,462.61
Total	457,373,004.84	410,484,456.58

Note 9. Supplementary information to cash flow statement

Supplementary information	January – June 2008	January – June 2007
1. Adjusting net profit to cash flow from operating activities :		
Net profit	85,570,791.06	40,132,737.70
Add: Impairment loss provision of assets	-7,236,743.51	2,924,149.08
Depreciation of fixed assets, consumption & depreciation of oil-gas, depreciation of production materials	58,598,313.04	51,566,462.26
Amortization of intangible assets	7,952,475.07	3,159,344.30
Amortization of long-term deferred expenses	512,506.62	3,883,260.15
Loss upon disposing fixed assets, intangible assets and other long-term assets	439,606.15	408,649.81
Loss from rejection of fixed assets	2,219,918.64	800,291.87
Loss from change in fair value		---
Financial expenses	-16,267,878.62	4,155,728.12
Investment loss	-7,599,808.46	-24,056.70
Deferred income tax assets – credit item	-385,844.62	-1399223.61
Deferred income tax liabilities – debit item	-3,384,693.50	---
Decrease of inventory	262,818,592.97	813,503,956.47
Decrease in operating receivables	257,787,638.08	1,370,339,085.23
Increase in operating payables	-678,468,508.91	-2,131,809,678.55
Other	-5,243,149.80	---
2. Major investing and financing activities not concerning cash income and expenditure:		
Liabilities capitalized		---
Convertible bonds payable due within one year		---
Fund raised leased to fixed assets		---
3. Net increase (decrease) in cash and cash equivalents:		
Ending balance of cash	708,343,229.52	759,787,743.52
Less: Beginning balance of cash	752,558,414.47	678,239,825.82
Add: ending balance of cash equivalents		
Less: beginning balance of cash equivalents		
Net increase in cash and cash equivalents	-44,215,184.95	81,547,917.70

Note 10. Related parties and transactions

(1) Breakdown of parent company of the Company

Name of parent company and organization code	Place of registration	Type of incorporation	Registered capital	Proportion of shareholding	Proportion of voting right
OCT Group (190346175)	Shenzhen, Guangdong	Ownership by the entire people	2,000,000,000.00	16.48%	16.48%

In accordance with Judgment Paper received by the Company on 23 Nov. 2007 from China International Economic and Trade Arbitration Commission and Settlement Agreement entered into between OCT Group Corporation and Anhui Tianda Enterprise Group Co., Ltd, the Equity Transfer Agreement of Konka Group Co., Ltd. entered into between OCT Group Corporation Anhui Tianda Enterprise Group Co., Ltd. on 28 Aug. 2004 was released, which Anhui Tianda Enterprise Group Co., Ltd. Returned 43,546,563 shares of the Company that were recorded under its name to OCT Group Corporation. As confirmed by China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 24 Jan. 2008, the transfer procedure that Anhui Tianda Enterprise Group Co., Ltd. returned 43,546,563 shares of the Company that were recorded under its name to OCT Group Corporation has been completed.

In accordance with commitments made in Explanation on Share Merger Reform of Konka Group Co., Ltd , OCT Group Corporation, the original nontradable shareholder of the Company, has paid 35% of consideration for TIG Holdings Limited (former name is Thomson Investments Group Limited), amounting to 3,251,815 shares and taking up 0.54% of total capital shares of the Company. In accordance with Agreement on Repayment of Shares Advanced signed by OCT Group Corporation and TIG Holdings Limited, TIG Holdings Limited has paid the consideration advanced in share merger reform to OCT Group Corporation on 18 Apr. 2008, at present, the transfer procedure of repayment advanced consideration has been completed. OCT Group Corporation would held 16.48% equity of the Company when repayment of consideration advanced.

(2) For details of subsidiaries and affiliated enterprises and associated enterprises, please refer to Note 3.

(3) Breakdown of other related parties of the Company:

Name and organization code	Relationship with the Company
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of the first principal shareholder
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the first principal shareholder
Shenzhen OCT Water & Power Co., Ltd.	Subsidiary of the first principal shareholder
Shanghai Huali Packaging Co., Ltd.	Subsidiary of the first principal shareholder
Shenzhen Huali Packaging Trading Co., Ltd.	Subsidiary of the first principal shareholder
Anhui Huali Packaging Co., Ltd.	Subsidiary of the first principal shareholder
Shanghai OCT Investment Development Co., Ltd.	Subsidiary of the first principal shareholder
Chengdu Tianfu OCT Industrial Development Co., Ltd.	Subsidiary of the first principal shareholder
OCT East Co., Ltd.	Subsidiary of the first principal shareholder
Shenzhen Konka Energy Technologies Co., Ltd.	Affiliated company
Shenzhen Dekang Electronics Co., Ltd.	Affiliated company
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	Affiliated company

(4) Transaction of related parties

Name of companies	Items	January – June 2008			January – June 2007		
		Amount	Proportion in the same transaction	Pricing policy	Amount	Proportion in the same transaction	Pricing policy
Shenzhen Dekang Electronics Co., Ltd.	Purchasing goods	32,814,268.22	1.01%	Market price	42,279,240.86	1.50%	Market price
Shanghai Huali Packaging Co., Ltd.	Purchasing goods	13,970,180.56	0.43%	Market price	7,299,825.43	0.26%	Market price
Shenzhen Huali Packaging Trading Co., Ltd.	Purchasing goods	3,270,317.66	0.10%	Market price	14,169,567.79	0.50%	Market price
Anhui Huali Packaging Co., Ltd.	Purchasing goods	21,865,882.80	0.67%	Market price	24,031,358.43	0.85%	Market price
Shenzhen Huayou Packaging Co., Ltd.	Purchasing goods	4,049,132.12	0.12%	Market price	4,884,939.97	0.17%	Market price
Shenzhen OCT Water & Power Co., Ltd.	Water and electrical charges	592,886.39	100%		4,098,865.97	100%	

(5) Current between related companies

Current	Name of related parties	Contents	Ending balance	Beginning balance
Other receivables	Shenzhen OCT Real Estate Co., Ltd.	Deposit	1,288,948.86	1,288,948.86
	Shenzhen OCT Property Management Co., Ltd.	Deposit	101,528.95	77,402.65
	Shenzhen OCT Water & Power Co., Ltd.	Advance for water & power charge	7,421,662.21	3,574,966.43
	Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	Current account	31,900.00	31,900.00
	OCT East Co., Ltd.	Payment for housing purchased	0.00	42,300,000.00
	Subtotal			8,844,040.02
Accounts payable	Shenzhen Dekang Electronics Co., Ltd.	Payment for goods	3,061,422.24	9,106,408.21
	Shanghai Huali Packaging Co., Ltd.	Payment for goods	1,124,456.21	1,239,864.95
	Shenzhen Huali Packaging Trading Co., Ltd.	Payment for goods	1,542,544.03	3,532,700.55
Subtotal			5,728,422.48	13,878,973.71

Note 11. Non-adjustment events in the events post balance sheet date

No non-adjustment events post balance sheet date in the reporting period

Note 12. Other significant events

(1) On Nov 25, 2007 subsidiary of the Company, Anhui Konka Electronics Co., Ltd. signed with Bank of China Chuzhou Branch the Contract on Highest Amount Mortgage, stipulating that the Company provides guarantee for the debts of the Company to Bank of China Chuzhou Branch with total principals not exceeding RMB38,000,000.00 which were to be granted during the period from Nov 20, 2007 to Nov 20, 2010 and had been granted before Nov 9, 2007, on mortgage with the land use rights for the land of 93,946m² at eastern side of Nanqiao South Road, Chuzhou City Development Zone (Land Use Certificate coded chu guo yong (2006) No. 00451; Land Use Certificate coded chu guo yong (2007) No. 00476), for mortgage of RMB15,210,000.00 based on original carrying value of RMB6,530,000.00, and the housing title for the old plant buildings at the eastern side of Nanqiao South Road, Chuzhou City Development Zone, blocks A, B, D & E in the Development Zone as well as the power station and F warehouse totaling 67,068M² (Housing Title Certificate coded chu fang quan zheng 2000 No.01194; Housing Title Certificate coded chu fang quan zheng 2002 No.02068; Housing Title Certificate coded chu fang quan zheng 2007 No. 00357), for mortgage of RMB22,840,000.00 based on original carrying value of RMB59,170,000.00, totaling mortgage value of RMB38,050,000.00.

(2) On Jan 11, 2008, the Company signed with Bank of China Limited Shenzhen Branch (hereinafter referred to as Bank of China) the Supplemental Agreement of Agreement on Line of Credit coded (2007) Zhen-Zhong-Yin-E-Xie Zi No.000006, which promised that duration of loan for comprehensive line of credit not exceeding RMB 3.5 billion provided by the Bank of China for the Company will be extended to 11 July 2008. Meanwhile, the Company signed with the Bank of China the Supplement Agreements of Agreements on Line of Credit coded (2007) Zhen-Zhong-si-Zhi-E Zi No. 0001, No. 0002, No. 0003, No. 0004 and (2007) Zhen-Zhong-Yin-E-Di-Xie Zi No. 0002, by which the term of validity for such agreements will be extended to 11 July 2008. Whereby the Company and its subsidiaries provided mortgage loan for all debts to be accrue under above-mentioned Agreements on Line of Credit with the bank acceptance bill amounting to 1.2 billion along with the tiles of 10,445.97M² of packaging stuff plant buildings, 31,266.6M² of No.2 plant building, and 160,347.47M² of Phase II plant buildings of Dongguan Konka Electronics Co., Ltd. with total value of RMB 235,404,800.00. As at 30 June 2008, the said three properties and the bank acceptance bill amounting RMB1,669,548,816.99 had been mortgaged for said line of credit.

(3) As of 30 June 2008, a subsidiary of the Company, Dongguan Konka Molds & Plastics Co., Ltd. signed the Bank Acceptance Mortgage Contracts coded (2008) Bao Zi No. 5008400425 with China Merchants Bank Co., Ltd. Shenzhen Branch Baoan Subbranch, for opening bank acceptance bills with mortgage of coded DB/01 03945431 totaling amount of RMB 3,370,384.20.

(4) On 1 March 2008, Anhui Konka Electronic Co., Ltd. signed the Contract on o Mortgage at Maximum Amount with Bank of China Chuzhou Branch, stipulating that the Company provides guarantee for its debts with total principals not exceeding RMB 25 million from 1 March 2008 to 1 March 2001 to the Bank of China Chuzhou Subbranch by mortgaging use right of the land of 129923M² located at 789 Huayuan East Road, Development Zone, Chuzhou (Land Use Certificate coded Chu-Guo-Yong (2007) Zi No. 00144 and Land Certificate coded Chu-Guo-Yong (2008) Zi No. 00464) with book value of RMB 6.35 million and appraisal value of RMB 32.87 million, and the ownership of housing for the Block A plant of 21844M² located at 789 Huayuan East Road, Development Zone, Chuzhou (Chu-Fang-Quan-Zheng 2008 Zi No. 00886) with book value of RMB 59.17 million and appraisal value of RMB 23.15 million.

(5) For the current period, the Company mainly used USD in payment for overseas purchases and, in order to curb the exchange rate risk, the Company conducted NDF hedging combined business, with total of USD 0.2 billion lans on mortgage with fixed bank deposit amounting 1,425,175,315.55 and bank acceptance bills amounting 58,155,169.5, and meantime continued the “one-year USD exchange rate risk lockup” NDF value maintenance business.

Note 13. Non-recurring gain and loss

Contents	Amount prior to influence on income tax		Amount subsequent to influence on income tax	
	January – June 2008	January – June 2007	January – June 2008	January – June 2007
	1. Gain or loss upon disposing non-current assets			
(1) Income from disposing long-term assets	7,641,091.84	2,161,247.11	6,676,362.08	1,972,857.46
Included: Income from liquidation of fixed assets	40,273.49	1,671,542.20	32,956.10	1,415,652.55
Gains from transfer of intangible assets	2,281,860.76		2,281,860.76	
Gains from transfer of stock rights	5,318,957.59	489,704.91	4,361,545.22	557,204.91
Subtotal	<u>7,641,091.84</u>	<u>2,161,247.11</u>	<u>6,676,362.08</u>	<u>1,972,857.46</u>
(2) Expenses on disposing long-term assets	2,412,998.20	1,360,845.68	2,328,713.25	1,245,773.80
Included: Net loss from disposing fixed assets	2,412,998.20	1,360,845.68	2,328,713.25	1,245,773.80
Loss from transfer of stock rights				
Subtotal	<u>2,412,998.20</u>	<u>1,360,845.68</u>	<u>2,328,713.25</u>	<u>1,245,773.80</u>
Net gain or loss on disposing non-current assets	5,228,093.64	800,401.43	4,347,648.83	727,083.66
2. Tax refund or exemption & reduction without official approval or with approval of department beyond their authorities.				
3. Government grants recorded in current gain or loss account (excluding government subsidies granted with national general quota or quantity for business closely related to Company's business)	15,000.00		14,250.00	
4. Fund occupation charges receivable from non-financial enterprises which are recorded in current period gain and loss account (excluding fund occupation charges received from non-financial enterprises by financial institutions set up with operating qualification as licensed by pertinent national authorities upon their examination and approving)				
5. Gain or loss caused when consolidating cost of enterprises consolidated falls below the fair value of recognizable net assets of the units consolidated upon consolidation				
6. Gain or loss from exchange of non-monetary assets				
7. Gain or loss of consigned investment				
8. Varied asset devaluing provisions reserved for natural disasters and other force majeure events				
9. Gain or loss on debts restructuring				
10. Expense of corporate reorganization				
11. Gain or loss caused out of transactions which obviously lacks fairness exceeding fair value				
12. Current period net gain and loss of subsidiaries from period beginning to date of consolidation on the corporate consolidation under same control				
13. Gain or loss caused by estimated liabilities non-related to main business of Company				
14. Other non-operating net amounts of income and expenditure apart from above mentioned items				
(1) Non-operating income:	2,800,414.45	4,593,979.84	2,300,222.38	3,890,706.02

Subtotal	2,800,414.45	4,593,979.84	2,300,222.38	3,890,706.02
(2) Less: Non-operating expense	3,692,297.40	3,202,725.10	3,570,320.62	2,931,905.56
Subtotal	3,692,297.40	3,202,725.10	3,570,320.62	2,931,905.56
Net amount of non-operating income and expense	-891,882.95	1,391,254.74	-1,270,098.24	958,800.46
15. Other non-recurring gain and loss accounts which are recognized by CSRC as compliant with definition				
Included: Loss carry-backs of asset impairments of fixed assets, works in progress and intangible assets for year 2006				
Total non-recurring gain and loss before deducting minority shareholders' gain and loss	4,351,210.69	2,191,656.17	3,091,800.58	1,685,884.12
Less: Amount of minority shareholders' gain and loss influences	210,581.72	11,513.31	219,720.94	-60,134.12
Total non-recurring gain and loss after deducting minority shareholders' gain and loss	4,140,628.97	2,180,142.86	2,872,079.65	1,746,018.24

Note 14. Return on equity

Profit for the reporting period	ROE			
	Fully diluted		Weighted average	
	January – June 2008	January – June 2007	January – June 2008	January – June 2007
Net profit attributable to common shareholders of the Company	2.24%	1.27%	2.25%	1.27%
Net profit attributable to common shareholders of the Company after deducting non-recurring gain and loss	2.16%	1.22%	2.17%	0.91%

Note 15. Earnings per share

Profit for the reporting period	EPS			
	EPS-basic		EPS-diluted	
	January – June 2008	January – June 2007	January – June 2008	January – June 2007
Net profit attributable to common shareholders of the Company	0.0669	0.0353	0.0669	0.0353
Net profit attributable to common shareholders of the Company after deducting non-recurring gain and loss	0.0645	0.0338	0.0645	0.0338

Items	January – June 2008	January – June 2007
Calculation for EPS-basic and EPS-diluted		
I. Numerator:		
After-tax net profit	80,555,227.21	42,473,932.57
Adjustment: Preferred dividend and other tools' influences		
Gain & loss for common shareholders of Mother Company in the calculation of primary EPS	80,555,227.21	42,473,932.57
Adjustment:		
Dividend and interests related to potential common shares to be diluted		

Change in earning or expense caused by transfer of potential common shares to be diluted		
Gain & loss for common shareholders of Mother Company in the calculation of diluted EPS	80,555,227.21	42,473,932.57
II. Denominator:		
Weighted average of current period issued shares in the calculation of primary EPS	1,203,972,704	1,203,972,704
More: Weighted average when diluted potential common shares are transferred to common shares		
Weighted average of current period issued shares in the calculation of diluted EPS	1,203,972,704	1,203,972,704
III. Earning per share		
Primary EPS		
Net profit for common shareholders	0.0669	0.0353
Net profit for common shareholders after deducting the non-recurring gain and loss	0.0645	0.0338
Diluted EPS		
Net profit for common shareholders	0.0669	0.0353
Net profit for common shareholders after deducting the non-recurring gain and loss	0.0645	0.0338

Note 16. Approval of financial statements

The Company's financial statement has been approved by the Board of Directors of the Company on 21 August 2008.