

KONKA GROUP CO., LTD.

ANNUAL REPORT 2007

Chairman of the Board of Directors: Hou Songrong

April 2008

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Section I. Important Notes

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

The Annual Report 2007 and its Summary has been examined and approved by the 7th meeting of the 6th Board of Directors. Mr. Ye Shiqu and Mr. Liu Peng who are two directors nominated by Anhui Tianda Enterprise (Group) Co., Ltd. have resigned from the post of Director of the Company because Anhui Tianda Enterprise (Group) Co., Ltd. no longer held equity of the Company.

The 4th meeting of the 6th Supervisory Committee considered the Annual Report 2007 and Summary of Annual Report 2007 can reflect the financial status, operation results, corporate governance and business development of the Company in 2007 truly, accurately and completely after reviewing such reports. Mr. Zhang Jianhuai who is a supervisor nominated by Anhui Tianda Enterprise (Group) Co., Ltd. has resigned from the post of Supervisor of the Company because Anhui Tianda Enterprise (Group) Co., Ltd. no longer held equity of the Company.

No director, supervisor or senior management stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Interim Report or have objection for this report.

Shenzhen Dahua Tiancheng Certified Public Accountants produced an Standard Unqualified Auditors' Report without reserve opinion for the Company.

Mr. Hou Songrong, Chairman of the Board, Mr. Yang Guobin, Chief Financial Officer, and Ruan Renzong, person in charge of the accounting affairs hereby confirm that the Financial Report enclosed in this Annual Report 2007 is true and complete.

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

Section II. Company Profile

1. Name in Chinese: 康佳集团股份有限公司

Abbreviation: 康佳集团

Name in English: KONKA GROUP CO., LTD.

Abbr.: KONKA GROUP

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

Zip code: 518053

Internet web: www.konka.com

E-mail: szkonka@konka.com

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

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

Securities Affairs Representative: Mr. Wu Yongjun

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

Tel: 0755-26608866

Fax: 0755-26600082

E-mail: szkonka@konka.com

5. Company information disclosed in: Securities Times, etc.

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

Annual report prepared in: Secretariat of the Board of Directors

6. Listing place of shares: Shenzhen Stock Exchange.

Abbr. of shares: Shen Konka A Shen Konka B

Stock Code: 000016 200016

7. Initial registration date: Oct. 1, 1980

Place: Shenzhen

8. Registration Number of Business License: Qi-GuYue-Shen-Zong Zi No. 100476

9. Tax registration Number: 440301618815578

10. Certified Public Accountants engaged by the Company:

Domestic: Shenzhen Dahua Tiancheng Certified Public Accountants

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

Section III. Abstract of Financial Highlights and Business Highlights

I. Major accounting highlights as of this year

(I) Major accounting highlights

(Unit: RMB Yuan)

Item	Amount
Operating profit	246,953,208.05
Total profit	247,898,784.83
Net profit attributable to shareholders of listed Company	209,198,469.00
Net profit after deducting non-recurring gains and losses attributable to shareholders of listed company	209,964,108.93
Net cash flows arising from operating activities	301,215,498.85

	2007	2006		Increase/ decrease than last year (%)	2005	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Operating income	12,169,078,369.50	12,656,150,985.55	12,730,978,380.57	-4.41	11,455,891,609.06	11,455,891,609.06
Total profit	247,898,784.83	116,097,240.59	116,097,240.59	113.53	40,001,831.16	40,001,831.16
Net profit attributable to shareholders of listed company	209,198,469.00	102,638,435.58	96,774,909.50	116.17	71,898,947.59	28,834,780.98
Net profit after deducting non-recurring gain and loss attributable to shareholders of listed company	209,964,108.93	104,777,537.60	98,914,011.52	112.27	64,186,579.21	21,122,412.60
Net cash flow arising from operating activities	301,215,498.85	180,581,832.52	180,581,832.52	66.80	-101,374,782.62	-101,374,782.62
	At the end of 2007	At the end of 2006		Increase/ decrease than the end of the last year (%)	At the end of 2005	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Total assets	9,277,974,998.92	9,952,185,214.15	10,019,526,991.31	-7.40	9,120,452,267.93	10,009,958,722.02
Owners' equity (shareholders' equity)	3,785,988,698.98	3,301,759,715.43	3,612,709,613.38	5.31	3,211,212,304.03	3,267,945,677.86

(II) Main financial index

(Unit: RMB Yuan)

	2007	2006		Increase/ decrease than last year(%)	2005	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Basic earnings per share	0.348	0.170	0.161	116.15	0.119	0.048
Diluted earnings per share	0.348	0.170	0.161	116.15	0.119	0.048
Basis earnings per share after deducting non-recurring gain and loss	0.349	0.174	0.164	112.80	0.107	0.035
Fully diluted return on equity	5.90%	3.11%	2.87%	3.03	2.24%	0.88%
Weighted average return on equity	6.05%	3.16%	2.92%	3.14	2.26%	0.89%
Fully diluted return on equity after deducting non-recurring gain and loss	5.92%	3.17%	2.94%	2.98	2.00%	0.65%
Weighted average return on equity after deducting non-recurring gain and loss	6.07%	3.19%	2.98%	3.09	2.02%	0.65%
Net cash flow per share arising from operating activities	0.500	0.300	0.300	66.67	-0.168	-0.168
	At the end of 2007	At the end of 2006		Increase/ decrease than the end of the last year(%)	At the end of 2005	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Net assets per share attributable to shareholders of listed company	5.894	5.485	5.597	5.31	5.334	5.429

II. Item of deducting non-recurring gains and losses and the amount involved

(Unit: RMB Yuan)

Items	Amount after deducting effect on income tax	Amount after deducting effect on income tax
	2007	2006
1. Gain/loss from disposal of non-current assets		
(1) Income from disposal of long-term assets	1,772,649.14	1,544,075.78
Including: income from disposal of fixed assets	1,282,944.23	1,127,826.61
Income from transfer of intangible assets		
Income from equity transfer	489,704.91	416,249.17
Other items		
Subtotal	1,772,649.14	1,544,075.78
(2) Expenditure of disposal of long-term assets	4,022,131.66	3,302,968.62
Including: loss on disposal of fixed assets	4,022,131.66	3,302,968.62
Loss on equity transfer		
Other items		
Subtotal	4,022,131.66	3,302,968.62
Gain/loss from disposal of non-current assets	-2,249,482.52	-1,758,892.84
2. Tax return and tax reduction 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)	3,157,255.00	2,821,529.50
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. Gain/loss from exchange of non-monetary assets		
7. Gain/loss from trust investment		
8. Provisions for impairment of assets due to irresistible force factor, such as natural disaster		
9. Gain/loss from debt restructuring		
10. Expense of enterprise restructuring		
11. Gain/loss 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. Gain/loss 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	7,564,516.54	6,622,342.27
Including:		
Subtotal	7,564,516.54	6,622,342.27
(2) Minus: Non-operating expense	7,037,007.33	6,377,855.08
Including:		
Subtotal	7,037,007.33	6,377,855.08
Net non-operating income/expense	527,509.21	244,487.19
15. Other non-recurring gains and losses subject to definition recognized by CSRC		
Including: Switching back impairment loss of assets such as fixed assets, project under construction and intangible assets		
Total non-recurring gains and losses before deducting minority interest	1,435,281.69	1,307,123.85
Minus: effect on minority interests	2,257,323.87	2,072,763.78
Total non-recurring gains and losses after deducting minority interest	-822,042.18	-765,639.93

III. Items measured by fair value

Name of items	Balance at the period-begin	Balance at the period-end	Change in current period	Influence on profit of current period
Investment on stocks	9,805,320.00	60,721,570.37	50,916,250.37	8,773,933.59

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

Item	Amount at period-begin	Increase in the report period	Decrease in the report period	Amount at period-end
Share capital	601,986,352	0	0	601,986,352
Capital reserve	1,859,368,726.07	25,530,724.02	0	1,884,899,450.09
Surplus reserve	781,670,420.36	0.00		781,670,420.36
Including: statutory welfare fund		0.00		
Retained profit	122,927,713.69	209,198,469.00	60,654,549.76	271,471,632.93
Difference of foreign currency translation	3,104,363.3	4,694,852.95		7,799,216.25
Minority interest	243,652,037.96	4,832,431.07	10,322,841.68	238,161,627.35
Total shareholders' equity	3,612,709,613.38	244,256,477.04	70,977,391.44	3,785,988,698.98

Section IV. Changes in Share Capital and Particulars about Shareholders

I. Changes in Share Capital

(I) During the reporting period, total number of shares remained unchanged compared with last year.

(II) During the reporting period, share structure of the Company remained unchanged.

Unit: share

	Before the change		Change in this time (+,-)					After the change	
	Number of shares	Proportion (%)	Allotment of new shares	Bonus shares	Capitalization of public reserve	Others	Subtotal	Number of shares	Proportion (%)
I. Shares subject to trading moratorium	118,904,012	19.75	-	-	-	-	-	118,904,012	19.75
1. Shares held by the State	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal persons	52,392,592	8.70	-	-	-	-	-	52,392,592	8.70
3. Shares held by other domestic investors	43,550,505	7.23	-	-	-	-	-	43,550,505	7.23
Among which:									
Shares held by domestic legal persons	43,546,563	7.23	-	-	-	-	-	43,546,563	7.23
Shares held by domestic natural persons	3,942	0	-	-	-	-	-	3,942	0
4. Shares held by foreign investors	22,960,915	3.81	-	-	-	-	-	22,960,915	3.81
Among which:									
Shares held by foreign legal persons	22,960,915	3.81	-	-	-	-	-	22,960,915	3.81
Shares held by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to moratorium	483,082,340	80.25	-	-	-	-	-	483,082,340	80.25
1. RMB ordinary shares	280,244,438	46.55	-	-	-	-	-	280,244,438	46.55
2. Domestically listed foreign shares	202,837,902	33.69	-	-	-	-	-	202,837,902	33.69
3. Overseas listed	-	-	-	-	-	-	-	-	-

foreign shares									
4. Others	-	-	-	-	-	-	-	-	-
III. Total shares	601,986,352	100	-	-	-	-	-	601,986,352	100

Note: In accordance with <Award> 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 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. After completing equity transfer, OCT Group Corporation directly held 95,939,155 shares of the Company, taking up 15.94% of total share capital of the Company, Anhui Tianda Enterprise Group Co., Ltd. no longer held shares of the Company.

Subsequent to completing equity transfer, “2. Shares held by state-owned legal persons” under “I. Shares subject to trading moratorium” mentioned in the above table has increased to 95,939,155 shares, taking up 15.94% of total share capital of the Company; while “3. Shares held by other domestic investors” under “I. Shares subject to trading moratorium” mentioned in the above table has decreased to 0.

II. Particulars about issuing and listing of shares

(1) During the past three years up to the end of report period, the Company did not issue any securities.

(2) Apart from 3,942 shares held by senior executives of the Company, there are no nontradable inner employee shares.

III. Particulars about shareholders

(I) Date when shares subject to trading moratorium can be listed and traded in the market

Date	Number of shares that can be listed newly after expiration of moratorium	Balance number of shares subject to trading moratorium	Balance number of shares not subject to trading moratorium	Remark
30 Mar. 2008	79,907,734	38,992,336	562,994,016	
30 Mar. 2009	37,379,327	1,613,009	600,373,543	
30 Mar. 2010	1,613,009	0	601,986,352	

Note 1: 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 case of calculation according to shareholding after completion of equity transfer, date when shares subject to trading moratorium can be listed is as follow:

Date	Number of shares that can be listed newly after expiration of moratorium	Balance number of shares subject to trading moratorium	Balance number of shares not subject to trading moratorium	Remark
30 Mar. 2008	49,808,417	69,091,653	532,894,699	
30 Mar. 2009	30,099,317	38,992,336	562,994,016	
30 Mar. 2010	38,992,336	0	601,986,352	

Note 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 Mar. 30, 2008. But, as at 7 Apr. 2008, OCT Group Corporation and THOMSON INVESTMENTS GROUP LIMITED holding shares subject to trading moratorium failed to apply for Shenzhen Stock Exchange for release of shares subject to trading moratorium due to imperfection of procedure. Thus, the number of shares can be listed for trading and date when shares subject to trading moratorium can be listed were not be verified, please attention to relevant public notice published by the Company.

(II) Shareholding of the Company's top ten shareholders and top ten tradable shareholders

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

Unit: share

No.	Name of shareholders subject to trading moratorium	Number of shares subject to trading moratorium	Number of shares subject to trading moratorium applied actually	Date on which shares can be listed for trading	Number of additional shares can be listed for trading	Trading moratorium
1	OVERSEAS CHINESE TOWN GROUP CORPORATION	52,392,592	61,811,643	30 Mar. 2008	30,099,317	Note 1 Note 2
				30 Mar. 2009	30,099,317	
				30 Mar. 2010	1,613,009	
2	ANHUI TIANDA ENTERPRISE (GROUP) CO., LTD.	43,546,563	37,379,327	30 Mar. 2008	30,099,317	
				30 Mar. 2009	7,280,010	
3	THOMSON INVESTMENTS GROUP LIMITED	22,960,915	19,709,100	30 Mar. 2008	19,709,100	

Note 1: Overseas Chinese Town Group Corporation, Anhui Tianda Enterprise (Group) Co., Ltd. and THOMSON INVESTMENTS GROUP LIMITED promised not to trade or transfer the nontradable shares of the Company within 24 months since the day those shares were authorized with listing and circulation rights. After the expiration of the aforesaid commitment, the number of nontradable shares of the Company sold by Overseas Chinese Town Group Corporation, Anhui Tianda Enterprise Group Co.,

Ltd. and THOMSON INVESTMENTS GROUP LIMITED through listing at the Stock Exchange shall not exceed 5 percent of the Company's total shares within 12 months, and not exceed 10 percent within 24 months.

Note 2: Due to that Overseas Chinese Town Group Corporation has paid 35% of consideration for Anhui Tianda Enterprise Group Co., Ltd and Thomson Investments Group Limited, and Anhui Tianda Enterprise Group Co., Ltd and Thomson Investment Group Limited should repay this part of consideration to Overseas Chinese Town Group Corporation before their applications for the circulation of the A shares of the Company they hold, therefore the A shares of the Company that Anhui Tianda Enterprise Group Co., Ltd. and Thomson Investment Group Limited actually may apply for circulation amount to 37,379,327 and 19,709,100 shares respectively, taking up 6.21% and 3.27% respectively.

Note 3. 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 case of calculation according to shareholding after completion of equity transfer, number of shares held by top ten shareholders subject to trading moratorium is as follow:

No.	Name of shareholders subject to trading moratorium	Number of shares subject to trading moratorium	Number of shares subject to trading moratorium applied actually	Date on which shares can be listed for trading	Number of additional shares can be listed for trading
1	OVERSEAS CHINESE TOWN GROUP CORPORATION	95,939,155	99,190,970	30 Mar. 2008	30,099,317
				30 Mar. 2009	30,099,317
				30 Mar. 2010	38,992,336
2	THOMSON INVESTMENTS GROUP LIMITED	22,960,915	19,709,100	30 Mar. 2008	19,709,100

Note 4: 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 Mar. 30, 2008. But, as at 7 Apr. 2008, OCT Group Corporation and THOMSON INVESTMENTS GROUP LIMITED holding shares subject to trading moratorium failed to apply for Shenzhen Stock Exchange for release of shares subject to trading moratorium due to imperfection of procedure. Thus, the number of shares can be listed for trading and date when shares subject to trading moratorium can be listed were not be verified, please attention to relevant public notice published by the Company.

(3) Statement of 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
Shares held by the top ten shareholders	

Name of shareholder	Nature of shareholder	Proportion of shares held	Total number of shares held	Change in shares in the report period	Number of shares subject to moratorium	Number of shares pledged or frozen
OVERSEAS CHINESE TOWN GROUP CORPORATION	State-owned legal person	8.70	52,392,592	0	52,392,592	0
ANHUI TIANDA ENTERPRISE (GROUP) CO., LTD.	Domestic non-stated-owned legal person	7.23	43,546,563	0	43,546,563	0
GAO-LING FUND,L.P.	Foreign legal person	4.95	29,824,813	+29,824,813	0	Unknown
THOMSON INVESTMENTS GROUP LIMITED	Foreign legal person	3.81	22,960,915	0	22,960,915	0
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	Foreign legal person	3.28	19,720,113	+19,720,113	0	Unknown
GUOTAI JUNAN SECURIES HONG KONG LIMITED	Foreign legal person	2.40	14,439,815	+13,943,115	0	Unknown
GLHH FUND II, L.P.	Foreign legal person	1.54	9,270,281	+9,270,281	0	Unknown
NOMURA SECURITIES CO.LTD	Foreign legal person	1.12	6,750,000	0	0	Unknown
GU SONG HUA	Domestic natural person	0.91	5,450,000	+1,296,779	0	Unknown
NAM NGAI	Domestic natural person	0.82	4,930,400	+2,925,200	0	Unknown
Particulars about shares held by the top ten shareholders holding shares not subject to moratorium						
Name of shareholders		Numbers of shares not subject to moratorium held		Type of shares		
GAO-LING FUND,L.P.		29,824,813		Tradable B shares		
SBCI FINANCE ASIA LTD A/C SBC HONG KONG		19,720,113		Tradable B shares		
GUOTAI JUNAN SECURIES HONG KONG LIMITED		14,439,815		Tradable B shares		
GLHH FUND II, L.P.		9,270,281		Tradable B shares		
NOMURA SECURITIES CO.LTD		6,750,000		Tradable B shares		
GU SONG HUA		5,450,000		Tradable A shares		
NAM NGAI		4,930,400		Tradable B shares		
JIA MING INVESTMENT (GROUP) CO., LTD.		4,923,382		Tradable A shares		
INDUSTRIAL AND COMMERCIAL BANK OF CHINA - JIASHI STRATEGY GROWTH HYBRID SECURITIES INVESTMENT FUNDS		4,000,000		Tradable A shares		
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT		3,795,850		Tradable B 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.				

<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.</p>
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In the course of the share merger reform, since Overseas Chinese Town Group Corporation, the former nontradable shareholder of the Company, has paid 35% of consideration for Anhui Tianda Enterprise Group Co., Ltd and Thomson Investments Group Limited, and Anhui Tianda Enterprise Group Co., Ltd and Thomson Investment Group Limited should repay this part of consideration to Overseas Chinese Town Group Corporation before their applications for the circulation of the A shares of the Company they hold, therefore the A shares of the Company that Anhui Tianda Enterprise Group Co., Ltd. and Thomson Investment Group Limited actually may apply for circulation amount to 37,379,327 and 19,709,100 shares respectively, taking up 6.21% and 3.27% respectively.

Note 2. 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. After completing equity transfer, OCT Group Corporation directly held 95,939,155 shares of the Company, taking up 15.94% of total share capital of the Company (after OCT Group Corporation received shares that it advanced for Thomson Investments Group Limited when the Company performed share merger reform, OCT Group Corporation will hold 16.48% equity of the Company in total), while Anhui Tianda Enterprise Group Co., Ltd. no longer held shares of the Company.

(4) Particulars about shareholders holding over 5% of total shares

Name	Type of shares held	Type of enterprise	Legal representative	Date of foundation	Registered capital (RMB'0000)	Main operations
OVERSEAS CHINESE TOWN GROUP CORPORATION	Domestic legal person shares	Wholly State-funded 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.
ANHUI TIANDA ENTERPRISE GROUP CO., LTD	Domestic common legal person shares	Private enterprise	Yong Jingui	Aug. 2000	RMB 23,372.55	Plastic products, plastic machines, air-conditioner parts and optical fiber communication instruments, etc.

Note: 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. After completing equity transfer, Anhui Tianda Enterprise Group Co., Ltd. no longer held shares of the Company.

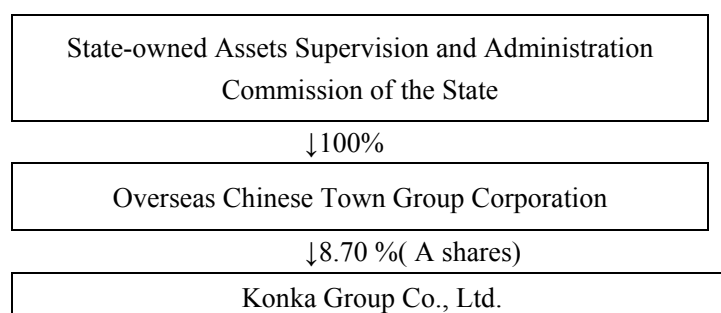
. Particulars about the controlling shareholder and actual controller

(1) The first principal 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. The shares of the Company held by it had not been pledged, entrusted or frozen.

Overseas Chinese Town Group Corporation was a large-scale state-owned enterprise, which had been founded on Nov. 11, 1985 by the approval of the State Council and belonged to one of the central enterprises of State-owned Assets Supervision and Administration Commission of the State Council. Its legal representative was Mr. Ren Kelei. Overseas Chinese Town Group Corporation had a registered capital of RMB 2 billion, as well as total assets about 30 billion, and the core businesses covered tourism, real estate and telecommunication.

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



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. After completing equity transfer, OCT Group Corporation directly held 95,939,155 shares of the Company, taking up 15.94% of total share capital of the Company (after OCT Group Corporation received shares that it advanced for Thomson Investments Group Limited when the Company performed share merger reform, OCT Group Corporation will hold 16.48% equity of the Company in total).

(3) Particulars about legal person shareholders with shareholding ratio over 10% (including 10%)

Except for Overseas Chinese Town Group Corporation, there is not any legal person, there is not any shareholders with shareholding ratio exceeding 30%.

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

I. About directors, supervisors and senior executives

Basic information

Name	Title of office	Sex	Age	Term of office	Remarks
Hou Songrong	Chairman of Board of Directors	Male	39	Aug. 2007-Aug. 2010	
	President			June 2004-June 2008	
Ye Shiqu	Director	Male	57	Aug. 2007-Aug. 2010	
Huo Jun	Director	Female	41	Aug. 2007-Aug. 2010	
Liu Peng	Director	Male	31	Aug. 2007-Aug. 2010	
Feng Yutao	Independent Director	Male	40	Aug. 2007-Aug. 2010	
Yang Haiying	Independent Director	Female	40	Aug. 2007-Aug. 2010	
Zhang Zhong	Independent Director	Male	39	Aug. 2007-Aug. 2010	
Zhang Jianhuai	Chairman of the Supervisory Committee	Male	38	Aug. 2007-Aug. 2010	
Wen Tongyun	Supervisor	Female	40	Aug. 2007-Aug. 2010	
Ye Xiangyan	Supervisor	Male	39	Aug. 2007-Aug. 2010	Representative of Staff
Yang Guobin	Chief Financial Officer	Male	38	June 2004-June 2008	
Wang Youlai	Vice President	Male	46	June 2004-June 2008	
Huang Zhongtian	Vice President	Male	46	June 2004-June 2008	
Chen Yuehua	Vice President	Male	44	Nov. 2004-June 2008	
He Jianjun	Vice President	Male	38	Nov. 2005-June 2008	
Xiao Qing	Secretary of the Board of Directors	Male	38	Aug. 2007-Aug. 2010	

Among which, particulars about directors and supervisors taking positions in shareholding companies

Name	Name of shareholding company	Title of office	Term of office	Drawing the payment or allowance or not
Ye Shiqu	Anhui Tianda Enterprise (Group) Co., Ltd.	Leader of strategic decision-making risk control group	May 2007-May 2010	No
Liu Peng	Anhui Tianda Enterprise (Group) Co., Ltd.	Assistant of Chairman of the Board	May 2007-May 2010	No
Zhnag Jianhuai	Anhui Tianda Enterprise (Group) Co., Ltd.	Vice Chief Financial Officer	Aug. 2005-Aug. 2008	No

Note: Owing to that Auhui Tianda Enterprise (Group) Co., Ltd. no longer held equity of the Company, thus Mr. Ye Shiqu and Mr. Liu Peng who are two directors nominated by Anhui Tianda Enterprise (Group) Co., Ltd. have resigned from the post of Director of the Company because Auhui Tianda Enterprise (Group) Co., Ltd. no longer held equity of the Company, and Mr. Zhang Jianhuai who is a supervisor

nominated by Anhui Tianda Enterprise (Group) Co., Ltd. has resigned from the post of Supervisor of the Company.

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

1. Directors

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

Mr. Ye Shiqu, Director of the Company, was born in 1950 with the Han nationality. He is a senior economist. He is sponsor, actual controller as well as Leader of strategic decision-making risk control group of Anhui Tianda Enterprise (Group) Co., Ltd.. He successfully obtained such titles as National Labor Model, National Excellent Entrepreneur of the village and China Excellent Private Entrepreneur. Now he acts as Chairman of the Board of Anhui Tianda Oil Pipe Company Limited, Vice Chairman of Anhui Enterprise Confederation and Federation of Entrepreneur Associations, and Vice Chairman of Federation of Industrial Economics.

Ms. Huo Jun: Director of the Company; was born in 1966 with the Han nationality; she obtained MBA of KELLOGG Management School of Northwest University in America. She used to work in investment bank such as CLSA of France, BNP Paribas, Merrill Lynch, Banque Nationale de Paris, and Da Cheng Fund Management Co., Ltd., etc, and engage in investing bank operation. Now she is the copartner of PreIPO Capital Limited.

Mr. Liu Peng, Director of the Company; was born in 1976 with the Han nationality; he obtained MBA. He successfully took the posts of senior consultant to Chairman of the Board, and commissary of Strategic Development Committee in Anhui Tianda Enterprise (Group) Co., Ltd.. Now he acts as Non-Executive Director of Anhui Tianda Oil Pipe Company Limited.

2. Independent Director

Mr. Feng Yutao was born in 1967 with the Han nationality, and obtained doctor degree of Department of Electronic Engineering of Duke University. He ever took senior management in C-Cube Microsystems, LSI Logic Inc. and Zoran Corporation. Now he acts as Vice President of Ambarella, and General Manager, China Area.

Ms. Yang Haiying was born in 1967 with the Han nationality, and he graduated from

the department of accounting of Shanghai Maritime University, being a senior accountant. She ever took the posts of Accountant in Waterway Bureau of Guangzhou, and senior accountant in China Shipping Container Lines Co., Ltd. Now she acts as Senior Accountant in Fritz und Marl Certified Public Accountants.

Mr. Zhang Zhong was born in 1968 with the Han nationality. He gained Master of Law of Renmin University of China, being a lawyer. He ever took the posts of lawyer of Beijing Zhengpingdeng Law Firm, Lawyer and Copartner of Beijing Zhong Lun Law Firm, and of Beijing Zhonglun W&D Law Firm. Now he acts as Lawyer and Copartner of Beijing Zhong Lun Law Firm.

3. Supervisor

Mr. Zhang Jianhuai was born in 1969 with the Han nationality, Bachelor Degree. He now acts as Vice Chief Financial Officer of Anhui Tianda Enterprise (Group) Co., Ltd. and Non-Executive Director of Anhui Tianda Oil Pipe Company Limited.

Ms. Wen Tongyun was born in 1967 with the Han nationality. She graduated from department of foreign language of Shenzhen University. She ever took the posts of Assistant General Manager of China Rural Development Trust Investment Corporation Shenzhen Branch Company, of Shenzhen Foreign Investment Fund and Senior Consultant of New Smart Energy Group Limited, China Area. Now she acts as Investment General of PreIPO Capital Limited.

Mr. Ye Xiangyang was born in 1968 with the Han nationality. He obtained Master Degree. He ever took the posts of Vice Chief Management Officer and Chief Management Officer of Enterprise Management Department in Konka Group. Now he acts as Chief Legal Officer of Auditing and Legal Affair Center in Konka Group.

(4) Other senior executives

Mr. Yang Guobin, Chief Financial Officer, was born in 1969 with the Han nationality; Bachelor Degree, CPA. He successfully took the posts of Vice CFO of Financial Dept. in Overseas Chinese Town Group Corporation.

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

Mr. Huang Zhongtian, Vice-president, was born in 1961 with the Han nationality; Bachelor Degree. He successfully took the posts Assistant General Manager of Konka Group Co., Ltd.

Mr. Chen Yuehua, Vice-president, was born in 1963 with the Han nationality; Bachelor Degree; Senior Engineer. He successfully took the posts of Designer and Business Manager of Technology Development Center of Konka Group Co., Ltd., General Manager of Development Center, General Manager of Office of President, General Manager of Dongguan Konka Electronics Co., Ltd. and Deputy General Manager of Multimedia Enterprise Dept. and General Manager of Development Center of Konka Group Co., Ltd.

Mr. He Jianjun, Vice President, was born in 1969 with the Han nationality; Bachelor Degree; Economist. He successfully took position as Deputy Director of Secretariat of the Board, Deputy Chief Supervisor and Chief Supervisor of Strategic Development Dept. and Secretary of the Board in Kokan Group.

Mr. Xiao Qing: Secretary of the Board; was born in 1969 with the Han nationality; Bachelor degree; Economist. He used to be General Manager at the Central Office of City Credit Cooperation in Ya'an district of Sichuan, and Senior Vice President of Top Group; Chief Supervisor of the Investment Development Center.

II. Remunerations as of the year 2007

(I) The Company had not paid directors (excluding independent directors) or supervisors any remunerations or subsidies. The total remunerations paid to the top three directors that enjoyed the highest amounts totaled RMB 285,600, i.e. the total remunerations for the three independent directors. Subsidies for the independent directors of the Company were RMB 80,000 for every year (not including tax). Other treatment for independent directors: trip expenses that occurred when they went to attend the Board meetings or Shareholders' General Meetings, and the expenses that occurred while they were performing their duties as stipulated in the Articles of Association, all these could be reported for deletion.

(II) The Board of Directors determined the remuneration of senior executives, and referred to the following aspects: scope of jobs and responsibility shouldered; actual profit status of the Company; remuneration level in the same industry and same area.

(III) Change of shares held by directors, supervisors and senior executives and their remunerations

Name	Number of shares held at year-begin	Number of share held at year-end	Reasons for change	Drawing the total payment from the company in the report period(RMB'0000)		
				Wage, allowance and the part of social insurance undertaken by the Company	Bonus	Total
Hou Songrong	0	0	-	48.56	53.47	102.03
Ye Shiqu	0	0	-	0	0	0
Huo Jun	0	0	-	0	0	0
Liu Peng	0	0	-	0	0	0
Feng Yutao	0	0	-	9.52	0	9.52

Yang Haiying	0	0	-	9.52	0	9.52
Zhang Zhong	0	0	-	9.52	0	9.52
Zhang Jianhuai	0	0	-	0	0	0
Wen Tongyun	0	0	-	0	0	0
Ye Xiangyang	0	0	-	25.93	26.59	52.52
Yang Guobin	0	0	-	29.83	27.55	57.38
Wang Youlai	3,300	3,300	-	29.83	27.55	57.38
Huang Zhongtian	642	642	-	29.83	27.55	57.38
Chen Yuehua	0	0	-	29.83	27.55	57.38
He Jianjun	0	0	-	29.83	27.55	57.38
Xiao Qing	0	0	-	29.83	27.55	57.38
Total	3,942	3,942	-	282.03	245.36	527.39

(IV) About directors and supervisors receiving no remuneration from the Company

Name of directors and supervisors receiving no remuneration from the Company	Drawing the remuneration or subsidy from shareholding companies or other related units or not
Ye Shiqu, Liu Peng, Zhang Jianhuai	All of them drawing the remuneration from shareholding companies.
Huo Jun, Wen Tongyun	Drawing no remuneration or subsidy from shareholding companies

III. Changes of Directors, Supervisors and Senior Executives in the report period

(I) Because the 5th Board of Directors and Supervisory Committee of the Company expired, the Company elected the new Board of Directors and Supervisory Committee.

The 1st Temporary Shareholders' General Meeting 2007 of Konka Group Co., Ltd elected the Mr. Hou Songrong, Mr. Ye Shiqu, Mr. Liupeng, Ms. Huo Jun, Mr. Feng Yutao, Ms. Yang Haiying, Mr. Zhang Zhong as Directors of the 6th Board of Directors in which Mr. Feng Yutao, Ms. Yang Haiying, Mr. Zhang Zhong as Independent Directors; elected Mr. Zhang Jianhuai, Ms. Wen Tongyun as Supervisors of the 6th Supervisory Committee.

(II) Mr. Ye Xiangyang was elected as Employee Reprehensive Supervisor of the 6th Supervisory Committee through voting by Employee Reprehensive Meeting of the Company.

(III) The proposal on approving the resignation from Mr. Zeng Hui who was the former Executive Vice President of the Company, examined and approved by the 3rd Meeting of the 6th Board of Directors. Subsequently, Mr. Zeng Hui would not take the post of Executive Vice President of the Company any more.

(IV) Because Anhui Tianda Enterprise (Group) Co., Ltd. didn't hold any share of the Company, Mr. Ye Shiqu, Mr. Liu Peng resigned the posts of the Directors of the 6th Board; Mr. Zhang Jianhuai resigned the posts of the Supervisor of the 6th Supervisory Committee, all of them nominated by Anhui Tianda Enterprise (Group) Co., Ltd before.

IV. Instruction of Employees of the Company as of the end of the report period

Unit	Shenzhen headquarter	Selling branch	Modan River Konka	Shanxi Konka	Anhui Konka	Anhui Konka	Dongguan Konka	Konka Mould Plastic	Konka Mould Plastic	Boluo Konka	Changshou Konka	Chongqing Konka	Automobile Electronic	Total
Number	2803	4495	602	1280	2802	325	2686	1559	696	543	293	354	30	18468

Among which, the structure of staff in Shenzhen headquarter:

Classific ation	Production staff	Selling staff	Technical staff	Financial staff	Administr ative staff	Retired workers requiring to bear the cost by the Company	Higher than undergrad uate	Doctor	Master	Bachelor
Number	875	351	701	140	556	180	1203	13	196	994
Proportion	31.22%	12.52%	25%	5%	19.83%	6.42%	42.91%	0.46%	6.99%	35.46%

Section VI. Corporate Governance

I. Corporate Governance

In the report period, in accordance with Company Law, Securities Law, Code of Corporate for Listed Companies and relevant regulation of Articles of Association, the Company implemented the spirit of corporate governance special campaign issued by CSRC, Shenzhen Stock Exchange, further improved the system of corporate governance, enhanced the consciousness of regulating operation and level of corporate governance continuously, standardized the Company's operation. Currently, the main structure of corporate governance as follows:

(I) The three meetings operation of Shareholders' General Meeting, meetings of Board of Directors and Supervisory Committee

The convening and decision-making of Shareholders' General Meeting and the Board of Directors was in line with Company Law, Articles of Association and relevant laws. The stratagem, financial audit of the board and domination, remuneration, examination committee developed their work efficiently in keeping with their own working rules. All directors implemented their duty earnestly, operated

decision-making function comprehensively. In compliance with the Code of Procedure of Supervisory Committee and relevant regulations, the supervisors implemented their duty seriously in responsible and serious attitudes, supervised the President, Director and other Senior Executives, and safeguarded the legal rights of the Company and shareholders actively.

(II) The relationship between the controlling shareholders and listed company

The holding shareholders exercised the right as investors according to the regulations of the Articles of Association, and didn't intervene in the Company's decision-making and operating activities directly and indirectly by overstepping the authority of the shareholders' general meeting and the board of directors, and did not harm the benefits of the Company and other shareholders. The Company and the controlling shareholders had independent accounting separately, undertook the responsibility and risk independently, operation activities was normative.

(III) Performance evaluation and incentive mechanism

The Senior Executives were responsible for the Board of Directors. The engagement, dismissal of the Senior Executives was open and transparent, which was compliance with the relevant laws and regulations of the Articles of Association; the remuneration of the Senior Executives was performed in public according to the regulations.

The Company was actively starting to establish scientific, fair and transparent performance evaluation and incentive mechanism for Directors, Supervisors and Senior executives based on original performance evaluation and incentive mechanism, which caused the Company's management system more healthy and efficiently now.

(IV) Stakeholders

The Company could give enough respect to the legal rights and interests of the creditors, employees, consumers, emphasized on positive cooperation between the stakeholders. In future, the Company would pay more attention to social responsibilities while seek for sustainable development and maximization of shareholders' interests.

(V) Information disclosure and transparency

The Company built the sound system in terms of information disclosure, receipting the visits, answering enquiry, established the efficient ways to communicate with shareholders through internet, telephone and fax etc. to ensure all shareholders enjoy the fair status. In compliance with laws, regulations and requirements of the Articles of Association, the company appointed the Secretary of the Board to take charge the work of information disclosure, and requested the Secretary of the Board to disclose the information timely, truly, accurately and completely to ensure the regulation of information disclosure and shareholders had equal rights to enjoy the information.

II. Special campaign of corporate governance 2007

(I) Particulars about special campaign of corporate governance 2007

In accordance with the spirit of the Notice of Concerning Matters on Special Campaign to Strengthen the Corporate Governance of Listed Companies issued by CSRC with ZJGSZi (2007) Document No. 28 and the Notice of the fulfillment of the Special Campaign to Strengthen the Corporate Governance of Listed Companies issued by Shenzhen Stock Exchange, during the period from Apr. 2007 to Oct. 2007, the Company launched a series of work covering the work to establish the leader team for special campaign of corporate governance and its working organization, set down working plan, produce the self-inspection report and rectification plan, receive the public comments and on-site inspection from Shenzhen Securities Regulatory Bureau and so on, and began to rectificate against the problem existing systematically. In late May 2007, the Company finished Self-inspection items on “Special Campaign to Strengthen the Corporate Governance of Listed Companies” from KONKA GROUP CO., LTD. and Self-inspection Report and Rectification Plan of KONKA GROUP CO., LTD., which were submitted for examination and approval by the 25th and 13th Meeting of the 5th Board of Directors on Jun. 6, 2007, approved by Shenzhen Securities Regulatory Bureau and Shenzhen Stock Exchange, also published in China Securities Journal, Shanghai Securities News, Securities Times, Ta Pung Pao(HK) and website: www.cninfo.com.cn.

On Sep. 13, 2007, Shenzhen Securities Regulatory Bureau inspected the Company, subsequently, showed the problems existing in corporate governance including that related companies provided the non-public information to principal shareholder, the operation of internal audit and power of proxy was not normative. The Company began to rectificate seriously against Supervisory Opinions on Corporate Governance of KONKA GROUP CO., LTD. issued by Shenzhen Securities Regulatory Bureau on Oct. 11, 2007. All rectification work were accomplished in Oct. 2007.

The Rectification Report of Corporate Governance of the Company was submitted for examination and approval by the 4th and 3rd Meeting of the 6th Board of Directors on Oct. 29, 2007, approved by Shenzhen Securities Regulatory Bureau, Shenzhen Stock Exchange, also published in China Securities Journal, Shanghai Securities News, Securities Times, Ta Pung Pao(HK) and website: www.cninfo.com.cn.

Following up the implementation of all rectification measures, the shareholders, Senior Executives and employees enhanced the consciousness of corporate governance through realizing the flaw and problems found during this special campaign, also improved the structure of corporate governance and all relevant rules. That was favorable to further improve the level of corporate governance, regulate the operation of the Company, and protect the rights and interests of all shareholders and the Company.

(II) Problems in corporate government, rectification measure and progress

The problem existing	Rectification measure	Rectification time	Result of rectification
I. The problem found during self-inspection period and rectification measure			
Special committee subsequent to the	Examined and approved by the 1 st meeting of the 6 th Board of Director, the Company established four special committees. The	Aug. 14, 2007	Already accomplished

Board still didn't found	special committee would operate in line with all kinds of retained rules, put its material function into practice in aspects of producing strategy, internal audit, selecting in human resource, remuneration and evaluation etc.		
The information was not accurate which was disclosed sometime.	The Company had corrected this information in correction notice.	Aug. 13, 2004	Already accomplished
The convening time of shareholders' general meeting 2005 was not in accordance with relevant regulations.	The Company charged the related personnel to learn and grasp relevant rules, intensified professional education to ensure that all convening time of shareholders' general meeting in future was in keeping with regulations	-	The convening time of shareholders' general meeting 2006, the 1 st and 2 nd temporary shareholders' general meetings 2007 was eligible.
The records of shareholders' general meeting were not complete.	The Company began to record the meeting from shareholders' general meeting 2006, to keep the records of meeting complete, ensure that all items of meetings was eligible in terms of convening time and place, procedure, name of convener, the examination procedure of proposal, key points of statement, resolutions, name of lawyer, tally clerk, teller etc.	-	The records of shareholders' general meeting 2006, the 1 st and 2 nd temporary shareholders' general meetings 2007 were complete.
The procedure of meeting convening of supervisory committee was not normative, also the records for supervisory committee was not independent.	From the 13 th meeting of the 5 th supervisory committee, the Company focused on the procedure and requirement of convening, holding meetings to make sure the supervisory committee operated independently, also kept the records well and complete	-	All meetings from the 13 th meeting of the 5 th supervisory committee, the procedure of convening, holding of the meetings were normative and produced the independent meeting records.
The board of directors didn't examine and approve the concerning matter of Mr. Zeng Hui's demission who was former executive vice president.	The proposal of Mr. Zeng Hui' demission, who was former executive vice president, was examined and approved by the 3 rd meeting of the 6 th supervisory committee.	Aug. 29, 2007	Already accomplished
Company website updated information	The information would update in time in "investors relationship" column in company website because the company had coordinated with relevant dept. like secretary office of the board and information management center.	-	The Company updated the information in website in time and would keep on
II. The problems and rectification measure appointed from Supervisory Opinions issued by Shenzhen Securities Regulatory Bureau.			
The Company had ever provided the non-public information to principal shareholders.	The issue whether provided the non-public information to principal shareholders was submitted to the 4 th Meeting of the 6 th Board of Directors for discussing which was held on Oct. 29, 2007, and the Company decided to not provide the non-public information any more because the board of directors disagreed to go on it.	-	In accordance with the resolution of the 4 th Meeting of the 6 th Board of Directors, the Company would not support the non-public information to

			principal shareholders.
The operation of internal audit was not normative.	From now on, the internal audit department was responsible for the board of directors directly and submitted the relevant work content in compliance with the Articles of Association.	-	Already accomplished
The power of proxy of shareholders' general meeting was not standard.	The Company charged the relevant personnel to enhance relevant knowledge, put a stop in similar fault, regulated the related matters of power of proxy.	-	The Company would regulate the related matters of power of proxy.

(III) Non-normative situation existing in corporate governance

1. The non-normative matters existing in corporate governance

There existed the problems that the Company provided the non-public information to principal shareholders.

2. The type of information provided to principle shareholders and its frequency

(1) Monthly consolidated financial statements

(2) Monthly operation analysis

(3) Annual operation plan

3. Reason for non-normative matters of corporate governance in related companies

In accordance with the regulations of State-owned Assets Supervision and Administration Commission and other relevant departments, the Company provided the monthly financial statements to principal shareholders and other non-public information.

4. Influence on independence of the Company

Through the Company's self-inspection, there was no situation found that the principal shareholders misused the power, divulged the non-information to transact the insider trading. Therefore there was not any influence on the independence of the Company.

5. The resolution to deal with the non-normative matters of the corporate governance

The issue of providing the non-public information to principal shareholders was submitted to the 4th Meeting of the 6th Board of Directors for discussing which was held on Oct. 29, 2007, and the Company decided to not provide the non-public information any more because the board of directors disagreed to go on it.

III. Duty performance of Independent Directors

According to the Guiding Opinions on the Establishment of Independent Director System in Listed Companies from CSRC, the Company established the independent director system. Three independent directors took up more than 1/3 of total number of the board which had 7 directors in total.

(I) Duty Performance of independent directors of the 5th Board of Directors for 2007

Name of independent directors	Times of Board meeting	Times of Board meetings	Times of Board meetings by	Times of Board meetings	Notes

	should be attended	present in person	proxy	absent	
Xiao Zhuoji	7	1	1	5	
Ye Wu	7	7	0	0	
Ma Liguang	7	7	0	0	

Notes: The Company couldn't contact Mr. Xiao Zhuoji normally, Independent Director of the Company because he was in hospital, Mr. Xiao Zhuoji was absent 5 times of Board meetings without any proxy.

(II) Duty Performance of independent directors of the 5th Board of Directors for 2007

Name of independent directors	Times of Board meeting should be attended	Times of Board meetings present in person	Times of Board meetings by proxy	Times of Board meetings absent	Notes
Feng Yutao	5	5	0	0	
Yang Haiying	5	5	0	0	
Zhang zhong	5	5	0	0	

Notes: Because the 5th Board of Directors expired, the Company elected the Independent Directors through the 1st Temporary Shareholders' General Meeting.

In the report period, the Independent Directors participated the Board meeting and Shareholders' General Meeting actively, done much work in constructions of the Board's operation and design of the important decision-making with their professional point, expressed the independent opinions in terms of the related transaction of the Company and special campaign of corporate governance, further improved the scientific decision-making and the procedure of the decision-making, safeguarded the rights and interests of the Company and all shareholders.

In the report period, when discussing the Proposal on Purchasing the Low-density Residential Buildings at First District of Tianlu in Eastern Overseas Chinese Town, Mr. Feng Yutao reserved his opinion and gave the abstention vote in this point with the reason that it was not necessary for the Company to purchase the low-density residential buildings for its own use. Except that, none of Independent Directors proposed the objections to other proposals from the board meetings for this year or other issues.

IV. The Company's "Five Separations" from the holding shareholders

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

1. In respect of personnel: There was no situation that the personnel were mixed between the Company and holding shareholder, because the Company had built the independent management system of labor, personnel and salaries and human resource department

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

3. In respect of organization: The Company's organization was independent, complete and scientific with sound operating mechanism and operating efficiency. The construction and operation of legal person governance structure was in keeping with the Articles of Association, relevant regulations from CSRC and Shenzhen Stock Exchange, built the appropriate organization which was suitable for the Company's development, with the independence in operation and administrative management from holding shareholder.

4. In respect of finance: The Company has established independent financial department, and established independent accounting system and financial management system. The Company had independent financial decision-making, bank account, paid the tax independently in compliance with relevant accounting regulation of listed companies.

5. In respect of business: The Company owned the independent system for purchase, sales and manufacture. All purchasing, sales and manufacturing of the raw material and products operated independently in the Company. The Company had the complete business and independent operating competence from the holding shareholder.

The Company completely separated from the holding shareholders in personnel, assets, organization and finance and business and realized business independence, personnel independence, complete assets, organization perfect and finance independence.

V. The establishment and improvement of internal control of the Company

In order to ensure the normal operation of the business, improve the operation efficiency, prevent and control the operating risk, safeguard the legal rights of the investors, the Company fulfilled the establishment, improvement and execution of the internal control system in accordance with requirement of Guidelines for Internal Control of Listed Companies from Shenzhen Stock Exchange. In the report period, the construction of internal control of the Company as follows:

(I) Summary of the internal control of the Company

1. Organization of internal control of the Company

(1) The Board of Directors was responsible for the establishment and improvement of internal control and the implementation. For details: established and perfected the policy and plan for internal control, supervised the execution of internal control, checked and approved the self-evaluation report of internal control.

(2) The management officers were responsible for setting down and implementing the internal control rules. For details as follows: set down and carried out the internal control rules, complied the improved measure of internal control risk, organized and

carried out activities including the internal control inspection and appraisal, made the report to the Board of Directors.

(3) All function departments of the Company's headquarters were responsible for implementing the control rules of this professional system, help to accomplish the inspection and evaluation to risky management and control situation.

(4) The audit department was responsible for inspection, audit work of internal control execution, which was subordinate to the financial audit committee of the Board

2. The establishment of internal control system of the Company

(1) The Company established more perfect and efficient internal control system which included: Shareholders' General Meeting, the Board the Directors, Management Rules on Supervisory Committee, Management Rules on Finance, Rules on Internal Audit, Management Rules on Human Resource, Management Rules on Administration, Management Rules on Manufacture, Management Rules on R&D, Management Rules on Safety, Management Rules on Investment, Management Rules on Supply Chain, Rules on Procedure Innovation, Management Rules on Brand, Management Rules on Information, Management Rules on Marketing, Management Rules on Strategy etc.. All rules' execution supervised, controlled and guided the Company's operation efficiently,

(2) The Company established the system of balancing internal control, all divisions and subsidiaries established internal organization and departments under the balance principle. The Company internal audit department inspected and evaluated the progress of internal control's execution, which further improved their function.

(3) The Company used the methods of target control, organization control, progress control, authorization control, measure control, inspection control to reach the goals during the whole process and all links on any significant matters, rectificated in time to control the risk.

3. Internal audit department

The Company established special internal audit department from Sep. 2001 with professional auditors. Internal audit department audited, supervised and evaluated in terms of income and expense of financial department, operation management, internal control in line with the audit rules, operated independent auditing power. Internal audit department also audited the economic responsibility to anyone who was in charge in subsidiaries and key function departments.

4. Carrying out the internal control work in 2007

In 2007, the Company set down and revised Management Rules on Related Transaction, Management Rules on External Guarantee, Management Rules on Raised Capital etc. 15 internal control rules, all of those were submitted to the Board Meeting and Shareholders' General Meeting for approval. Till now, these rules were put into practice. The management officers updated and added the rules in all aspects

in operation management to further improve and perfect the internal control system.

(II) Key control activities

The Company established the detailed management rules against daily operation management, and authorization, approving system for every business at length, and focused on control in management to controlling subsidiaries, related transaction, external guarantee, and the use of raised capital, significant investment, and information disclosure. All these strict and detailed rules carried out efficiently.

1. Structure of controlling subsidiaries and proportion of share holding

Controlling Subsidiaries	Registered Capital	Equity holding		Amount of investment
		Directly	Indirectly	
(1) Subsidiaries controlled directly	(Unit: RMB '0,000)			(Unit: RMB '0,000)
Dong Guan KONKA Electronic Co., Ltd.	RMB20,000	100%	—	RMB23,390
KONKA Pacific Pty. Ltd.	AUD100	100%	—	AUD100
KONKA (USA)Electronic Co., Ltd.	USD300	100%	—	USD270
An Hui KONKA Electronic Co., Ltd.	RMB14,000	78%	—	RMB9,100
Mudanjiang KONKA Industrial Co., Ltd.	RMB6,000	60%	—	RMB3,600
Shenzhen Konka Electronic Co., Ltd.	RMB830	51%	—	RMB1,862
Chong Qing KONKA Electronic Co., Ltd.	RMB4,500	60%	—	RMB2,700
Shenzhen Konka Visual Information System Engineering Co., Ltd.	RMB1,500	60%	—	RMB900
Chong Qing Konka Konka Automobile Co., Ltd.	RMB3,000	57%	—	RMB1,710
An Hui Konka Electric Appliance Co., Ltd.	RMB7819	92.97%	4.48%	RMB350
KONKA AMERICA,INC.	USD100	100%	—	USD100
(2) Subsidiaries controlled directly and indirectly				
Shenzhen KONKA Telecommunications Technology Co., Ltd.	RMB12,000	75%	25%	RMB10,050
Shenzhen Shushida Electronic Co., Ltd.	RMB4,200	75%	25%	RMB4,200
Hong Kong Konka Limited	HKD50	99%	1%	HKD60
Shenzhen Konka Injected Plastic Manufactory Co., Ltd.	RMB950	49%	51%	RMB950
Chong Qing Qingjia Electronic Co., Ltd.	RMB1,500	30%	10%	RMB600
Shan Xi KONKA Electronic Co., Ltd.	RMB6,950	45%	15%	RMB4,608
Shenzhen Konka Communication Network Co., Ltd.	RMB3,000	75%	25%	RMB2,250
Shen Zhen Konka Electronics Technology Co., Ltd.	RMB6,500	75%	25%	RMB4,875
(3) Subsidiaries controlled indirectly				
Dong Guan Konka Packaging Co., Ltd.	RMB1,000	—	100%	RMB1,000
Dong Guan Konka Plastic Mould Co., Ltd.	RMB1,000	—	63.25%	RMB1,000

Hong Din Investment Development Limited	HKD50	—	100%	HKD50
Hong Din International Trade Limited	HKD50	—	100%	HKD50
Indonesic Konka Trading Limited	USD50	-	100%	USD50
KONKA Electronic (India) Co., Ltd.	USD116	—	100%	USD81.2
Chang Shu KONKA Electronic Co., Ltd.	RMB2,465	—	60%	RMB1,155
Boluo Konka Printed Co., Ltd.	RMB4,000	—	51%	RMB1,443
Shenzhen Konka Precision Mould Co., Ltd.	RMB1,450	—	51%	RMB739.5
Boluo Konka Precision Technology Co., Ltd.	RMB2,000	—	100%	RMB1125

2. Internal control on controlling subsidiaries

The Company managed the controlling subsidiaries efficiently in corporate governance, operation; finance etc. supervised and inspected the subsidiaries on issues whether the internal control rules were sound or not, execution situation of internal control rules. The Company ordered the controlling subsidiaries to regulate their operation in compliance with Company Law and relevant regulations, defined the approving procedure and rules of reporting significant events; evaluated the subsidiaries in aspects of establishing rules and its implementation, operation achievement, fulfillment of producing plan so as to manage them efficiently.

In the report period, the internal audit department enhanced the inspection on the establishment of the internal control system and implementation of the Company's rules, the related units began to rectificate according the rectification decision released by the Company to make sure perfect the internal control system of the Company, improved the management level.

3. Internal control on significant investment

The Company constituted the Management Rules on Investment, which defined the authorization system and approving procedure on significant investment, decided the shareholders' general meeting as final decision-making organization; the Board of Directors instructed the external guarantee within its authorization, the President of the Company run the decision-making of external investment within the authorization appointed by the Board of Directors.

4. Internal control on external guarantee

The shareholders' general meeting and the board of directors run the decision-making authority. The approval jurisdiction of shareholders' general meeting and the board of directors stated detailed in Articles of Association, Management Rules on External Guarantee. According to Notice of Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties from Securities Regulatory Commission with ZJZi(2003) Document No. 56 and related regulations, the Company run the duty performance on approval procedure for external guarantee and information disclosure.

5. Internal control on related transaction

In compliance with relevant laws and regulations, the Company attached importance to rules of internal control, set down the Management Rules on Related Transaction, established a fairly good preventive long-term mechanism on the related enterprises

occupying company funds in view of the decision-making mechanism and the monitoring management, at the same time, the transaction with related parties strictly abided by the pricing principles based on market price or value-based assessment to prevent the occupation of the interests of listed companies.

6. Internal control on use of raised capital

In 2007, the Company constituted the Management Rules on Raised Capital, which defined the strict approval procedures on use of raised capital to establish and process management to ensure that the use of funds was in accordance with the use listed in prospectus, injected the funds according to project budget, the establishment of special accounts and special-funds.

7. Internal control on information disclosure

The Company constituted the Management Rules on Information Disclosure, Report Rules on Significant Information, which defined the scope of information disclosure, the contents of delivering procedure and approval procedure, the secretary of the board was the chief officer for information disclosure. In accordance with the relevant requirement of the Listing Rules and Information Disclosure Rules, the Company, carried out obligations of information disclosure earnestly, while strengthened information security work to ensure the information was disclosed fairly and justly.

(III) The problems existing in internal control and improvement plan;the evaluation from regulatory departments and independent third parties on the company's internal control

1. In compliance with the requirements of Company Law, Guidelines for Internal Control of Listed Companies from Shenzhen Stock Exchange and other laws and regulations, the Company strengthened internal control system, and achieved certain achievement, but still need further improvement. Future, the company would further optimized the system processes, increased enforcement, and supervision and inspection, reinforced the internal audit work, and give full play to the finance audit committee's supervisory functions, to ensure the effective implementation of the system.

2. In 2007, there was no any punishment on the internal control from China Securities Regulatory Commission, the Shenzhen Stock Exchange in the Company.

3. There was no objection from Certified Public Accountants for annual audit on effectiveness of internal control of the Company.

(IV) Overall appraisalment of internal control

Based on the internal control elements such as internal control environment, risk identification and prevention, control activities, information and communication, inspection and evaluation, the Company established the control system which run in good condition nowadays, control operating risks reasonably to ensure that all business links in favorable operation. In order to improve operating efficiency, laid the foundation for operational risks, the Company would continue to establish and perfect sound internal control system, improve the company management level in future.

(V) Opinions expressed from the Supervisory Committee and the Independent Directors on the self-evaluation of internal control of the Company

1. Opinions from the Supervisory Committee on the self-evaluation of internal control of the Company

The Supervisory Committee of the Company believed that after examination and approval: the internal control of the Company was in line with requirements of Guidelines on Internal Control for Listed Companies from Shenzhen Stock Exchange. The format of self-evaluation report on internal control was in compliance with the requirement of Circular of Fulfilling the Work of Annual Report 2007 of Listed Companies with SZS[2007] Document No. 206 and the self-evaluation report reflected the implementation situation and effects of the Company's internal control system completely with the true and objective contents.

2. Opinions expressed from the Independent Directors on the self-evaluation of internal control of the Company

Mr. Feng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong, Independent Directors of the Company believed that after examination and approval: the internal control, the process of appraisal and evaluation of the Company was in line with requirements of Guidelines on Internal Control for Listed Companies from Shenzhen Stock Exchange. The self-evaluation report reflected the implementation situation and effects truly, objectively and completely.

VI. The performance evaluation and encouragement mechanism for senior executives
The Company established evaluation and incentive mechanism; and restricted the work of senior executives according to the Working Rules of President and all detailed work rules. At the same time, the Company determined the remuneration of senior executives through basic annual salary plus floating bonus based on the year-end assessment as well as accomplishment of targets so as to invigorate work enthusiasm of senior executives. Performance of senior executives was assessed by the Board of Directors, and supervised by the Supervisory Committee. In order to carry out performance evaluation and encouragement mechanism more scientifically and effectively, the Company established the Special Remuneration and Examination Committee to set down the relevant plans, rules, supervise its implementation, standardized, systematized, and programmed the engagement, examination and incentive of directors of the Company.

Section VII. Shareholders' General Meeting

In the report period, the Company had held Shareholders' General Meetings once and Temporary Shareholders' General Meeting twice.

I. Shareholders' General Meeting 2006 of Konka Group Co., Ltd was held at 9:30 a.m. on Jun.29, 2007 (Friday) at the central meeting room on the 1st floor of office

building of the Shenzhen Overseas Chinese Town Group Corporation, China.

II. The 1st Temporary Shareholders' General Meeting 2007 of Konka Group Co., Ltd was held at 9:30 a.m. on Aug. 10, 2007 (Friday) at the central meeting room on the 1st floor of office building of the Shenzhen Overseas Chinese Town Group Corporation, China.

III. The 2nd Temporary Shareholders' General Meeting 2007 of Konka Group Co., Ltd was held at 9:30 a.m. on Nov. 15, 2007 (Thursday) at the central meeting room on the 1st floor of office building of the Shenzhen Overseas Chinese Town Group Corporation, China.

Public notices on the resolutions of the three aforesaid Shareholders' General Meeting were published in China Securities Journal, Securities Times, Shanghai Securities News, HK Ta Kung Pao respectively on 30 Jun. 2007, 11 Aug. 2007, and 16 Nov. 2007 and as well as on the designated internet website <http://www.cninfo.com.cn>.

Section VIII. Report of the Board of Directors

I. Main operation condition of the company within the report period

1. The general operation achievements of 2007

In 2007, the Company based on the three projects of masterpiece, quality and innovation, pushed and deepened overall operation strategy with value, which guided all operations and corporate management, strengthened the consciousness of profit and improved profitability.

In 2007, the Company carried out the guidance of profit, the profit increased much compared with the same period of 2006 in condition of lower of sales income. The Company achieved overall sales income 12.169 billion RMB, decreased by 4.41% compared with that of the last year; net profit belonged to the parent company 209 million, increased by 116.17% compared with that of the last year. Meanwhile, the profitability from the main operation of the Company raised greatly, which contributed to increment of the net profit. The net profit (net profit after deducting non-current gains and losses attributed to shareholders of the parent company and net profit from the subscription) from the main operation accounted 96.17% of the net profit belonged to the parent company.

(1) With influence of international trade barriers, the sales incomes decreased compared with the same period of the last year.

In the report period, the trade barriers, aimed at household electrical appliance enterprises of China, increased in market of Europe and America, especially America announced that they levied high patent tax with digital television larger than 14 inch, exported to America. Collection of patent tax increased the export cost of color television of China, which debased the competition competence in market of North America.

In order to guarantee the profit, the Company provisionally reduced the sales in America before the negotiation ended between Chinese household electrical appliance industry and America. With the influence of that, sales income of the Company in the area reduced USD 86.28 million (equaled to RMB 640 million) from USD 96.91

million of 2006 to USD 10.63 million, 89% down compared with that of 2006, which was the main reason that the sales income of 2007 decreased compared with that of 2006.

(2) Stable improvement of profitability of the Company

In the report period, profitability of the Company was improved. With the advance of operation strategy, selection project and sales strategy of i-sport high definition television, the Company pushed different sales strategy and guarantee the profit in condition that the sales incomes decreased. In the report period, the gross profit margin was 19.43%, increased by 14.19% compared with that of the last year.

(3) Strengthening the market of the Company

In the report period, the occupation rate of market increased stably. According to the data offered by Beijing Zhongyikang Era Market Research Company, the overall occupation rate of color television market of 2007 was 14.09%, which was the first in last 5 years.

(4) Optimization of the product structure

In the report period, with the advance of selection project, there are series of selections such as I-sport36 and MINI668, which were star products with high marketing and gross net margin, optimized product structure of the Company and improved the occupation rate of market of high-ended products.

(5) Promotion of operation efficiency

In the report period, in order to met the challenge of supply chain, the Company set up team of optimization of supply chain. After optimization in one year, the efficiency of supply chain was promoted, inventory was reduced and the inventory turnover was enhanced. Up to 31 Dec. 2007, the inventory was amounted RMB 2,935 million, decreased by RMB 617 million, down 17.38% compared with that of the last year.

2. Work in the report period

(1) Insisting on value operation strategy

Value operation was management of purchase, manufacturing research & development, quality and sales & marketing with guidance of enterprise profit, brand appreciation, base of diversity strategy in Competition and aim of value appreciation.

The Company adopted the operation policy of value operation since 2005, which was carried out in overall operation management, including concept planning, development of design, management of supply chain, marketing planning, channel selection and coverage etc. In 2007, value operation of the Company got a series of achievements, including planning and executing sport high-definition strategy, which was successful exploration of three projects of creative, masterpiece and quality.

Sport high-definition strategy was a series of intergraded marketing, that is, the Company caught the chance of Olympic in Beijing and adopted brand innovation, created new impression of lively, positive and fashionable by strengthen conception of "Televisions suitable for Olympic, KONKA"

Sport high-definition strategy embodied the core concept of value operation of diversity value creation and value appreciation. Diversity orientation and exquisite value appreciation brought by appearance of sport high-definition and the innovation of technology created lager appreciation. The sport high-definition televisions

released on Jul. 2007, although the price equaled to or above that of the same size of foreign famous brand televisions, the marketing was still favorable. As the flagship product of flat panel series of the Company, i-sport36 brought along the marketing of high-ended LCD television.

Creative design of i-sport36 brought a series of honor, which won 16 awards consecutively as Technology innovation Award of Consume Electronics issued by SINOCES, Award of Champion Product of High Definition issued by US Consumers Electronics Association, golden prize of Design Award and Sport Function Design Award issued by China Industrial Design Association and so on.

Innovation project was the successful foundation of sport high definition stratagem. Sport definition is the result of innovation, which was showed in three aspects: The first was Concept innovation: Adopting concept of sport high definition was a large innovation per se. The Company positioned the flat panel TV in sports high definition in the background of Olympic Sports, with method of improvement of overall view of sport, with purpose of supplying sport high definition products which was suitable for Olympic Sports and formed core concept of products. The second was technology innovation: in order to actualize overall enhancement of sport picture, the Company planned and developed unique image display technology of Double stability and Double 120Hz and some creative technology of ME/MC sport screen stability, double frame acceleration technology and automatic light Induction technology, eliminated trailing, dithering and image persistence of the general LCD Screen TV and supported the concept in the technology. The third was marketing innovation: around the subject of sport high definition, the Company developed omnidirectional and tridimensional integration extending

Masterpiece project and quality project was the guarantee of success of sport high definition. I-sport36 actualized manufacturing and marketing of masterpiece on the base of masterpiece design and obtained the value appreciation of the product. The Company achieved the requirement of batch production in six months and offer guarantee for the success of sport high definition stratagem.

(2) Color television sales in domestic market

In the report period, the main current of color television was from kinescope television to flat plane display television, and transition of simulated television to digital television. The market occupation of flat plane display television rose up and that CRT television lowered. The data showed: the proportion of flat plane display television in general market of color television raised from 20.5% in 2006 to 37.0% in 2006. Meanwhile, the international famous brand hit the market. In the condition, the Company persisted in value operation, strengthening technology innovation and acceleration of development and achieved excellent efficiency.

In aspect of research, development & manufacturing, the Company reduced cost of purchase, design, raw material and manufacturing, adopted tendering and bidding and guaranteed overall accomplishment of all targets of cost reducing; in aspect of functional department, the Company controlled expenditure and strengthen examination and verification of expense and profit in marketing system; In aspect of manufacturing system, the Company optimized supply resource. Material of LCD

color television and CRT television decreased 17.87% and 11.52%, cost of mobile phone decreased 18.5%. In aspect of research and development, launched masterpiece of i-sport36 series of LCD screen color television and MINI668 series of CRT color television, strengthen process management of R&D, and exceeded annual R&D plan. In aspect of marketing of color television, the Company implemented stratagem of high definition, developed high definition with i-sport36 series and achieved diversity competition and set up the leading position in domestic market. Besides, in the report period, the important marketing channel achieved breakthrough, the sales amount increased much compared with that of the last year in Gome (including Yongle), Suning, METRO, Wal-market and Wuhan Commerce Household electrical appliance market. Meanwhile, owing to farmer's income increased consecutively and purchasing power of rural market improved continuously, the market in country was potential. In the report period, based on the advantage of rural marketing network, the Company enhanced the development of rural market and had great achievements.

(3) Color television sales in abroad market

In the report period, owing to high of threshold and appreciation of RMB and other disadvantages, the Company aimed at guarantee the healthy operation of export, enhanced the efficiency of product plan and veracity of marketing plan, and developed districts market of Africa, Europe, Latin America and East Europe. Meanwhile, strengthen the inner management and risk control, prompted the profitability and the gross profit margin raised 21% up, which embodied change of the price operation and value operation.

(4) Mobile phone business

In the report period, the domestic market of mobile phone was fierce and appeared structure of loss in the whole industry. But the mobile of the Company still achieved profit; in aspect of export, with developing and extending new market, the marketing in abroad created new achievements, 70% up compared with that of the last year, which became the strategic supporting point and growth point.

(5) Refrigerator Business

In the report period, owing to improvement of the income level of resident, increment of demand for replacement and capacity of the market, refrigerator industry kept raising in 2007. In the report period, the Company constructed white electric industrial park and put into production, primarily solved the problem of capacity structure and marketability, launched in masterpieces refrigerator of three-door, Computer's Temperature Controlling System and glass floor, achieved the product structure transited from mid-low ended to high ended. In aspect of channel construction, the Company took advantage of color television, enhanced the white electric product in rural market, achieved leap-forward development of white electric business, achieved overall operation targets and actualized the great increment of profit. In the report period, the Company realized sales income increment of white electric, 22.22% up compared with that of the last year and net profit 11.19% up compared with that of the last year.

(6) Other business

A. In the report period, the vedio service was not one of the biggest television

suppliers of the hotel and the most effective famous brand, but also kept in advantage of monitors. The Company beat many famous electronic companies and got the order by right of abundant in big screen display equipment when the project of large television screen of Morgan Building in Beijing was tendering and bidding. The large television screen was 3400m², which was considered the first screen in Asia; Meanwhile, Morgan Building was closed by National Stadium Bird Nest and National Swimming Center and was a superior location. Carrying on the project prompted the brand image of the Company. Meanwhile, the Company also undertook large LCD project of Tianlongyuan, and settled leading position in LCD industry.

B. On the base of rationalizing operation procedure of digital network, the Company stabilized technology, perfected supply chain system and actualized material breakthrough of sales of product.

C. In 2007, the Company purchased land for research & development of science & technology closed to Shennan Road at preferential price with support of government. The Company would built Konka Digital Research & Development Building, with building area being 80,000m². Part of research & development and management department would move to the new building when finished.

II. Business Income and profit composition

1. Industries, products of operation

Classified by industries or products		Operating income (RMB)			Operating cost (RMB)			Gross profit ratio (%)		
		2007	2006	Increase/decrease (%)	2007	2006	Increase/decrease (%)	2007	2006	Increase/decrease (%)
Multimedia	Color TV	9,613,960,868.34	10,154,982,067.62	-5.33	7,646,229,399.76	8,387,104,157.42	-8.83	20.47	17.41	3.06
Communication	Mobile phone	1,602,803,486.87	1,777,535,437.85	-9.83	1,303,005,276.31	1,452,904,465.39	-10.32	18.70	18.26	0.44
	White electrical and others	847,871,918.59	723,633,480.08	17.17	794,702,656.45	682,529,726.34	16.43	6.27	5.68	0.59
Total		12,064,636,273.80	12,656,150,985.55	-4.67	9,743,937,332.52	10,522,538,349.15	-7.40	19.24	16.86	2.38

2. Main operations classified according to area

Region	Operating income	Increase/ decrease of operating income than last year (%)
Domestic	10,778,767,660.44	2.19
Hong Kong and overseas	2,286,824,485.76	-40.88
Offsetting each other among segments in each area	-1,000,955,872.40	-
Consolidation of the Group	12,064,636,273.80	-4.67

III. Analysis on financial indicators

(I) Comparison analysis on the major financial indicators

1. The major financial indicators in the report period

Unit: RMB'000

Items	At the end of Year 2007	At the end of Year 2006	Increase/decrease (%)
Total Assets	9,277,975.00	10,019,526.99	-7.40
Net accounts receivable	1,040,182.92	951,277.32	9.35
Net inventories	2,934,629.18	3,551,896.72	-17.38
Net long-term investment	51,645.23	61,576.76	-16.13
Net fixed assets	1,291,655.08	1,268,113.98	1.86
Long-term liabilities	33,610.03	27,494.99	22.24
Short-term Loan	22,000.00	15,000.00	46.67
Shareholders' equity	3,785,988.70	3,612,709.61	4.80
Items	Y2007	Y2006	Increase/decrease (%)
Operating profit	246,953.21	119,248.41	107.09
Net profit	209,198.47	96,774.91	116.17
Sales expense	1,592,452.28	1,528,856.38	4.16
Financial expense	40,852.16	13,844.70	195.07
Administrative expense	418,146.61	452,733.17	-7.64
Income tax	33,867.88	11,829.16	186.31

2. Explanation and analysis on changes in major projects:

(1) The current inventory 17.38% down compared with the last period because the Company adopted effective measures to strengthen inventory management, accelerated inventory turnover and the inventory scale was under well control.

(2) The Company transferred 25% of the shareholdings of OCTIM to OCT Group Co., Ltd and its subsidiary companies, which caused 16.13% down of long-term investment balance compared with the last period.

(3) Short-term loan increased RMB7 million, 46.67% up compared with that of the last period because of newly increased loan of Anhui KONKA Electronics Co., Ltd, a subsidiary company of the Company.

(4) The sales gross profit ratio of color TV and Mobile phone, main operation of the Company, increased by a large margin in this period, and period expense increased by little margin, which caused 107.09% up of operating profit compared with the last period.

(5) Increase of net profit was due to the large increase of operating profit, which 116.17 up of net profit than last year.

(6) Financial expense increased by 195.07% over last year, which was mainly because of rise of interest rate, resulting in discount and expenditure of loan interest increased, meanwhile, exchange loss increased due to influence from RMB appreciation.

(7) Total profit realized in the current period has increased by a big margin than last period, and cover period of loss has passed, which resulted in income tax expense has increased by 186.3% than last year.

3. Measurement attributes of main assets

Available-for-sale financial asset is measured by employing fair value, while other main assets are measured by employing historical cost method.

(II) Composition situation of assets**1. Composition situation of assets in report period**

Items	31 Dec. 2007	31 Dec. 2006	Increase/decrease (%)
Net accounts receivable/total assets	11.21%	9.49%	1.72
Net inventories/total assets	31.63%	35.45%	-3.82
Net long-term investment/total assets	0.56%	0.61%	-0.05
Net fixed assets/total assets	13.92%	12.66%	1.26
Short-term Loan/total assets	0.24%	0.15%	0.09
Shareholders' equity/total assets	40.81%	36.06%	4.75

(III) Analysis on cash flow indicators**1. Cash flow indicators**

Unit: RMB'000

Items	Y2007	Y2006	Increase/decrease (%)
Net increase in cash and cash equivalents	74,318.59	49,079.88	51.42
Cash flow arising from operating activities	301,215.50	180,581.83	66.80
Cash flow arising from investing activities	-160,924.07	-102,967.43	56.29
Cash flow arising from financing activities	-62,482.55	-27,112.59	130.46

2. Comparison between cash flow caused by operation activity and net profit

Unit: RMB'000

Cash flow arising from operation activities	Net profit	Cash flow caused by operation activity/net profit
301,215.50	209,198.47	1.44

3. Explanation and analysis on changes of major projects

(1) Decrease of inventory and rise of gross profit rate during the report period caused down of proportion of purchase expense to payment collection, which resulted in net cash flow arising from operating activities increase by 66.80%.

(2) Cash for purchasing and constructing fixed assets has increase than last year, at the same time, the Company used idle funds to invest in new stock, and the part of shares failed to sell up to the end of year, which resulted in net cash flow arising from investing activities increased by 56.29%.

(3) The Company implemented profit distribution plan for 2006 in the report period in accordance with the resolutions of the Shareholders' General Meeting, cash of RMB 60,198,635.20 was paid, which resulted in net cash flow arising from financing activities increased by 130.46%.

(4) Cash flow arising from operating activities has increased, corresponding, cash flow arising from investing activities and cash flow arising from financing activities has increased, but increased amount was less than cash flow arising from operating activities, thus, net increase in cash and cash equivalents increased by 51.42% compared with last year.

IV. Investment of research & development and independent innovation

In the report period, the Company pushed creative project, whose R&D investment was RMB 138 million. With large investment and advanced management system, the quantity and quality of patent application improved. The company applied 480 patents in 2007, 26% up compared with that of 2005. In the report period, the Company developed series masterpieces of color television and mobile phone and launched into market, including color television of series of I-sport, I-slim; The breakthrough of IPV6 terminals was examined and approved by evaluation experts of National Development and Reform Commission and Ministry of Information Industry of the People's Republic of China; self-researched the first intellectual mobile phone based on Linux operation system; Completed research on commercial model of 3G mobile phone; was able to manufacture various kinds of digital televisions. The ability of innovation was prompted, which laid the foundation of the consecutive development of the Company.

V Situation of Principal Subsidiaries and Holding Companies

(I) Operation and performance of the Principal Subsidiaries and Holding Companies

1. Shenzhen Konka Communications Technology Co., Ltd.

With its equity directly and indirectly held by the Company by 100% and registered capital of RMB 120 million, KONKA Communications is engaged in the business of developing, producing and selling digital mobile communication equipment and mobile phone products. At the end of the report period, the Company's total assets were RMB 953,349,746.27 and net assets were RMB-30,896,925.34, the sales income in 2007 was RMB1,616,592,327.07, operating profit was RMB 7,079,570.29 net profit was RMB6,731,900.93.

2. Shanxi KONKA Electronics Co., Ltd.

With its equity held directly and indirectly by the Company by 60% and registered capital of RMB 69.5 million, Shanxi KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 140,458,541.74 and the net assets were RMB 111,284,107.12, the sales income in 2007 was RMB 145,630,324.99, profit from sales income was RMB 5,750,998.98 and net profit was RMB 4,067,461.99.

3. Anhui KONKA Electronics Co., Ltd.

With its equity held by the Company by 78% and registered capital of RMB 140 million, Anhui KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 453,002,504.16 and the net assets were RMB 219,113,228.11, the sales income in 2007 was RMB 464,025,604.91, profit from sales income was RMB 8,937,680.51 and net profit was RMB 5,050,829.11.

4. Chongqing KONKA Electronics Co., Ltd.

With the equity held by the Company by 60% and registered capital of RMB 45 million, Chongqing KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 64,341,295.09 and

the net assets were RMB 49,337,869.80, the sales income in 2007 was RMB 42,394,716.94, profit from sales income was RMB 288,611.71 and net profit was RMB 241,854.32.

(II) Special purpose entity controlled by the Company

In the report period, there was no special purpose entity controlled by the Company.

VI. Major suppliers and customers

In the report period, the total purchase amount from the top five suppliers was RMB 2,294,914,904.01, accounting for 25.14% of the Company's total purchase amount. The total sales revenue from the top five distributors was RMB 2,271,344.88, accounting for 18.66% of the Company's total sales amount.

VII. Operation problems, difficulties and solutions

(I) Flat-panel TV market faced the fierce competition from famous brand of foreign countries.

Solutions: facing the expanding famous brand of foreign countries in market, the Company based on three projects of masterpiece, quality and innovation, pushed and deepened value operation strategy, executed diversity competition of product, created value for the Company and customers and extended market by applying innovation of function & technology, human-computer interface, human-computer relationship and customers experience; Meanwhile, based on the well done urban market, the Company made use of the marketing network in country to extend the country market, in which the famous foreign brand had no advantages, developed potential of Flat-panel TV market in country and accelerated the development of Flat-panel TV market in country.

(II) Currency inflation was rising and price of various raw materials was rising, which rose up the operation cost of enterprise.

Solution: The Company adopted many measures to stabilized supply and price of raw material: (1) established cost model of raw material, analyzed cost composition, followed up the market and confirm the price quoted by supplies whether be reasonable or not, which was the minimum price of negotiation or bidding; (2) introduced emulous suppliers, optimized resources of suppliers and ensured the raw material have cost advantage; (3) followed the development trend of material, technology and technics, brought in new technology and material to reduce the purchase cost of the material; (4) established strategic partner relationship with major suppliers and get the support of reducing cost from them; (5) established and perfected the standard management system of raw material, pushed standardization, prompted the reuse rate of material, reduced varieties of material and lowered the cost of purchase and holding; (6) adopted advanced tool and method such as bid invitation and bidding, purchase online; (7) Compared with competitor, found difference and adopted measures; (8) trained purchase work team, promoted operation efficiency of the supply system and reduced purchase cost. Although facing the pressure of rising price of raw material, it forecasted that the cost of raw material purchase of the Company would be reduced further in 2008 by adopted the aforesaid measures.

(III) Product export of the Company confront a greater pressure with continuous appreciation of RMB

Solution: The Company reduced the influence of appreciation of RMB to export in the following methods: (1) the Company negotiated with bank about contract on long-term locking exchange settlement rate; tried the way of the long-term foreign exchange transaction, options, etc. through change of payment method, notes and bills receivable discounted, and enlarge the import material stocking proportion calculated in USD, so as to avoiding the risk brought by USD depreciation; (2) Meanwhile, the Company took advantages of overseas base; improved negotiation suited for material stocking in local, so as to transferring the cost of processing charge, shell, etc. to those countries with lower cost and more stable exchange rate; (3) enhanced the veracity of marketing plan, reduced inventories of export materials, meanwhile, speeded up the delivery of finished products, improved turnover rate of fund; (4) strengthened communion with the suppliers, expanded purchase times and controlled inventory scale.

VIII. Operation plan in the new year

(I) 2008 operation environments analysis

1. In year 2007 macro status is in good condition both in domestic and overseas. Owing to subprime Mortgage Crisis, the uncertain factors of world economy increased slowly, but it forecasted at large that economy of the country would still keep stable increase, each industry would develop rapidly and consecutively and the potential of market was still large.
2. Opportunity brought by Olympics of 2008. The influence of Olympics to the television industry was more direct, Olympic will bring opportunities for increase of flat panel television even the whole television industry, which was not for occupying market but also for change from production operation to famous brand operation.
3. New countryside construction will start up the countryside market. With pushing new countryside construction and increase of farmers' income, potential of countryside marketing was embodied.
4. Project of pushing household electrical appliance to the rural market enhance the cover of the market, which offer chance and sustainable competition for famous branch creating, channel reform and increase of market.

(II) Operation plan of 2008

1. Operation method

The operation method of 2008 is: continue persisting in and deepening value operation stratagem, based on the three projects of masterpiece, quality and innovation, caught up the opportunity, advanced and strengthen technology innovation, pushed combination of competitive industry and resource-oriented industry and actualized the sustainable rapid and healthy development.

2. Main work in 2008

The Company will do well in following eight projects:

(1) Preparation of Olympics

Olympics brought unlimited opportunity to household electrical appliance, and the Company will prepare for the opportunity with the following aspects:

In aspect of product, by separate management of deepening products, actualized the great increase of flat panel television and high gross profit of CRT to achieve maximum of operation profit. Extended sales of series of flat panel 08, 66, deepened and sublime the concept of sport high definition and prompted efficiency; focused on cost control and super-thin, launched super-thinner CRT Product to market and fulfill the object of double increase of CRT.

In aspect of technology, based on the spot high definition technology of the last generation “Double stability, Double 120HZ”, the Company pushed new technology of “Double 120HZ+FHD”, made the calculation of core of LCD television quicker than the mainstream television in the market, eliminated trailing, dithering and image persistence of the general LCD Screen TV and guaranteed the definition, accuracy and fluency of the image and made breakthrough of new technology, new material and application of injection without trace.

In aspect of marketing and extending famous brand, the Company deepened overall concept and connotation of sport high definition, perfect i-sport and i-slim series, created new brand image of active, energetic, fashionable and expert of sport high definition; combined with advertising and Olympics by scientific and effective execution of public relations of Olympics.

Besides, the Company caught up opportunities from Olympics to business of mobile phone, white electric, video service and digital network brought many opportunities, prompted sales and extended marketing in the period of Olympics.

(2) Strengthen reprocessing capacity and improve running efficiency

In 2008 the Company would strengthen reprocessing capacity of sales and manufacturing panel, especially capacity of sales to bear more production lines. The Company would deepen reprocessing of color channel, which accelerated the white electrical products entered into urban channel and improved the efficiency of using. Meanwhile, with decrease price of flat panel television and increase of sales proportion, it is necessary that the flat panel television got into rural market; therefore, the Company would explore the market of white electrical products and infiltrate the flat panel products to third market and fourth market.

(3) Strengthen exploration of rural market

The Company owns perfect marketing channel and network of after sales service and market in rural reached 13000, which provide excellence marketing channel for products of the Company in country. Meanwhile, there are 43 branch companies, 230 service station and 3025 authorized maintenance station all over the country, where supplied rapid and high effective service for all the customers including rural costumers immediately. These channel and network of marketing have obvious advantages compared with both the foreign brand and other brand household appliances.

In the report period, ten kinds of televisions and six kinds of refrigerators got the bid of project of extending household appliances to rural market. Project of extending household appliances to rural market provide opportunity to create brand, reform the

channel and increase market proportion, the Company got advantage of sustainable competition in the third and fourth market through the project. Therefore, in 2008 the Company will combine new country construction with implement of project of extending household appliance to rural market, contribute special funds to construct rural market and establish new mode of rural market in the coming three years.

(4) Advance technology innovation

Color television and mobile phone were industries with fierce competition, and technology innovation was related to the development of the Company. The Company persisted in technology as the fundamentality of development of the Company and won leading position and breakthrough of market in 2008 and guaranteed the consecutive success of value operation.

The Company prepared for the competition with concept of masterpiece. In 2008 the Company will deepen concept of sport high definition, perfect product plan, deepen project of masterpiece by opportunities of Olympics and made the plane as the most effective and most suitable marketing stratagem; as for mobile phone industry, the Company will with aim of improvement of speed and efficiency, enhance speed of product development and diversity design ability, stabilize domestic business and actualize great increase of new business.

The Company will establish incentive system which was suitable for research & development system. In 2008 the Company will research and establish incentive system which was aim at research & development system, admitted by researcher and was in accordance with profit of the Company. The incentive system will guarantee the creativity of researcher.

The Company will actively respond to document No. 1 2008 of Notice on Some Policies of Encourage Development of Digital Television, focus on development opportunity and planned to change the Company from enterprise manufacturing ended products to digital electronic enterprise with research & development and manufacturing major components in three to five years to actualize breakthrough in technology and brand of the Company.

The Company will strengthen advanced research of technology. In 2008 at the same time of development the products, the Company will strengthen and perfect management system of advanced research “produce one generation, research & develop one generation, store one generation”, perfect management procedure of advanced research in aspect of project selection, project proposal, procedure management, project verification, technology application and so on, and guarantee the long-term technology capacity.

(5) Push the stable development of mobile phone business

Owing to the tightened industrial chain of mobile phone and confused competition order in China, the competition of mobile phone industry was fierce in 2008. The Company will persist in the stratagem of control of scale and expense, strengthen the overseas market expansion, and guarantee the stable and healthy development of mobile phone business.

(6) Enhanced leap-forward increase of white electrical business

White electrical business will become the third business after color television and

mobile phone. In 2008 with fundamentality of three projects of masterpiece, quality and innovation, the Company developed white electrical business with guideline of concept of value operation and different products, made clear stratagem of brand, product and marketing, and actualize the appreciation of value and brand of white electrical.

The Company will seek opportunity of merger and acquisition with method of share holding, investment and cooperation on the base of improvement of products' quality, enlarge production capacity, plan capability structure and prepare for raise of white electrical products and production of various products.

(7) Essentially enhance localization operation of international business

Faithfully improved plan of market and products. The Company will make different stratagems according to the different marketing, customers and potential customers then make marketing plan and product plan; make different marketing policy on different demand of customers, and guarantee the most effective use of limited resource.

Facing the coming of LCD television era, the Company will analyze the value chain in detail and explore international commercial model of more effective and profit. The Company will set periodic communion, make technology evaluation and business appraisal for every project, with which the planning management will be more effective. The Company will strengthen and fulfill operation stratagem of global localization. In the background of global market, the Company will take advantage of domestic market, identify the market to develop mainly and materially enhance the localization operation. As for the detailed method, The Company will seek suitable partner, seek opportunity of cooperation with local franchiser in the important market in East Europe, Latin America and Asia-pacific area and establish marketing network there to develop localization operation into a new situation.

IX. Need for funds, source of funds and usage plan and of the Company in the future

In order to achieve the operation target of 2008, capital need of the Company was RMB 190 million advanced. Details were as follows:

(I) need for funds and usage plan

Sequence No.	Investment project	Planned fund (RMB'000)
1	Fixed capital investment of digital television, white household electric appliance and relevant industry	10,368.8
2	Investment of Konka Digital Development & Research Centre Building of 2008 (brief explanation and quotation referred to above)	8,610

(II) Source of funds

The Company enhanced fund management, adopted active and effective measures to draw back the fund.

X. Investment of the Company

(I) In the report period, investment of the Company were as follows:

Items	Y2007	Y2006	Change amount	Change proportion (%)
Short-term investment	0	0	0	0
Sub-total	0	0	0	0
Long-term investment				
(1) Investment on stocks	51,645,230.53	61,576,761.22	-9,931,530.69	-16.13%
(2) Investment on bonds	0	0	0	0
(3) Other investment	0	0	0	0
Total	51,645,230.53	61,576,761.22	-9,931,530.69	-16.13%

Sequence No.	Name of invested company	Main business scope	Accounting proportion of the invested company
1	Boluo Konka Precision Mould Co., Ltd	Manufacturing and sale of new type electronic components	75%
2	Shenzhen Zhongcailian Science and Technology Co., Ltd	Development of electronic technology, consulting of economic information and import & export of merchandises and technology	10%
3	Anhui KONKA Electronics Co., Ltd (note)	Manufacturing and sales of white eclectic products as refrigerator and washing machine	97.45%

Note: in the report period, the Company increased investment on Anhui KONKA Electronics Co., Ltd unitarily, and proportion of shareholding increased by 97.45% from 72.3%.

(II) In the report period, the Company had no proceeds raised and no important investment through share offering and had no material investments.

(III) Projects invested with funds not raised through share offering

Owing to executing plan of technology innovation, promoting capability of products development, base research and talent cultivation and support of the government, the Company owned the use right of land with S-NS07-05-12-03 at preferential price, 9633m² located in South District, Science and Technology Park ,Shenzhen City, which was used to built Konka Digital Development & Research Centre Building. The Company would invest no more than RMB 567 million o the project and the construction area was about 80000m², which was passed at 1st session of the 6th Board of Directors. The land use procedure has been transacted and the project solution was designing. The project started formally in 2008 and would launch in use in 2010.

XI.Detailed explanation on the changes in the accounting policies, accounting estimate or accounting methods compared with the latest Annual Repot

The Company performed new accounting standard for business enterprise since 1 Jan. 2007: income tax was measured by employing the balance sheet liability approach from former taxes payable method; the part of long-term equity investment was measured by employing recognition and measurement of financial instrument from former cost method; un-convered excess losses of subsidiaries were undertaken by parent company.

XI. Routine work of the Board of Directors

(I) Meetings held in the report period and content of the resolutions.

During the report period, the Board of Directors of the Company held 12 meetings in total, i.e. the 22nd to 26th meeting of the 5th Board of Directors and the 1st to 5th meeting of the 6th Board of Directors. Details of the meeting and resolutions made are as follows:

1. The 20th meeting of the 5th Board of Konka Group Co., Ltd was held on 24 Jan. 2007 (Wednesday) through fax.
2. The 21st meeting of the 5th Board of Konka Group Co., Ltd was held on the morning of 17 Apr. 2007(Tuesday). Except the released resolutions, resolutions on shareholding transfer of accessory enterprise, annual plan of 2007, application on credit line of China Merchants Bank and shareholding transfer of international media company was reviewed and approved.
3. The 22nd meeting of the 5th Board of Konka Group Co., Ltd was held on 24 Apr. 2007 (Wednesday) through fax.
4. The 23rd meeting of the 5th Board of Konka Group Co., Ltd was held on 10 May 2007 through fax. Resolutions on investment plan of fixed assets of color television department and application on credit line of Bank of China Shenzhen Branch was reviewed and approved.
5. The 24th meeting of the 5th Board of Konka Group Co., Ltd was held on 29 May 2007 through fax. Resolution on share merger reform of Sanlian Commerce Co., Ltd was reviewed and approved.
6. The 25th meeting of the 5th Board of Konka Group Co., Ltd was held on the morning of 6 Jun. 2007 (Wednesday).
7. The 26th meeting of the 5th Board of Konka Group Co., Ltd was held on 24 Jul. 2007 (Wednesday) through fax.
8. The 1st meeting of the 6th Board of Konka Group Co., Ltd was held at 9:30 am on 14 Aug. 2007 (Tuesday) in meeting room of office building of Konka Group Co., Ltd, OCT, Shenzhen. Except the released resolutions, resolutions on proposal of land of Ankang factory was reviewed and approved.
9. The 2nd meeting of the 6th Board of Konka Group Co., Ltd was held on 23 Aug. 2007 through fax. Except the released resolutions, resolutions on application of credit line of Bank of Communications and China Minsheng Banking Corp. Ltd was reviewed and approved.
10. The 3rd meeting of the 6th Board of Konka Group Co., Ltd was held on 29 Aug. 2007 through fax.
11. The 4th meeting of the 6th Board of Konka Group Co., Ltd was held on 29 Oct. 2007(Monday) through fax. Except the released resolutions, resolutions on change of part of marketing branch, newly-increased investment plan of fixed assets and application on collateralization of Bank of China (Hongkong) Shenzhen Branch was reviewed and approved.
12. The 5th meeting of the 6th Board of Konka Group Co., Ltd was held on 26 Dec. 2007 (Wednesday)through fax.

Resolutions of the aforesaid the 20th, 21st, 22nd, 25th, 26th meeting of the 5th Board of

Directors and the 1st, 2nd, 3rd, 4th, 5th meeting of the 6th Board of Directors were published in China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as the internet website designated www.cninfo.com.cn on 26 Jan. 2007, 19 Apr. 2007, 26 Apr. 2007, 8 Jun. 2007, 26 Jul. 2007, 16 Aug. 2007, 24 Aug. 2007, 30 Aug. 2007, 30 Oct. 2007 and 28 Dec. 2007 respectively.

(II) Implementation of the resolutions of the Shareholders' General Meeting by the Board

The Board of Directors had dutifully implemented the resolutions of the three Shareholders' General Meetings of 2007:

1. Revised the Article of Association, Rule of Procedure of the Board of Directors and Rules of Procedure of the Board of Supervisors.
2. According to resolution of the Shareholders' General Meeting, the Company implement dividend plan: based on the total share capital of the Company for the end of 2006 amounting to 601,986,352 shares, distributing cash dividends at the rate of RMB 1.00 (tax included) for every 10 shares, which total dividends amounts to RMB 60,198,635.2.
3. Implement application of credit line of Bank of China.
4. Given the expiry of the term of office as the 5th Board of Directors and the 5th Supervisory Committee, the Company conducted the election of the Board of Directors and the Supervisory Committee according to the resolution at the Shareholders' General Meeting.
5. Engagement of Shenzhen Dahua Tiancheng Certified Public Accountants as the audit body of the Company for 2007.
6. Matters on dealing with the liability insurance of the Directors, the Supervisors and the Senior Management Staff of the Company.

XII. Summary report on the performance of the Audit Committee subject to the Board of Directors

The Financial Audit Committee of the Board of Directors of the Company was composed of two independent directors and one non-independent director (Mr. Liu Peng dismissed the post of Non-independent Director of the Financial Audit Committee of the Company on Mar. 27, 2008), of which Ms. Yang Haiying with the specialty of accounting, the Independent Director, held the post as Chairman.

According to the related laws issued by CSRC, Shenzhen Stock Exchange, and related regulation of Rules of the Implementation by the Financial Audit Committee of the Board of Directors and Independent Directors System, the Financial Audit Committee of the Board of Directors of the Company fulfilled the following duties with diligence and responsibility:

1. Before the CPAs started their work, the Management of the Company and the CPA firm consulted and drew out the plan for the audit work of the Company in 2007,

which won the recognition from the Financial Audit Committee of the Board of Directors.

2. The Financial Audit Committee of the Board of Directors reviewed the Financial Accounting Statements made by the Company before the CPAs audited, and agreed the CPAs began to audit the Financial Accounting Statements, also issued Audit Opinion of the Financial Audit Committee on Financial Accounting Statements Issued by the Company before CPAs Audit.

Board of Directors of KONKA GROUP:

We had reviewed the Financial Statements for 2007 (issued by the Company before CPAs audited) submitted by the Financial Center of KONKA GROUP CO., LTD (hereafter refer to as the Company) on Feb. 1, 2008, including Balance Sheet of Dec. 31, 2007, Income and Profit Appropriation Statements of 2007 and Cash Flow Statement of 2007. As the members of Financial Audit Committee of the Company, we expressed the opinions as follows:

I. We agreed the Financial Statements was submitted to the CPAs for auditing.

II. The intermediary institution for annual audit engaged by the Company should carry out the audit work according to the requirement mentioned in Professional Code of China's CPA in the process of auditing, and duly communicated with the committee when discovering significant problems.

Members of the Financial Audit Committee: Yang Haiying, Liu Peng, Feng Yutao

3. The Financial Audit Committee of the Board of the Directors kept on communicating with the CPAs for annual audit on the discovered problems in the process of auditing.

4. After the CPAs issued the preliminary opinion, the Financial Audit Committee reviewed again the Financial Accounting Statements of the Company for 2007, and issued Audit Opinion on Financial Accounting Statements of the Company after CPAs Issued the Preliminary Audit Opinion.

Board of Directors of KONKA GROUP:

We had reviewed the Financial Statements for 2007 (after the CPAs issued the preliminary audit opinion) submitted by the Financial Center of KONKA GROUP CO., LTD (hereafter refer to as the Company) on Mar. 21, 2008, including Balance Sheet of Dec. 31, 2007, Income and Profit Appropriation Statements of 2007 and Cash Flow Statement of 2007. The opinion was expressed as follows:

The committee kept in touch with the CPAs when the Financial Statements of the Company for 2007 were audited. We inquired to the management of the Company on the events concerned by the audit institution and again reviewed the Financial

Statements of the Company as soon as the intermediary institution formed the preliminary opinion. The annual audit institution of the Company made an explanation on the problems and the events to us, which were discovered and needed adjusting. Hereby, the Company conducted the corresponding adjustment.

We didn't have demurrer on the Financial Accounting Statements of the Company for 2007 audited preliminarily by Shenzhen Dahua TianCheng Certified Public Accountants.

Members of the Financial Audit Committee: Yang Haiying, Feng Yutao

5. The Financial Audit Committee of the Board of Directors summed up the audit work of the Company in 2007 done by Shenzhen Dahua Tiancheng Certified Public Accountants, and issued Summary Report on Audit Work in 2007 of Shenzhen Dahua Tiancheng Certified Public Accountants after Shenzhen Dahua Tiancheng Certified Public Accountants issued Auditors' Report for 2007.

Board of Directors of KONKA GROUP:

According to Circular on Properly Handling the 2007 Annual Reports of Listed Companies and the Related Work and Notice on Promulgating the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Contents and Formats of Annual Reports (Revised in 2007) issued by China Securities Regulatory Commission, the audit work in 2007 of the KONKA GROUP CO., LTD (hereafter refer to as the Company) done by Shenzhen Dahua Tiancheng Certified Public Accountants (hereafter refer to as CPA firm) was concluded as follows:

I. Confirmation on the general audit plan

The CPA firm and the management of the Company drew out the plan for audit work of the Company in 2007 through consulting, which was submitted to the members of the Financial Audit Committee and Independent Directors via e-mail by the Corporate Secretary, before the CPA firm formally audited. In our opinion, the plan was made detailedly and the principals were responsible, which ensured the audit work in 2007 could be completed successfully.

II. Communication during the auditing process

During the auditing process, the principals in charge of projects from CPA firm kept on communication with the members of the Financial Audit Committee.

III. Reply to the supervision letter and inquiry

During the auditing process, in order to assure the audit work could be finished based on schedule, the Committee had successively sent two supervision letters to the CPA firm and inquired the audit work progress, the problems and other events occurred in the audit process to the audit project team for several times. The CPAs gave the

positive response to the supervision letters and the inquiry.

IV. Finished audit work on schedule

The CPA firm had finished the audit work according to the schedule in Plan for Audit Work of KONKA GROUP in 2007, and issued the standard unqualified Auditors' Report on Apr. 3, 2008. The audit work had been completed on time.

In our opinion, the CPA executed the audit work strictly following Independent Auditing Criterion for Chinese Registered Accountant with sufficient auditing time and reasonable personnel's equipment, and issued Auditors' Report based on the auditing result.

Members of the Financial Audit Committee: Yang Haiying, Feng Yutao

6. The Financial Audit Committee of the Board of Directors submitted the proposal on the Annual Financial Statements of the Company to the Board of Directors.

Board of Directors of KONKA GROUP:

According to the careful revision by the members of Financial Audit Committee, we have no objection to the standard unqualified Auditors' Report of KONKA GROUP CO., LTD (hereafter refer to as the Company) in 2007.

Members of the Financial Audit Committee: Yang Haiying, Feng Yutao

7. The Financial Audit Committee of the Board of Directors submitted the resolution on engagement of CPA firm for 2008 to the Board of Directors.

Board of Directors of KONKA GROUP:

Given the consideration on further strengthening the communication between the Committee and the CPAs, improving the audit efficiency, the Committee needed to review the audit institution for Accounting Statements of KONKA GROUP CO., LTD (hereafter refer to as the Company) in 2008. Hereby, the Committee suggested that the Board of Directors of the Company temporarily should not make resolution on the audit institution for Accounting Statements of the Company in 2008. The Committee would make a suggestion on the audit institution for Accounting Report of the Company in 2008 as soon as the Committee finished reviewing the CPA firm.

Members of the Financial Audit Committee: Yang Haiying, Feng Yutao

8. According to the authorization of the Board of Directors, the Financial Audit Committee accepted the work report from Internal Auditing Department of the Company and carried out management to Internal Auditing Department of the Company and its work.

XIII. Summary report on the performance of the Compensation Committee subject to the Board of Directors

The Compensation and Appraisal Committee of the Board of Directors was composed of three directors, two independent directors and one non-independent director, Mr. Peng Yutao, the Independent Director, held the post of Chairman.

Within the report period, the Compensation and Appraisal Committee examined the compensation of the Directors, the Supervisors and the Senior Management Staff, and expressed the opinion as follows:

Board of Directors of KONKA GROUP:

According to the related laws issued by CSRC and Shenzhen Stock Exchange and the related regulation issued by KONKA GROUP CO., LTD (hereafter refer to the Company), the Compensation and Appraisal Committee of the Board of Directors of the Company examined the compensation of the Directors, the Supervisors and the Senior Management Staff of the Company in 2007 disclosed by the Company, and represented the following opinions:

I. The compensation of the Directors, the Supervisors and the Senior Management Staff of the Company disclosed in the Annual Report 2007 was in line with the actual situation.

II. The Company had not established the share incentive mechanism yet, the Company would constantly perfect the internal incentive and constraint mechanism, gradually set up the short-term and long-term incentive mechanism to boost the management, the Company and the shareholders' interest linking closely.

Members of the Compensation and Appraisal Committee:
Feng Yutao, Huo Jun, Zhang Zhong

XIV. Distribution or capitalization of capital reserve preplan in 2007

(I) Profit distribution or capitalization of the capital reserve preplan in 2007

For the year 2007, the net profit attributed to the parent company after auditing was RMB 209,198,469.00, accumulative retained profit was RMB 271,471,632.93, as well as capital reserve of 1,884,899,450.09. In accordance with the actual status of the Company and long-term development demand, the Board of Directors decided the proposal of dividend declaration and capitalization for the year 2007 after serious deliberation at the 7th meeting of the 6th Board of Directors as follows:

1. In 2007, the Company did not withdraw the statutory reserve fund and free reserve fund.

The proposal of capitalization: based on total share capital of 601,986,352 of the Company as at Dec.31, 2007, the Company transferred capital reserve into share capital at the rate of 10 for 10 to all shareholders. Capital reserve decreased by RMB 601,986,352 because that the Company transferred capital reserve into share capital, and the balance of capital reserve was RMB 1,282,913,098.09, which would be carried forward next year for distribution;

The total shares capital of the Company before capitalization was 601,986,352, while total share capital increased to 1,203,972,704 shares after capitalization.

The proposal would be submitted to Shareholders' General Meeting for examination and approval.

(II) The reason why the preplan of cash profit distribution was not suggested.

Since 2007, with the implementation of China's macro-economic control, the supply of capital became more and more uptight, the interest rate continuously increased, which caused the financial cost of the Company to increase more. The doing of bonus issue from retained profit and the capitalization of capital reserve fund instead of cash profit distribution was propitious to retain enough capital for operation of the Company in the condition of uptight supply of capital. Controlling the increase of the financial cost in the period of high interest rate could ensure more stable and faster development of the Company, making better redound upon the shareholders.

(III) Opinion of the independent directors

Mr. Peng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong, the Independent Directors of the Company, thought that the profit distribution preplan of the Company was compliance with related regulation in Company Law and the Article of Association, not harming the interest of the small and medium-sized shareholders.

XV. Special explanation on the capital transaction with related parties and external guarantees

(I) Explanation on implementation of Notice of CSRC Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties (ZJH [2003] No. 56):

Full text of the special explanation given by the CPAs on the capital occupations by the controlling shareholders and other related parties is as follows:

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

SH [2008] ZS Zi No.212

To Board of Director of Konka Group Co., Ltd.

Acceptance of engagement, we have audited the financial statements of Konka Group Co., Ltd. ("the Company") as at 31 Dec. 2007 in accordance with CPA's Practicing Standards, which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement for the year then ended, and issued an Auditors' Report with unqualified opinion (SH [2008] GS Zi No.029) on 3 Apr. 2008.

As the Certified Public Accountants auditing the financial statement of the Company for 2007, we issued the special explanation ("the Special Explanation") for relevant issues concerning capital occupied by the controlling shareholder and related parties

(“the Summary Sheet”) in accordance with Several Issues Concerning the Regulation of Cash Flows Between Listed Companies and Their Affiliates and Security Provided to Outside Parties by Listed Companies Circular (ZJF [2003] No. 56) from China Securities Regulatory Commission. Appendix I under the Special Explanation is issued in terms of Memorandum of Information Disclosure --- No. 2 for Year 2006 (Revised): Disclosure and Requirement for submission on Non-recurring Capital Occupation and Cash Flows Between Listed Companies and Other Related Parties of Shenzhen Stock Exchange.

The Company is responsible for the preparation of these financial statements which give a true and disclosure to the outside and ensures its authenticity, validity and integrity. We check up information recorded in the Summary Sheet, accounting information reviewed when we audited the financial statement for the year ended 31 Dec. 2007, and the contents related with the financial statement audited. We failed to find difference in all significant aspects. We conduct our auditing procedures concerning related-party transactions which are performed in the financial statement for the year as at 31 Dec. 2007, except for this, we do not perform additional auditing procedures to information recorded in the Summary Sheet.

In 2007, a series of related transaction and non-recurring cash inflows and outflows occurred between the Company and Overseas Chinese Town Group Corporation (“OCT”) --- the principal shareholder of the Company. The aforesaid transactions and non-recurring inflows and outflows formed the related account receivable and account payable as at 31 Dec. 2007. For integrally reflecting transactions, the current between the Company and the above related parties shall be consolidated into the Summary Sheet.

The Special Explanation is issued by us in accordance with requirements from China Securities Regulatory Commission and its Local Offices and Shenzhen Stock Exchange, which is not used for any other purpose. Consequence caused by improper use of the Special Explanations is independent of the certified public accountants conducting the said business and the Certified Public Accountants.

Appendix I: Summary Sheet on Non-recurring Capital Occupation and Cash Flows Between Listed Companies and Other Related Parties for 2007

Shenzhen Dahua Tiancheng Certified Public Accountants
Shenzhen ·China

CPA Hu Chunyuan
CPA Zhang Guihong
Apr. 3, 2008

Konka Group Co., Ltd.
Capital Occupied by Related Parties

Unit: RMB'0000

Name of related party	Relationship between related party and listed company	Accounting title	Balance at the period-begin	Debit amount incurred	Credit amount incurred	Balance at the period-end	Amount of reserve of bad debt withdrawn	Occupation ways and reason	Ways of repayment	Whether it belonged to illegal capital occupation forbad in document No. 56 or not	Note
A	B	C	D	E	F	G	H	I	J	K	L
Shenzhen Technology Co., Ltd.	Konka Energy Subsidiary company of the principal shareholder	Accounts receivable	113.00	-	-	113.00	-	Current payment	113.00	No	-
Shenzhen Estate Co., Ltd.	OCT Real Subsidiary company of the principal shareholder	Other receivables	127.18	42.10	40.39	128.89	-	Dormitory rent and deposit	128.89	No	-
Shenzhen Management Co., Ltd.	OCT Property Subsidiary company of the principal shareholder	Other receivables	7.69	0.05	0.00	7.74	-	Deposit of properties management fee	7.74	No	-
Shenzhen OCT Water and Power Company	Special Zone Subsidiary company of the principal shareholder	Other receivables	224.12	1,117.96	984.58	357.50	-	water and electricity fee payable in advance	357.50	No	-
Shenzhen Co., Ltd.	OCT EAST Subsidiary company of the principal shareholder	Other receivables	-	4,230.00	-	4,230.00	-	Payment for purchasing house	4,230.00	No	-

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

According to the requirements of Notice of CSRC Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties (ZJH [2003] No. 56 Document), as the Independent Directors of KONKA GROUP CO., LTD, we examined and verified the guarantees provided by KONKA GROUP CO., LTD. ("the Company") and carefully read Auditors' Report 2007 and the Special Statement on Fund Occupation by the holding Shareholder and Related Parties of KONKA GROUP CO., LTD issued by Shenzhen Dahua Tiancheng Certified Public Accountants. The independent opinions were expressed as follows:

1. By Dec. 31, 2007, the large shareholders of the Company did not occupy the capital of the Company; it was normal for the business transaction when such the related parties of the large shareholders as Shenzhen Overseas Chinese Town Real Estate Co., Ltd, Shenzhen Overseas Chinese Town Property Management Co., Ltd and Shenzhen Overseas Chinese Town Water and Electricity occupied the capital of the Company due to charging a deposit and other timing difference.

2. In 2007, the Company conducted the operated capital transactions with the large shareholders and the related parties, as the following details:

(1) In 2007, the related transaction of packing material for color TV occurred between the Company and such subsidiaries controlled indirectly by the large shareholders of the Company as Haihai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Mudanjiang Huali Packing Co., Ltd, Anhui Huili Packing Co., Ltd and Shenzhen Huayou Packing Co., Ltd. The event of the related transaction was reported by the Company and examined and approved at the board meeting, of which information was disclosed. According to the promise of contract, the Company termly conducted a settlement with the related parties, not happening non-operated capital transaction.

(2) In 2007, according to the resolution of the Board of Directors, the Company carried out the related transaction of purchasing the low density house with Shenzhen OCT East Co., Ltd, the subsidiary controlled indirectly by the large shareholders of the Company, which was conducted a settlement by the Company and Shenzhen OCT East Co., Ltd based on the promise of contract, without non-operated capital transaction.

3. In the report period, the Company did not conducted any non-operated capital transaction with large shareholders of the Company and the related parties.

4. By Dec. 31, 2007, no external guarantee occurred in the Company with regular operation.

To sum up, no affairs disobeying the regulation of ZJF [2003] No. 56 existed in the Company.

Independent Director: Feng Yutao, Yang Haiying and Zhang Zhong

XVI. Other events

(I) Within the report period, the Company still chose Securities Times as the newspaper for information disclosure without any change.

(II) The Company engaged Shenzhen Dahua Tiancheng Certified Public Accountants in charge of the audit of the Company in 2007.

Section IX. Report of the Supervisory Committee

I. Particulars about the work of the Supervisory Committee

During the report period, the 5th Supervisory Committee of the Company held 4 meetings: the 11th to 14th meeting of the 5th Supervisory Committee, as the 6th Supervisory Committee held 3 meetings:

the 1st to 3rd meeting of the 6th Supervisory Committee. The details of the meeting and the resolutions were described as follows:

(I) The 11th meeting of the 5th Supervisory Committee of the Company was held in the meeting room of InterContinental Shenzhen on the morning of Apr. 17, 2007 (Tuesday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant regulations of the Company Law and the Articles of Association of the Company. Upon full discussion, the meeting examined and unanimously believed that compiling and considering process on Annual Report of Konka Group Co., Ltd 2006 was accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the Annual Report 2006 could reflect the financial status, operation achievement, legal person administration and operation development of the Company in 2007 truly, accurately and integrally.

(II) The 12th meeting of the 5th Supervisory Committee of the Company was held in the meeting room of Shenzhen OCT Group Corporation on the morning of Apr. 24, 2007 (Tuesday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant regulations of the Company Law and the Article of Association of the Company. Upon full discussion, the meeting examined and unanimously believed that compiling and considering process on the 1st Quarterly Report of Konka Group Co., Ltd 2007 was accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the Quarterly Report could reflect the financial status, operation achievement, legal person administration and operation development of the Company in the 1st quarter truly, accurately and integrally.

(III) The 13th meeting of the 5th Supervisory Committee of the Company was held in the meeting room of InterContinental Shenzhen on the morning of Jun. 6, 2007 (Wednesday). Notices on this meeting were sent to all supervisors through either e-mails, or written notices or faxes on May 25, 2007. 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Dong Yaping, which was in compliance with relevant regulations of the Company Law and the Article of Association of the Company. Upon full discussion, the meeting examined and approved Report on the Work of the Supervisory Committee in 2006.

(IV) The 14th meeting of the 5th Supervisory Committee of the Company was held through voting via faxes on Jul. 24, 2007 (Tuesday). 3 supervisors were expected to attend the meeting and all of them were actually present. The meeting was in compliance with relevant regulations of the Company Law and the Article of Association of the Company, in which the Proposal on Election at Expiration of Office Term for the Supervisory Committee was examined and approved with 3 votes in favor, 0 vote against and 0 abstention. Given the expiry of the term of office as the 5th Supervisory Committee, the meeting decided the election of expiration of office for the Supervisory Committee, and agreed the supervisor candidates nominated by the shareholders of the Company to be submitted to the 1st Extraordinary Shareholders' General Meeting of the Company in 2007.

(V) The 1st meeting of the 6th Supervisory Committee of the Company was held in the meeting room of Shenzhen OCT Group Corporation on the morning of Aug. 24, 2007 (Tuesday). 3 supervisors were expected to attend the meeting and all of them were actually present. The meeting

was in compliance with relevant regulations of the Company Law and the Article of Association of the Company, in which Mr. Zhang Jianhuai was elected to be the Chairman of the Supervisory Committee upon full discussion.

(VI) The 2nd meeting of the 6th Supervisory Committee of the Company was held through voting via faxes on Aug. 23, 2007 (Thursday). 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was in compliance with relevant regulations of the Company Law and the Articles of Association of the Company. Upon full discussion, the meeting examined and unanimously believed that compiling and considering process on the Text of Semi-annual Report of Konka Group Co., Ltd 2007 was accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the Semi-annual Report 2007 could reflect the financial status, operation achievement, legal person administration and operation development of the Company in 2007 truly, accurately and integrally.

(VII) The 3rd meeting of the 6th Supervisory Committee of the Company was held in the meeting room of Sheraton Dameisha Resort Hotel Shenzhen on the morning of Oct. 29, 2007 (Monday). Notices on this meeting were sent to all supervisors through either e-mails, or written notices or faxes on Oct. 18, 2007. 3 supervisors were expected to attend the meeting and all of them were actually present, the meeting was presided over by Chairman of the Supervisory Committee Mr. Zhang Jianhuai, which was in compliance with relevant regulations of the Company Law and the Article of Association of the Company. Upon full discussion, the meeting examined and approved Rectification Report on Corporation Governance of the Company and the 3rd Quarterly Report of Konka Group Co., Ltd 2007. The three supervisors all contented that:

1. The procedure for examining and approving Rectification Report on Corporation Governance was in line with the laws and rules, the Article of Association and the regulations in the internal management system, meanwhile, the content of the report was compliance with the regulations issued by CSRC and Shenzhen Stock Exchange, which could inflect the actual situation about corporation governance of the Company truly, accurately and integrally.

2. The compiling and considering process on the 3rd Quarterly Report of Konka Group Co., Ltd 2007 was accordance with law & regulations, the Article of Association and regulations of internal management system, as well as the content and form in accordance with related regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. And the Quarterly Report could reflect the financial status, operation achievement, legal person administration and operation development of the Company in the 3rd quarter truly, accurately and integrally.

The resolutions of the above 7 meetings of the Supervisory Committee were published in the newspapers designated by CSRC, i.e., China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao, designated website www.cninfo.com.cn respectively on Apr. 19, 2007, Apr. 26, 2007, , Jun. 8, 2007, Jul. 26, 2007, Aug. 16, 2007, Aug. 24, 2007, Oct. 31, 2007.

II. Independent opinion of the Supervisory Committee

According to Company Law, the Article of Association and the Rules and Procedures of the Supervisory Committee, the Supervisory Committee seriously fulfilled the duties authorized by the Shareholders' General Meeting, and conducted effective supervision on the duty performance of the directors and the senior management staff of the Company.

(I) The operation of the Company according to law

In 2007, the operation of the Company complied with relevant laws and regulations including the Company Law, the Securities Law and Listing Rules and provisions of the Articles of Association of the Company. The decision-making procedure of the Company was legal, including the establishment of the sound internal control system. The Company's directors and senior management staff implemented resolutions of shareholders' general meetings and board meetings. The Company's directors and senior management staff did not harm the interests of the Company when they performed their duties.

(II) Inspection of the financial status of the Company

The supervisory committee seriously and carefully inspected the Company's financial system and financial position and held the opinion that the Company's financial management was canonical, and the funds usage was reasonable. No inveroacious situation existed in the Financial Report of the Company in 2007 with the favorable financial status.

(III) Utilization of raised proceeds of the Company

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

(IV) Acquisition and disposal of assets by the Company

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

(V) Related Transactions

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

2. In the report period, the Company carried out the related transaction of purchasing the low density house with Shenzhen OCT East Co., Ltd (of which 67.64% of equity indirectly held by the largest shareholder of the Company namely Oct Group Co., Ltd). The making procedure of contract of the related transaction was in compliance with Stock Listing Rules of Shenzhen Stock Exchange and procedure regulated in the domestic laws and rules, which was fair and reasonable for the Company and all shareholders.

3. In the report period, in order to meet the actual demand of production operation of the Company, the related transaction of packing material for color TV occurred between the Company and such subsidiaries controlled indirectly by the largest shareholders of the Company, OCT Group Co., Ltd. as Haihai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Mudanjiang Huali Packing Co., Ltd, Anhui Huili Packing Co., Ltd and Shenzhen Huayou Packing Co., Ltd. The routine related transactions between the Company and the related parties followed the fair price and conditions, which did not harm the interest of the Company and the whole shareholders.

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

Section X. Significant Events

I. Significant lawsuits and arbitration

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

II. Significant acquisitions and mergers

The Company was not involved in any significant acquisition or merger in the report period.

III. Securities investment

(I) Summary of the securities investment

1. By the end of 2007, the amount of capital occupation for application for new share by the Company was RMB 29,895,100;

2. The equity of other listed company purchased by the Company came from application for new share. The Company did not purchase any equity of other listed companies except application for new share.

(II) The equity of other listed company held by the Company

Stock code	Short form of stock	Amount of initial investment (RMB)	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	Financial accounting subject	Source of shares
601168	Western mining	1,145,800.00	0.00%	1,145,800.00	0.00	2,399,550.00	Financial assets available for sale	Subscription of new stock
000002	Vanke	2,311,748.07	0.00%	2,311,748.07	0.00	-197,228.11	Financial assets available for sale	Subscription of new stock
600030	CITIC Securities	1,152,340.53	0.00%	1,152,340.53	0.00	220,899.88	Financial assets available for sale	Subscription of new stock
601169	Bank of Beijing	1,025,000.00	0.00%	1,025,000.00	0.00	644,520.00	Financial assets available for sale	Subscription of new stock
601939	Construction Bank	8,114,100.00	0.00%	8,114,100.00	0.00	4,277,200.00	Financial assets available for sale	Subscription of new stock
601808	China oilfield service	714,440.00	0.00%	714,440.00	0.00	1,105,580.00	Financial assets available for sale	Subscription of new stock
601088	China Shenhua	7,102,080.00	0.00%	7,102,080.00	0.00	5,495,040.00	Financial assets available for sale	Subscription of new stock
601857	China Petroleum	8,149,600.00	0.00%	8,149,600.00	0.00	6,958,880.00	Financial assets available for sale	Subscription of new stock
601601	CPIC	180,000.00	0.00%	180,000.00	0.00	116,700.00	Financial assets available for sale	Subscription of new stock

600891	ST CHURIN	9,000,000.00	3.84%	9,000,000.00	0.00	0.00	Financial assets available for sale	Subscribing legal shares
600898	Sanlian Commerce	344,760.00	0.10%	344,760.00	0.00	0.00	Financial assets available for sale	Arbitration of court
Total		39,239,868.60	-	39,239,868.60	0.00	21,021,141.77		

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.

(III) Buying and selling the equity of other listed companies.

	Name of stock	Number of shares at the period-begin	Number of shares bought or sold in the report period	Number of shares at the period-end	Amount of capital used	Investment income
Buy-in	China COSCO	0	38000	0	322,240.00	-
Buy-in	Bank of Ningbo	0	57500	0	529,000.00	-
Buy-in	Gaojin Food	0	46500	0	471,975.00	-
Buy-in	Rongsheng Development	0	26000	0	336,180.00	-
Buy-in	GRG	0	19500	0	329,160.00	-
Buy-in	Hanbell Precise Machinery	0	22500	0	204,300.00	-
Buy-in	Sanxin	0	14000	0	114,100.00	-
Buy-in	Orient Zirconic Ind	0	2500	0	22,275.00	-
Buy-in	Shenzhen Hifuture	0	7500	0	143,475.00	-
Buy-in	Yunhai Metal	0	8500	0	91,715.00	-
Buy-in	CITIC Securities	0	45383	15383	3,399,640.53	-
Buy-in	Eternal Asia	0	7500	0	186,675.00	-
Buy-in	QUANJUDE	0	2000	0	22,780.00	-
Buy-in	Hi-tech Control	0	9000	0	116,100.00	-
Buy-in	Guangdong China Sunshine Media	0	6000	0	44,940.00	-
Buy-in	Grandbuy	0	2500	0	29,200.00	-
Buy-in	New Jialian	0	6500	0	65,455.00	-
Buy-in	Lida Optical & Electronic	0	4000	0	20,400.00	-
Buy-in	Chengfei Group	0	2500	0	24,750.00	-

Buy-in	China Railway	0	312000	0	1,497,600.00	-
Buy-in	Hefei Urban Construction	0	2500	0	39,000.00	-
Buy-in	Nanyang	0	3000	0	45,360.00	-
Buy-in	Western Mining	0	85000	85000	1,145,800.00	-
Buy-in	Vanke	0	73319	73319	2,311,748.07	-
Buy-in	Bank of Beijing	0	82000	82000	1,025,000.00	-
Buy-in	Construction Bank	0	1258000	1258000	8,114,100.00	-
Buy-in	China Oilfield Service	0	53000	53000	714,440.00	-
Buy-in	China Shenhua	0	192000	192000	7,102,080.00	-
Buy-in	China Petroleum	0	488000	488000	8,149,600.00	-
Buy-in	CPIC	0	6000	6000	180,000.00	-
Sell-out	China COSCO	0	38000	0	-	1,985,986.40
Sell-out	Bank of Ningbo	0	57500	0	-	758,320.44
Sell-out	Gaojin Food	0	46500	0	-	853863.17
Sell-out	Rongsheng Development	0	26000	0	-	526,843.02
Sell-out	GRG	0	19500	0	-	1,175,742.74
Sell-out	Hanbell Precise Machinery	0	22500	0	-	312805.82
Sell-out	Sanxin	0	14000	0	-	169759.76
Sell-out	Orient Zirconic Ind	0	2500	0	-	111,939.41
Sell-out	Shenzhen Hifuture	0	7500	0	-	194,477.61
Sell-out	Yunhai Metal	0	8500	0	-	97,895.28
Sell-out	CITIC Securities	0	30000	0	-	1017130.43
Sell-out	Eternal Asia	0	7500	0	-	230,214.27
Sell-out	QUANJUDE	0	2000	0	-	55,440.09
Sell-out	Hi-tech Control	0	9000	0	-	100,486.50
Sell-out	Guangdong China Suushine Media	0	6000	0	-	87,700.56
Sell-out	Grandbuy	0	2500	0	-	68,438.19
Sell-out	New Jialian	0	6500	0	-	96,952.31
Sell-out	Lida Optical & Electronic	0	4000	0	-	25,088.14

Sell-out	Chengfei Group	0	2500	0	-	24,791.05
Sell-out	China Railway	0	312000	0	-	880,058.40
Sell-out	Hefei Urban Construction	0	2500	0	-	28,157.62
Sell-out	Nanyang	0	3000	0	-	38,136.00

IV. Significant related transaction

(I) In 2007, the Company had some related transactions with the subsidiaries of the holding shareholder (Overseas Chinese Town Group Company), including the paying of property management fee, water and electricity expenses, land use fee and purchase of goods, etc, all of which were fair transactions and conducted according to normal market prices. These transactions have not done harm to the interest of the Company or other shareholders of the Company. For details, please refer to “(5) Transactions with related companies” and “(6) Current with related companies” in the “Note 6 to the accounting statements” in the financial report.

(II) Implementation of the routine related transactions

Type of related transaction	Further classification according to product or labor service	Related person	Total		Proportion taking up the same kind of transactions
Purchase of raw materials	Paper pallet for color TV	Shanghai Huali Packing Co., Ltd	5,041,002.27	58,237,427.71	6.31%
		Shenzhen Huali Packing & Trading Co., Ltd	7,444,508.98		9.32%
		Mudanjiang Huali Packing Co., Ltd	1,943,369.35		2.43%
		Anhui Huali Packing Co., Ltd	35,906,161.39		44.94%
		Shenzhen Huayou Packing Co., Ltd	7,902,385.72		9.89%

1. The Company has published the Forecasting Public Notice on Routine Related Transaction (public notice No. 2007-05) in Securities Times, Shanghai Securities News, China Securities Journal and Hong Kong Ta Kung Pao and Internet website designated by CSRC <http://www.cninfo.com.cn> on Apr. 19, 2007. In the report period, the pricing base, transaction price, transaction amount and settlement methods of raw material purchased by the Company from Shanghai Huali Packing Co., Ltd. Shenzhen Huali Packing & Trading Co., Ltd, Mudanjiang Huali Packing Co., Ltd, Anhui Huali Packing Co., Ltd and Shenzhen Huayou Packing Co., Ltd was basically in compliance with the forecasting.

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

3. Affiliated transactions of the Company with the above associated parties belonged to daily operation activities of the Company, carrying out based on the bidding principle, which is a necessity. The Company would continuously cooperate with them in fairness and justice, provided the stable development of the Company's operation. The above affiliated transactions have been benefiting the long-term cooperation between the Company and associated parties, which would

help the operation and production development of the Company.

(III) Related transaction of assets transferring

In the report period, the 5th meeting of the 6th Board of Directors examined and approved that: the Company purchased the low-density house of No. 15, Tianlu District 1, Shenzhen OCT East from Shenzhen OCT East Co., Ltd (of which 67.64% of equity held indirectly by OCT Group Co., Ltd, the largest shareholder of the Company). The construction area of the house was 487.4 sq.m., with the total price of RMB 42.3 million and unit price for the construction area of RMB 86,800 per square. The related transaction price equaled to the market price at which Shenzhen OCT East Co., Ltd sold the low-density houses of No.15, Tianlu District 1, Shenzhen OCT East.

The related transaction not only could meet self-demand for the necessary high-class reception and the senior conference convening of the Company, but also bore certain investment value and prepare for the high-quality property of the Company.

(IV) Guarantees between the Company and the related parties

In the report period, no guarantee occurred between the Company and the related parties.

(V) External investment between the Company and the related parties

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

V Significant contracts and their performance

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

(II) Significant guarantee

In the report period, no significant guarantee occurred in the Company.

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

(IV) In the report period, no other significant contract occurred in the Company.

VI. Commitment

(I) When the Company conducted the share merger reform in 2006, former non-tradable shareholders of the Company, OCT Group Corporation, Anhui Tianda (Group) Co., Ltd. and Thomson Investment Group Limited, promised as follows:

Name of shareholders	Particular promise events	Fulfillment of promise	Note
OCT Group Corporation	Promise to pay 35% of consideration arrangement for share merger reform by Anhui Tianda (Group) Co., Ltd and THOMSON INVESTMENTS GROUP LIMITED.	Advance payment treated	
Anhui Tianda (Group) Co., Ltd. Thomson Investment Group Limited	Promise to return shares paid by Overseas Chinese Town Group Company before A shares of the Company listed and trade in the market.	Not apply for list and trade	
OCT Group Corporation	(1) Promise non-tradable shares of Konka Group will not get listed or traded within 24 months since the day get the listing and trading	There is no shares subject	

Anhui Tianda (Group) Co., Ltd.	option in the A share market. (2) After the promise period, every non-tradable shareholder sell no more than 5% of total shares of Konka Group within 12 months and no more than 24% within 24 months in Shenzhen Stock Exchange	to moratorium listed or transferred	
Thomson Investment Group Limited			

Note: With the confirm on Jan. 24, 2008 from Shenzhen Branch, China Securities Depository and Clearing Company Limited (CSDCC), the transfer procedure was transacted, which concerned Anhui Tianda (Group) Co., Ltd returned the 43,546,563 shares of the Company registered its name to OCT Group Co., Ltd. Anhui Tianda (Group) Co., Ltd did not hold the shares of the Company after the transfer.

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

VII. CPA firm and its remuneration

As examined and adopted at the Annual Shareholders' General Meeting 2006, the Company engaged Shenzhen Dahua Tiancheng Certified Public Accountants to be responsible for 2007 audit of the Company. So far, this firm has provided audit services to the Company for 6 consecutive years.

In 2007, the Company paid financial audit fee of RMB 0.73 million for A shares to Shenzhen Dahua Tiancheng Certified Public Accountants.

VIII. In the report period, related particulars on reception of visit & inspection of the Company

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

Reception time	Reception place	Perception way	Reception Object	Discussion content and materials provided by the Company
Jan., 2007	Meeting room of the Company	Field study	Guotai Junan Securities Co., Ltd.	Status quo of production and operation, products structure and R&D of new products.
Jan., 2007	Meeting room of the Company	Field study	SINOLINK Securities Co., Ltd.	Business profile of the Company and industry status
Feb., 2007	Meeting room of the Company	Field study	Hillhouse Capital Management Co., Ltd.	Core competition, developing strategy, Foresight of new products and schedule of relevant work
Apr., 2007	Meeting room of the Company	Field study	Guotai Junan Securities Co., Ltd.	Developing trend of industry and industry status of the Company
Apr., 2007	Meeting room of the Company	Field study	China Galaxy	Policies and regulations of this industry, particulars about subsidiaries and developing

	Company	study	Securities Co., Ltd.	strategy of the Company
May, 2007	Meeting room of the Company	Field study	Harvest Fund Management Co., Ltd.	Developing strategy in future company; Status quo, developing trend and developing frame of color TV and mobile phone industry; Particulars about internal management, including management on purchase, accounts receivable and inventories; Particulars about company administration
Jun., 2007	Meeting room of the Company	Field study	CITIC Securities Co., Ltd.	Core competition, developing strategy, foresight of new products and schedule on relevant work
Jul., 2007	Meeting room of the Company	Field study	Yashi Capital Inc	Development strategy of the Company ; development of color television industry and mobile phone industry as well as the development ideas of the Company
Aug., 2007	Meeting room of the Company	Field study	BOYERALLAN INVESTMENT MANAGEMENT (KONG KONG) LIMITED	Core competition, developing strategy, market foresight of color TV and mobile phone industry
Sep., 2007	Meeting room of the Company	Field study	China Merchants Securities Co., Ltd.	Status quo of color television industry and mobile phone industry as well as development trend and prospect of the Company ; related situation about the internal management of the Company
Oct., 2007	Meeting room of the Company	Field study	CLSA LIMITED	Related particulars about the internal management of the Company and the corporation governance
Oct., 2007	Meeting room of the Company	Field study	ARAISAIG PARTNERS (HK) LIMITED	Development strategy of the Company Status quo of color television industry and mobile phone industry as well as development trend and prospect of the Company
Dec., 2007	Meeting room of the Company	Field study	Industrial Securities Co., Ltd.	Business profile of the Company , development prospect of the Company

IX. Buying and selling of the shares of the Company by the Directors, the Supervisors and the Senior Management Staff as well as the shareholders held 5% shares of the Company

In the report period, the Directors, the Supervisors and the Senior Management Staff as well as the shareholders held 5% shares of the Company did no buy and sell the shares of the Company against the laws and rules.

X. Other significant events

(I) In the report period, the Company, the Directors, the Supervisors, the Senior Management Staff and the actual controllers of the Company failed to punish by the securities regulatory department.

(II) Forecast Notice of Daily Affiliated Transaction: details were published in the newspapers

designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Apr. 19, 2007 (public notice No: 2007-05).

(III) Simple Report on Equity Changes (Hillhouse Capital Management, Ltd.): details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Jun. 8, 2007.

(IV) Bulletin on the Resolutions of the 1st Extraordinary Shareholders' Meeting: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Aug. 11, 2007 (public notice No: 2007-28).

(V) Reminder Bulletin of the Changes in Held Shares: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Nov. 24, 2007 (public notice No: 2007-39).

(VI) Simple Report on Equity Changes (OCT Group Co., Ltd., Anhui Tianda (group) Co., Ltd): details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Nov. 27, 2007.

(VII) Bulletin of the Resolution and Related Transaction at the 5th Meeting of the 6th Board Meeting: details were published in the newspapers designated by CSRC, i.e., China Securities Journal, Shanghai Securities News, Securities Times, and Hong Kong Ta Kung Pao, and notice was published on designated website www.cninfo.com.cn on Dec. 28, 2007 (public notice No: 2007-41).

Section XI. Financial Report

I. Auditors' report

Auditors' Report

SH (2008) GS Zi No.029

All Shareholders of Konka Group Co., Ltd.:

We have audited the accompanying financial statements of the Company, which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the

circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2007, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

Shenzhen Dahua Tiancheng Certified Public Accountants

CPA Hu Chunyuan

China Shenzhen

CPA Zhang Guihong

Apr. 3, 2008

II. Financial report (accompanying)

Section XII DOCUMENTS FOR REFERENCE

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

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

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

. Other relevant materials.

**Board of Directors of
Konka Group Co., Ltd.**
Apr. 3, 2008

Financial statement
Balance sheet

Prepared by Konka Group Co., Ltd.

Dec. 31, 2007

Unit: RMB Yuan

Items	Amount at the period-end		Amount at the period-begin	
	Consolidation	Parent company	Consolidation	Parent company
Current Assets:				
Monetary funds	752,558,414.47	556,082,988.52	678,239,825.82	386,670,772.90
Settlement fund reserve				
Dismantle fund				
Transaction financial asset				
Notes receivable	2,652,439,759.85	2,531,404,015.11	3,144,956,263.40	2,906,067,694.28
Account receivable	1,040,182,919.53	1,784,148,943.42	951,277,319.91	1,466,976,756.74
Account paid in advance	151,396,359.00	47,409,754.29	103,273,594.39	37,332,074.99
Premium receivables				
Receivables from reinsurers				
Reinsurance contract reserve receivables				
Interest receivable				
Other account receivable	132,318,283.67	117,507,972.15	90,370,992.99	77,592,521.94
Financial assets purchased under agreements to resell				
Inventories	2,934,629,182.87	2,199,304,824.83	3,551,896,723.12	2,844,231,749.47
Non-current assets due within 1 year				
Other current assets				
Hedged Items	1,222,806.47	1,268,883.47		
Hedging instrument	8,293,387.77	6,945,398.81		
dividends receivable				21,608,242.13
Total current assets	7,673,041,113.63	7,244,072,780.60	8,520,014,719.63	7,740,479,812.45
Non-current assets:				
Loans and advance				
Available for sale financial assets	60,721,570.37	60,721,570.37	9,805,320.00	9,805,320.00
Held to maturity investments				
Long-term account receivable				
Long-term equity investment	51,645,230.53	898,703,115.79	61,576,761.22	790,813,458.38
Investing property				
Fixed asset	1,291,655,083.85	357,402,241.11	1,268,113,979.58	400,330,343.58
Project in construction	61,936,696.44	56,331,802.81	34,850,798.66	21,877,133.75
Engineering material				
Fixed asset disposal				
Bearer biological asset				
Oil assets				
Intangible assets	47,773,502.60	3,843,152.97	43,399,375.30	4,010,370.80
Development expense				

Goodwill	3,943,671.53		3,943,671.53	
Long-term expense to be apportioned	23,849,638.87	4,577,085.48	10,480,588.23	1,381,631.50
Deferred tax assets	63,408,491.10	60,533,425.93	67,341,777.16	64,461,009.58
Other non-current assets				
Total of non-current assets	1,604,933,885.29	1,442,112,394.46	1,499,512,271.68	1,292,679,267.59
Total assets	9,277,974,998.92	8,686,185,175.06	10,019,526,991.31	9,033,159,080.04
Current liabilities:				
Short-term borrowings	22,000,000.00		15,000,000.00	
Borrowing from Central Bank				
Deposits and due to banks and other financial institutions				
Placements from banks and other financial institutions				
Transaction financial liabilities				
Notes payable	3,415,401,298.67	3,205,824,129.42	4,114,673,841.57	3,884,897,178.39
Account payable	995,897,141.52	1,058,762,163.66	1,218,133,661.28	958,748,965.48
Account received in advance	223,289,431.96	152,867,288.98	359,899,249.97	255,384,319.23
Financial assets sold under agreements to repurchase				
Handling charges and commission payable				
Employee's compensation payable	162,790,579.83	78,569,552.49	171,686,577.52	88,394,281.08
Tax payable	9,047,560.13	35,495,215.00	-67,198,908.68	-58,228,462.94
Dividends payable	3,402,196.99		61,047.75	
Interest payable				
Other account payable	626,548,059.95	421,386,925.01	567,066,921.72	380,209,172.64
Due to reinsurers				
Insurance contract reserve				
Customer deposits				
Amount payables under security underwriting				
Non-current liabilities due within 1 year				
Other current liabilities				
Total current liabilities	5,458,376,269.05	4,952,905,274.56	6,379,322,391.13	5,509,405,453.88
Non-current liabilities:				
Long-term borrowings				
Debentures payable				
Long-term payables				
Deferred income	29,826,225.37	26,238,018.39	27,494,986.80	23,841,199.19
Specific purpose account payables				
Provisions for contingent liabilities				
Deferred tax liabilities	3,783,805.52	3,783,805.52		
Other non-current liabilities				
Total non-current liabilities	33,610,030.89	30,021,823.91	27,494,986.80	23,841,199.19
Total liabilities	5,491,986,299.94	4,982,927,098.47	6,406,817,377.93	5,533,246,653.07
Owner's equity				

Share capital	601,986,352.00	601,986,352.00	601,986,352.00	601,986,352.00
Capital surplus	1,884,899,450.09	1,876,302,677.10	1,859,368,726.07	1,852,119,942.04
Less: Treasury Stock				
Reserved fund	781,670,420.36	781,670,420.36	781,670,420.36	781,670,420.36
General risk provision				
Retained earnings	271,471,632.93	443,298,627.13	122,927,713.69	264,135,712.57
Foreign exchange difference	7,799,216.25		3,104,363.30	
Total owners' equity attributable to holding company	3,547,827,071.63	3,703,258,076.59	3,369,057,575.42	3,499,912,426.97
Minority interest	238,161,627.35		243,652,037.96	
Total owner's equity	3,785,988,698.98	3,703,258,076.59	3,612,709,613.38	3,499,912,426.97
Total liabilities and owner's equity	9,277,974,998.92	8,686,185,175.06	10,019,526,991.31	9,033,159,080.04

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

Income Statement

Prepared by Konka Group Co., Ltd.

Jan. - Dec., 2007

Unit: RMB Yuan

Item	Amount of this period		Amount of last period	
	Consolidation	Parent company	Consolidation	Parent company
I. Total sales	12,169,078,369.50	10,136,442,833.46	12,730,978,380.57	10,488,815,775.71
Including: Sales	12,169,078,369.50	10,136,442,833.46	12,730,978,380.57	10,488,815,775.71
Interests income				
Premium income				
Handling charges and commission income				
II. Total cost of sales	11,930,767,564.35	9,896,943,310.03	12,613,068,459.37	10,427,321,585.35
Including: Cost of sales	9,804,186,357.31	8,349,432,840.50	10,564,285,470.68	8,977,257,006.57
Interests expenses				
Handling charges and commission expenses				
Claim expenses-net				
Provision for insurance liability reserve				
Expenses for reinsurance accepted				
Payments on surrenders				
Policyholder dividends				
Taxes and associate charges	3,166,505.49	1,552,583.44	2,165,086.26	904,916.31
Selling and distribution expenses	1,592,452,280.71	1,247,295,867.22	1,528,856,382.78	1,147,430,662.72
Administrative expenses	418,146,607.17	219,553,979.30	452,733,170.75	227,376,496.07
Financial expense	40,852,160.70	24,739,603.97	13,844,698.84	2,487,001.79
Impairment loss	71,963,652.97	54,368,435.60	51,183,650.06	71,865,501.89
Add: gain/(loss) from change in fair value ("-" means loss)				
Gain/(loss) from investment ("-" means loss)	8,642,402.90	14,823,529.04	1,338,486.75	35,174,947.86
Including: income from investment on affiliated enterprise and jointly				

enterprise				
Foreign exchange difference (“-” means loss)				
III. Business profit (“-” means loss)	246,953,208.05	254,323,052.47	119,248,407.95	96,669,138.22
Add: non-business income	12,004,715.77	6,263,555.79	3,551,890.92	2,513,496.92
Less: non-business expense	11,059,138.99	5,893,810.41	6,703,058.28	5,273,548.26
Including: loss from non-current asset disposal				
IV. Total profit (“-” means loss)	247,898,784.83	254,692,797.85	116,097,240.59	93,909,086.88
Less: Tax expense	33,867,884.76	15,331,248.09	11,829,155.84	-5,928,207.340
V. Net profit (“-” means loss)	214,030,900.07	239,361,549.76	104,268,084.75	99,837,294.22
Attributable to parent company	209,198,469.00	239,361,549.76	96,774,909.50	99,837,294.22
Minority interest	4,832,431.07		7,493,175.25	
VI. Earnings per share				
(I) basic earnings per share	0.348	0.398	0.161	0.166
(II) diluted earnings per share	0.348	0.398	0.161	0.166

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

Cash Flow Statement

Prepared by Konka Group Co., Ltd.

Jan.- Dec., 2007

Unit: RMB Yuan

Items	Amount of this period		Amount of last period	
	Consolidation	Parent company	Consolidation	Parent company
I. Cash flows for operating activities:				
Cash received from sales of goods or rendering of services	13,386,374,956.57	11,512,110,206.85	15,805,962,448.98	11,910,932,086.42
Cash received on deposits and from banks and other financial institutions				
Net increased cash received on borrowings from central bank				
Cash received on placements from other financial institutions				
Premium received				
Cash received from reinsurance				
Net increased amount received on policyholder deposit and investment				
Cash received from disposal of held for trading financial assets				
Interests, handling charges and commission received				
Cash received on				

placements from bank, net				
Cash received under repurchasing, net				
Refund of tax and fare received	78,634,125.53	27,721,677.97	37,002,113.23	1,293.83
Other cash received relating to operating activities	406,290,264.67	343,963,505.21	84,070,063.48	22,952,105.69
Sub-total of cash inflows	13,871,299,346.77	11,883,795,390.03	15,927,034,625.69	11,933,885,485.94
Cash paid for goods and services	10,775,320,718.69	9,702,479,354.42	13,293,680,215.21	10,357,094,826.84
Loans and advances drawn				
Cash paid to central bank, banks and other financial institutions, net				
Claims paid				
Interests, handling charges and commission paid				
Dividends paid to policyholders				
Cash paid to and on behalf of employees	756,984,289.09	401,269,729.66	702,863,171.88	366,849,711.39
Tax and fare paid	875,665,140.84	646,240,176.22	825,246,740.29	599,463,239.08
Other cash paid relating to operating activities	1,162,113,699.30	811,530,696.60	924,662,665.79	605,123,269.80
Sub-total of cash outflows	13,570,083,847.92	11,561,519,956.90	15,746,452,793.17	11,928,531,047.11
Net cash flow from operating activities	301,215,498.85	322,275,433.13	180,581,832.52	5,354,438.83
2. Cash Flows from Investment Activities:				
Cash received from return of investments	30,977,811.00	40,732,161.47	31,313,417.92	31,313,417.92
Cash received from investment income	8,773,933.59	23,722,175.72		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4,327,896.35	514,979.70	14,307,561.13	14,044,573.00
Proceeds from sale of subsidiaries and other operating units				
Other cash received relating to investment activities	2,056,103,685.21	2,056,103,685.21	1,943.27	1,943.27
Sub-total of cash inflows	2,100,183,326.15	2,121,073,002.10	45,622,922.32	45,359,934.19
Cash paid for acquiring fixed assets, intangible assets and other long-term assets	167,387,122.20	22,231,204.08	133,921,073.38	36,297,960.05
Cash paid for acquiring investments	37,714,728.60	136,726,211.10	14,669,281.61	22,501,031.61
Net cash used in loans				
Net cash used in acquiring subsidiaries and other operating units				

Other cash paid relating to investment activities	2,056,005,544.03	2,056,005,544.03		
Sub-total of cash outflows	2,261,107,394.83	2,214,962,959.21	148,590,354.99	58,798,991.66
Net cash flow from investing activities	-160,924,068.68	-93,889,957.11	-102,967,432.67	-13,439,057.47
3. Cash Flows from Financing Activities:				
Cash received from absorbing investment				
Including: Cash received from increase in minority interest				
Cash received from borrowings	22,000,000.00		15,391,446.53	
Cash received from issuing debentures				
Other proceeds relating to financing activities				
Sub-total of cash inflows	22,000,000.00		15,391,446.53	
Cash paid for settling debt	15,000,000.00		24,998,045.00	
Cash paid for distribution of dividends or profit or reimbursing interest	69,482,554.53	61,625,830.95	17,177,069.09	
Including: dividends or profit paid to minority interest			15,424,057.18	
Other cash payments relating to financing activities			328,925.36	
Sub-total of cash outflows	84,482,554.53	61,625,830.95	42,504,039.45	
Net cash flow from financing activities	-62,482,554.53	-61,625,830.95	-27,112,592.92	
4. Effect of foreign exchange rate changes	-3,490,286.99	2,652,570.55	-1,421,931.49	1,161,370.92
5. Increase in cash and cash equivalents	74,318,588.65	169,412,215.62	49,079,875.44	-6,923,247.72
Add : Cash and cash equivalents at year-begin	678,239,825.82	386,670,772.90	629,159,950.38	393,594,020.62
6. Cash and cash equivalents at the end of the year	752,558,414.47	556,082,988.52	678,239,825.82	386,670,772.90

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

Statements of consolidated changes in equity

Prepared by Konka Group Co., Ltd.

Dec. 31, 2007

Unit: RMB Yuan

Items	Amount in this period									Amount of last year										
	Owners' equity attributable to parent company								Minority equity	Total of owners' equity	Owners' equity attributable to parent company								Minority equity	Total of owners' equity
	share capital	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profits	Others	share capital			Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profits	Others				
I. balance at the end of last year	601,986,352.00	1,859,368,726.07		774,853,299.30		136,146,766.94	(70,595,428.88)	243,608,120.79	3,545,367,836.22	601,986,352.00	1,858,788,726.07		747,286,720.22		62,071,568.66	-58,921,062.92	255,876,004.38	3,467,088,308.41		
Add: change of accounting policy				6,817,121.06		(13,219,053.25)	73,699,792.18	43,917.17	67,341,777.16				4,432,511.88		-4,970,917.99	57,271,779.94	43,917.17	56,777,291.00		
Correction of errors in previous period				-		-	-	-	-											
II. balance at the beginning of this year	601,986,352.00	1,859,368,726.07		781,670,420.36		122,927,713.69	3,104,363.30	243,652,037.96	3,612,709,613.38	601,986,352.00	1,858,788,726.07		751,719,232.10		57,100,650.67	-1,649,282.98	255,919,921.55	3,523,865,599.41		
III. Increase/ decrease of amount in this year ("-" means decrease)		25,530,724.02				148,543,919.24	4,694,852.95	-5,490,410.61	173,279,085.60		580,000.00		29,951,188.26		65,827,063.02	4,753,646.28	-12,267,883.59	88,844,013.97		
(I) Net profit						209,198,469.00		4,832,431.07	214,030,900.07						96,774,909.50		7,493,175.25	104,268,084.75		
(II) Gain/loss listed to owners' equity directly		25,530,724.02					4,694,852.95	0.00	30,225,576.97		580,000.00					4,753,646.28		5,333,646.28		
1. Net amount on changes in book value of financial assets available for sale		17,237,336.25							17,237,336.25											
2. Effect on changes in other owners' equity of invested units under equity method											580,000.00							580,000.00		
3. Effect on income tax related to items listed to owners' equity																				
4. Others		8,293,387.77					4,694,852.95		12,988,240.72							4,753,646.28		4,753,646.28		
Subtotal of (I) and (II)		25,530,724.02				209,198,469.00	4,694,852.95	4,832,431.07	244,256,477.04		580,000.00				96,774,909.50	4,753,646.28	7,493,175.25	109,601,731.03		
(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						-60,654,549.76		-10,322,841.68	-70,977,391.44				29,951,188.26		-30,947,846.48		-19,761,058.84	-20,757,717.06		
1. Withdrawing surplus public reserve													29,951,188.26		-29,951,188.26			0.00		
2. Withdrawing general risk reserve																				
3. Distribution to all owners						-60,198,		-10,322,	-70,521,									-19,761,	-19,761,	

(shareholders)						635.20		841.68	476.88								058.84	058.84
4. Others						-455,914.56			-455,914.56								-996,658.22	-996,658.22
(V) Internal carrying forward of owners' equity																		
1. New increase of capital (share capital) from capital reserves																		
2. Convert surplus reserves to capital (share capital)																		
3. Surplus reserves make up losses																		
4. Others																		
IV. Balance at the end of this period	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	601,986,352.00	1,859,368,726.07		781,670,420.36		122,927,713.69	3,104,363.30	243,652,037.96	3,612,709,613.38

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

Statements of changes in equity

Prepared by Konka Group Co., Ltd.

Dec. 31, 2007

Unit: RMB Yuan

Items	Amount in this period										Amount of last year							
	Owners' equity attributable to parent company							Minority equity	Total of owners' equity	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	share capital	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profits	Others			share capital	Capital reserve	Lessen: treasury stock	Surplus public reserve	General risk reserve	Retained profits	Others		
I. balance at the end of last year	601,986,352.00	1,865,454,242.75		774,853,299.30		172,739,183.41			3,415,033,077.46	601,986,352.00	1,864,874,242.75		747,286,720.22		108,417,165.56			3,322,564,480.53
Add: change of accounting policy	-	-13,334,300.71		6,817,121.06		91,396,529.16			84,879,349.51	-	-12,754,300.71		4,432,511.88		85,832,441.05			77,510,652.22
Correction of errors in previous period	-	-		-	-	-			-	-	-		-		-			-
II. balance at the beginning of this year	601,986,352.00	1,852,119,942.04		781,670,420.36		264,135,712.57			3,499,912,426.97	601,986,352.00	1,852,119,942.04		751,719,232.10		194,249,606.61			3,400,075,132.75
III. Increase/ decrease of amount in this year ("-" means decrease)	-	24,182,735.06				179,162,914.56			203,345,649.62				29,951,188.26		69,886,105.96			99,837,294.22
(I) Net profit	-	-				239,361,549.76			239,361,549.76		-				99,837,294.22			99,837,294.22
(II) Gain/loss listed to owners' equity directly	-	24,182,735.06				-			24,182,735.06		-				-			-
1. Net amount on changes in book value of financial assets available for sale	-	17,237,336.25				-			17,237,336.25		-				-			-
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	-	6,945,398.81	-	-	-	-	-	6,945,398.81	-	-	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	24,182,735.06	-	239,361,549.76	-	-	-	263,544,284.82	-	-	-	-	99,837,294.22	-	-	-	99,837,294.22
(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	-	-	29,951,188.26	-	29,951,188.26	-	-	-	-
1. Withdrawing surplus public reserve	-	-	-	-	-	-	-	-	-	-	29,951,188.26	-	29,951,188.26	-	-	-	-
2. Withdrawing general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to all owners (shareholders)	-	-	-	60,198,635.20	-	-	-	60,198,635.20	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Internal carrying forward of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. New increase of capital (share capital) from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Convert surplus reserves to capital (share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of this period	601,986,352.00	1,876,302,677.10	781,670,420.36	443,298,627.13	-	-	-	3,703,258,076.59	601,986,352.00	1,852,119,942.04	781,670,420.36	264,135,712.57	-	-	-	3,499,912,426.97	

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

Konka Group Co., Ltd.

Notes to the Financial Statements

The Year 2007

Unless otherwise specified, the currency is RMB.

Annexed 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.

Annexed 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 continuous operation, 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.

Annexed Note 3. Enterprise merger and consolidated financial statements

1 . Holding subsidiaries:

Name of holding subsidiaries	Place of registration	Business nature	Registered capital	Closing actual investment	Net investment balance substantially formed in the subsidiaries	Proportion of shares held		Proportion of voting rights
						Directly	Indirectly	
I. Subsidiaries formed not through business merger						Directly	Indirectly	
(1) Subsidiaries under direct control								
Dongguan Konka Electronic Co., Ltd.	Dongguan	TV sets, sound products etc	RMB200 million	RMB 233.90 million	RMB 233.90 million	100%	—	100%
Pacific Konka Co., Ltd	Australia	Sale of electronic products	AUD 1 million	AUD 1 million	AUD 1 million	100%	—	100%
Konka Electronic Co., Ltd (USA).*	USA	R&D	USD 3 million	USD 2.7 million	USD 2.7 million	100%	—	100%
Anhui Konka Electronic Co., Ltd.	Anhui	Color TV sets	RMB140 million	RMB91 million	RMB91 million	78%	—	78%
Mudanjiang Konka Enterprise Co., Ltd	Mudanjiang	Color TV sets	RMB60 million	RMB36 million	RMB36 million	60%	—	60%
Shenzhen Konka Appliance Co., Ltd.	Shenzhen	Electronic equipment	RMB8.3 million	RMB18.62 million	RMB18.62 million	51%	—	51%
Chongqing Konka Electronic Co., Ltd.	Chongqing	Color TV sets	RMB45 million	RMB27 million	RMB27 million	60%	—	60%
Shenzhen Konka Video System Engineering Co., Ltd.	Shenzhen	Development and sale of commercial TV	RMB15 million	RMB9 million	RMB9 million	60%	—	60%
Chongqing Konka 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 Konka Telecommunication Technology Co., Ltd.	Shenzhen	Mobile communication products	RMB12,000 万元 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 Konka 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 Konka Appliance Co., Ltd.(Note 1)	Anhui	Production and sale of appliances such as refrigerators	RMB78.19 million	RMB3.5 million	RMB3.5 million	92.97%	4.48%	97.45%
Shenzhen Konka 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 Konka Electronic Co., Ltd.	Shanxi	Color TV	RMB69.5 million	RMB46.08 million	RMB46.08 million	45%	15%	60%
Shenzhen Konka Information Network Co., Ltd.	Shenzhen	Production and sale of networking production	RMB30 million	RMB22.5 million	RMB22.5 million	75%	25%	100%
Shenzhen Konka Electronic Part Technology Co., Ltd. (Note 2)	Shenzhen	R&D of electronic components	RMB65 million	RMB48.75 million	RMB48.75 million	75%	25%	100%

Name of holding subsidiaries	Place of registration	Business nature	Registered capital	Closing actual investment	Net investment amount substantially formed in the subsidiary	Proportion of shares held		Proportion of voting rights
						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%
Indonesia Konka Trade Co., Ltd.*	Indonesia	Trade	USDD 0.5 million	USDD 0.5 million	USDD 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.(Note 3)	Boluo	Production and sale of electronic products	RMB20 million	RMB11.25 million	RMB11.25 million		100%	100%

Note 1: It was resolved at the fifth board meeting that the company would increase investment in Anhui Konka Appliance Co., Ltd. In March 2007, the company increased RMB50million in cash and RMB18.19 million in the form of production line to Anhui Konka Appliance Co., Ltd., which has a registered capital of RMB78.19million after the increase in investment.

Note 2: It was resolved at the fifth board meeting that Shenzhen Konka Electronic Part Technology Co., Ltd. Was registered and established in Shenzhen with a registered capital of RMB65million, and the actual paid-in capital of RMB 65million, of which the company holds 75% of the shares and the company indirectly holds 25% of the shares of the holding subsidiary Kondian Investment Development Co., Ltd.

Note 3: It was resolved at the fifth board meeting that the company would found and register Boluo Konka Precision Technology Co., Ltd. With a registered capital of RMB15million and the actual paid-in capital of RMB11.25million, of which the subsidiary of the company Shenzhen Konka Electronic Part Technology Co., Ltd. Contributed RMB7.5million, accounting for 66.7% while the indirect holding subsidiary of the company Kondian Investment Development Co., Ltd. Contributes RMB3.75 million, accounting for 33.33%.

*: The companies have been cancelled with the approval of the board of directors., of which Konka Electronic Co., Ltd. of USA, Indonesia Konka Trading Co., Ltd, Konka Electronic (India) Co., Ltd. have the canceling procedures handled with the certificates of canceling or liquidation of China's local general counselate, therefore they were not included into the consolidated range.

** : 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 of the companies with joint operation:

Name of company	Place of registration	Legal representative person	Registered capital	Actual investment amount	Proportion of shares	Main business
Longfeng Jianzhi Real Estate Co., Ltd. Of Huadu, Guangzhou	Huadu	Chen Weirong	USD9.4 million	USD27.97 million	50%	Holding investment, Development of real estate
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	Huo 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

*: The company signed the contract to jointly found Shenzhen Cailian Technology Co., Ltd. with the companies such as Jiangsu Xinke Digital Technology Co., Ltd., Qingdao Hair Electronic Co., Ltd., Qingdao Hisense Appliance Co., Ltd., Shanghai Guangdian Information Industry Co., Ltd., Sichuan Changhong Appliances Co., Ltd., Skyworth (Shenzhen) Co., Ltd., Shenzhen TCL New Technology Co., Ltd., Xiamen Overseas Electronic Co., Ltd., Xixin Electronic Co., Ltd. It was agreed that each party would contribute RMB 10million to form Shenzhen Zhongcailian Technology Co., Ltd., which is 10% of the total shares. On February 12, 2007, the company made a payment of RMB 1 million as an investment to Shenzhen Zhongcailian Technology Co., Ltd.

3. Particulars about the minority shareholder's equities

Name of subsidiary	Minority shareholder's equities
Mudanjiang Konka Enterprise Co., Ltd.	35,524,633.20

Shanxi Konka Electronic Co., Ltd.	44,513,642.85
Anhui Konka Electronic Co., Ltd.	48,205,085.61
Shenzhen Konka Appliance Co., Ltd.	(6,913,710.79)
Chongqing Konka Electronic Co., Ltd.	19,735,147.92
Boluo Konka PCB Co., Ltd.	26,526,820.45
Shenzhen Konka Precision Mould Manufacturing Co., Ltd.	29,800,450.54
Anhui Konka Appliance Co., Ltd.	3,527,588.34
Changshu Konka Electronic Co., Ltd.	15,929,041.06
Chongqing Qingjia Electronic Co., Ltd.	21,312,928.17
Total	238,161,627.35

Annexed 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) Accounting periods

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 account 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 made in the following proportion:

Account age	Proportion
Within 1 y(including 1 y)	
Within 1 to 2 y(including 2 y)	
Within 2 to 3 y(including 3)	
Over 3 y(including 3 y)	

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:

Kinds of assets	Useful life	Depreciation rate
Buildings and structures	40 years	2.25%
Machinery equipment	10 years	9%
Electronic equipment	5 years	18%
Transportation tools	5 years	18%
Other equipment	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 Subsidies:

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 exceeds 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.

(28) Changes in accounting policies and accounting estimates:

The company implements the new accounting standards for enterprises since January 1, 2007. The income tax is changed from the taxes payable method to balance sheet liability method. The original accounting by employing the cost method is changed to accounting on the basis of recognition and measurement of financial instruments. Not making up the excessive losses of subsidiaries is changed to assuming the loss amount by the parent company. The effect on the different annual reports of the company is as follows:

Change of accounting policies	Effect on the profit amount of each year		Accumulative effect amount
	Beginning balance of the year 2006	The year 2006	
1. Deferred income tax	56,733,373.83	10,564,486.16	67,297,859.99
2. Accumulative losses of subsidiaries not made up	(57,271,779.94)	(16,428,012.24)	(73,699,792.18)
Total	(538,406.11)	(5,863,526.08)	(6,401,932.19)

Annexed Note 5. Taxes

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

Taxes	Taxing 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 rate is 15% for the companies established in Shenzhen and 27% or 33% for companies established in other parts of China and in HK, the rate is 17.5%. If each subsidiary is a

foreign invested enterprise, tax favorable policy of Exemptible for the First Two Years and Half Rate Reduction for the Subsequent Three Years from the Beginning of Payoff can be enjoyed.

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

Note 1. Monetary fund

Item	Currency	Original amount	Exchange rat	Closing balance	Starting balance
Cash	RMB	9,687.06	1.0000	9,687.06	10,962.13
	HKD	192.91	0.9364	180.64	264.62
	USD	39.62	7.3046	289.40	245.90
	EUR	8.67	10.6669	92.52	102.67
Subtotal			10,249.62	11,575.32	
Bank deposit	RMB	353,554,252.93	1.0000	353,554,252.93	496,947,749.30
	HKD	11,181,274.78	0.9364	10,470,145.70	41,146,322.82
	USD	51,716,096.93	7.3046	377,765,401.64	136,577,428.98
	GBP	1.31	14.5807	19.16	20.23
	CAD	1,042,503.37	7.8739	8,208,567.32	1,368,491.75
	JPY	29,583,455.38	0.0641	1,896,299.49	2,188,130.65
	EUR	61,262.28	10.6669	653,478.61	106.77
Subtotal			752,548,164.85	678,228,250.50	
Total			752,558,414.47	678,239,825.82	

Note 2. Notes receivable

Item	Ending balance	Beginning balance
L/C	9,019,114.31	86,782,662.38
Bank acceptance	2,606,915,469.49	3,021,670,383.02
Commercial acceptance	36,505,176.05	36,503,218.00
Total	2,652,439,759.85	3,144,956,263.40

See Note 12 for details on notes mortgage.

Note 3. Accounts receivable

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

Aging	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt	Amount	Rate in	Bad debt

			provision	total		provision
	RMB	%	RMB	RMB	%	RMB
Within 1 year	1,010,854,314.47	82.65	20,217,086.29	913,441,348.41	82.74	18,268,826.97
1- 2 years	34,796,364.56	2.85	1,739,818.23	14,255,223.42	1.29	712,761.17
2-3 years	15,041,349.50	1.23	3,008,269.90	10,145,496.34	0.92	2,029,099.27
Over 3 years	162,298,959.60	13.27	157,842,894.18	166,141,323.27	15.05	131,695,384.12
Total	1,222,990,988.13	100.00	182,808,068.60	1,103,983,391.44	100.00	152,706,071.53

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

Item	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
1. Single accounts with large account	167,558,979.26	13.70	3,351,179.59	209,652,254.16	18.99	4,193,045.08
2. Single accounts without large amount but with major risk after integrated into credit risk combination	162,298,959.60	13.27	157,842,894.18	166,141,323.30	15.05	131,695,384.12
3. Others not large amount	893,133,049.27	73.03	21,613,994.83	728,189,813.98	65.96	16,817,642.33
Total	1,222,990,988.13	100	182,808,068.60	1,103,983,391.44	100	152,706,071.53
Total of first five accounts	167,558,979.26	13.70	3,351,179.59	206,512,332.32	18.71	4,130,246.65
Accounts receivable occupied by related parties	1,130,000.00	0.09	---	1,130,000.00	0.10	---

Details of single accounts receivable with large amounts as listed as follows:

Item	Amount	Rate of bad debt provision	Basis
Kunming Guo Mei Logistics Co., Ltd.	42,510,876.90	2%	Aging within 1 year
Gansu Guo Mei Logistics Co., Ltd.	33,543,408.64	2%	Aging within 1 year
ELDORADO COMPANY	26,178,966.26	2%	Aging within 1 year

HOME RETAIL GROUP LTD(OA)	22,057,041.61	2%	Aging within 1 year
FACEY COMMODITY COMPANY LIMITED	43,268,685.85	2%	Aging within 1 year
Total	167,558,979.26		

Single accounts receivable with large amount are defined on the basis of being accounts receivable with ending balance over RMB20 million as combined.

Single accounts without large amount but with major risk after integrated into credit risk combination are recognized on the basis of being with aging of over three years.

1. Accounts receivable listed above do not include any arrears of shareholders holding 5% (or above) shares;
2. Ending balance of accounts receivable indicates an increase of RMB119,007,596.69, by increase rate of 10.78%, 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		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
Within 1 year	1,758,825,578.22	90.29	13,562,806.05	1,427,536,257.19	88.91	9,033,689.41
1- 2 years	20,284,796.70	1.04	1,076,351.32	9,677,027.36	0.60	485,812.91
2-3 years	14,240,668.00	0.73	2,848,133.60	5,926,722.48	0.37	1,185,344.50
Over 3 years	154,702,785.84	7.94	146,417,594.37	162,402,296.19	10.12	127,860,699.66
Total	1,948,053,828.76	100.00	163,904,885.34	1,605,542,303.22	100.00	138,565,546.48

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

Item	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
1. Single accounts with large account	910,826,741.61	46.76	1,521,085.71	873,279,229.11	54.39	407,404.19
2. Single accounts without large amount but with major risk after integrated into	154,702,785.84	18.53	146,417,594.37	162,402,296.19	10.12	127,860,699.66

credit risk combination

3. Others not large amount	882,524,301.31	45.30	15,966,205.26	569,860,777.92	35.49	10,297,442.63
Total	1,948,053,828.76	100.00	163,904,885.34	1,605,542,303.22	100.00	138,565,546.48
Total of first five accounts	834,772,456.07	42.85	---	852,909,019.67	53.12	---
Accounts receivable occupied by related parties	1,080,685,275.82	55.48	---	975,305,483.59	60.75	---

Details of single accounts receivable with large amounts as listed as follows:

Item	Amount	Rate of bad debt provision	Basis
Kunming Guo Mei Logistics Co., Ltd.	42,510,876.90	2%	Aging within 1 year
Gansu Guo Mei Logistics Co., Ltd.	33,543,408.64	2%	Aging within 1 year
Shi Xun System Engineering Co., Ltd.	289,392,601.63	-	Related current
Shenzhen Konka Telecom Technologies Co., Ltd.	117,297,667.23	-	Related current
Dongguan Konka Molding Co., Ltd.	143,659,868.18	-	Related current
Dongguan Konka Electronics Co., Ltd.	134,433,531.08	-	Related current
Hong Kong Konka Co., Ltd.	149,988,787.95	-	Related current
Total	910,826,741.61	-	

Note 4. Accounts prepaid

Aging	Ending balance		Beginning balance	
	Amount	Rate in total	Amount	Rate in total
	RMB	%	RMB	%
Within 1 year	148,072,677.26	97.80	101,356,352.78	96.61
1- 2 years	2,749,625.45	1.82	1,280,392.01	2.27
2-3 years	2,588.45	---	149,350.00	0.26
Over 3 years	571,467.84	0.38	487,499.60	0.86
Total	151,396,359.00	100.00	103,273,594.39	100.00

Current period accounts prepaid indicates an increase of RMB48,122,764.61, by increase rate of 46.60%, mainly by increase in the accounts prepaid for works in the subsidiaries.

Note 5. Other receivables

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

Aging	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
Within 1 year	81,349,412.89	55.13	1,626,988.26	35,869,320.82	36.36	577,085.28
1- 2 years	6,214,026.17	4.21	310,701.31	3,800,980.85	3.85	190,049.04
2-3 years	1,459,268.51	0.99	291,853.70	27,406,523.73	27.78	1,314,480.75
Over 3 years	58,542,206.10	39.67	13,017,086.73	31,580,726.59	32.01	6,204,943.93
Total	147,564,913.67	100.00	15,246,630.00	98,657,551.99	100.00	8,286,559.00

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

Item	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
1. Single accounts with large account	82,259,363.87	55.74	---	39,959,363.87	40.50	---
2. Single accounts without large amount but with major risk after integrated into credit risk combination	32,849,354.23	22.26	13,017,086.73	8,004,374.72	8.11	6,204,943.93
3. Others not large amount	32,456,195.57	21.99	2,229,543.27	50,693,813.40	51.38	2,081,615.07
Total		100.00		98,657,551.99	100.00	
	147,564,913.67		15,246,630.00			8,286,559.00
Total of first five accounts	91,845,257.80	62.24	191,717.88	55,279,695.21	56.03	306,406.63
Accounts receivable occupied by related parties	4,973,217.94	3.37	---	3,689,904.85	3.74	---

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

Item	Amount	Rate of bad debt provision	Basis
Payment for housing estate at East OCT	42,300,000.00	---	Recoverable, and bad debt provision not made
Payment for housing purchase at Kang Jia Yuan	25,060,877.32	---	Recoverable, and bad debt provision not made
Payment for housing purchase at Yi Kang Lou	14,898,486.55	---	Recoverable, and bad debt provision not made

Total	<u><u>82,259,363.87</u></u>
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Single accounts receivable with large amount are defined on the basis of being accounts receivable with ending balance over RMB10 million as combined.

Single accounts without large amount but with major risk after integrated into credit risk combination are recognized on the basis of being with aging of over three years.

1. Other receivables listed above do not include any arrears of shareholders holding 5% (or above) shares;
2. Ending balance of other receivable indicates an increase of RMB48,907,361.68, by increase rate of 49.57%, mainly on payment for purchasing the housing estate at No.15, Tian Lu 1st Zone, East OCT, for which as a private housing estate the estate title transfer registration had not been handled as at Dec 31, 2007.

Details of other receivables are listed as follows:

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

Aging	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
Within 1 year	69,837,608.64	53.19	1,396,752.17	24,351,231.66	28.60	346,724.36
1- 2 years	3,173,389.14	2.42	158,669.46	2,892,826.73	3.40	144,639.18
2-3 years	794,943.78	0.61	158,988.76	27,208,604.18	31.95	1,274,896.83
Over 3 years	57,490,442.18	43.79	12,074,001.20	30,693,577.97	36.05	5,787,458.23
Total	<u>131,296,383.74</u>	<u>100.00</u>	<u>13,788,411.59</u>	<u>85,146,240.54</u>	<u>100.00</u>	<u>7,553,718.60</u>

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

Item	Ending balance			Beginning balance		
	Amount	Rate in total	Bad debt provision	Amount	Rate in total	Bad debt provision
	RMB	%	RMB	RMB	%	RMB
1. Single accounts with large account	82,259,363.87	62.65	---	39,959,363.87	46.93	---
2. Single accounts without large amount but with major risk after integrated into credit risk combination	31,797,590.31	24.22	12,074,001.20	7,117,226.10	8.36	5,787,458.23
3. Others not large amount	17,239,429.56	13.13	1,714,410.39	38,069,650.57	44.71	1,766,260.37
Total	<u>131,296,383.74</u>	<u>100.00</u>	<u>13,788,411.59</u>	<u>85,146,240.54</u>	<u>100.00</u>	<u>7,553,718.60</u>

Total of first five accounts	91,845,257.80	69.95	---	48,264,638.60	---
Accounts receivable occupied by related parties	4,973,217.94	3.79	---	3,689,904.85	---
					56.68
					4.33

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

Item	Amount	Rate of bad debt provision	Basis
Payment for housing estate at East OCT	42,300,000.00	---	Recoverable, and bad debt provision not made
Payment for housing purchase at Kang Jia Yuan	25,060,877.32	---	Recoverable, and bad debt provision not made
Payment for housing purchase at Yi Kang Lou	14,898,486.55	---	Recoverable, and bad debt provision not made
Total	82,259,363.87		

Note 6. Inventories and provision for devaluing of inventories

(1). Details of inventories are listed as follows:

Item	Beginning carrying value	Current period addition	Current period decrease	Ending carrying value
1. Raw materials	1,247,771,119.95	11,625,651,406.48	11,786,098,423.41	1,087,324,103.02
2. Packaging stuff	1,794,253.16	7,364,131.71	7,154,495.34	2,003,889.53
3. Low cost and short lived articles	3,134,248.05	10,076,710.13	10,124,431.76	3,086,526.42
4. Products in process	164,912,773.40	6,113,695,726.71	6,128,905,510.61	149,702,989.50
5. Finished products	2,395,264,010.48	25,619,410,022.32	26,029,726,963.72	1,984,947,069.08
Total	3,812,876,405.04	43,376,197,997.35	43,962,009,824.84	3,227,064,577.55

(2) Provision for devaluing of inventories

Provision for devaluing of inventories	Beginning balance	Current period addition	Current period decrease			Rate in ending balance	Ending balance
			Carried forward by rise of asset value	Carried out for other causes	Total		
Raw materials	43,958,371.68	1,879,746.86		2,060,322.67	2,060,322.67	4.71%	43,777,795.87
Packaging stuff	---	---	---	---	---	---	---

Low cost and short lived articles		---	---	---	---	---	---	---
Products in process		2,887,053.52	2,272,702.08	---	652,648.44	652,648.44	14.48%	4,507,107.16
Finished products		214,134,256.72	30,131,900.97	54,033.73	61,632.31	115,666.04	0.05%	244,150,491.65
Total		<u>260,979,681.92</u>	<u>34,284,349.91</u>	<u>54,033.73</u>	<u>2,774,603.42</u>	<u>2,828,637.15</u>	<u>0.97%</u>	<u>292,435,394.68</u>

Note 7. Hedged projects

Item	Ending balance	Beginning balance
1. Mortgage with fixed deposit book	1,032,235,139.55	---
2. Mortgage with notes receivable	263,937,600.00	---
Subtotal	<u>1,296,172,739.55</u>	<u>---</u>
3. USD loan mature in one year	1,294,949,933.08	---
Total	<u>1,222,806.47</u>	<u>---</u>

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.

Note 8. Hedging tools

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

* See Note 9 for details.

Note 9. Financial assets available for sale

Item	Ending balance	Beginning balance
1. Bonds available for sale	---	---

2. Equity tools available for sale	---	---
3. Stock investment	60,721,570.37	9,805,320.00
Total	60,721,570.37	9,805,320.00

1. Short-term stock investment is recorded in the category of financial assets available for sale, and the period beginning balance of stock investment of RMB9,805,320.00 is carried in accordingly;

2. As by current period ending, the Company still held total investment costs of RMB39,700,428.60 for purchasing of new shares, added public shares and original legal person shares, and the variation gain & loss of fair value calculation is RMB21,021,141.77.

Note 10. Long-term equity investment

(1) Details are listed as follows:

Item	Ending balance			Beginning balance		
	Carrying balance	Devaluing provision	Carrying value	Carrying balance	Devaluing provision	Carrying value
Long-term equity investment	51,670,152.32	4,196,977.80	47,473,174.52	61,601,683.01	4,196,977.80	57,404,705.21
Included:						
Investment in subsidiaries	---	---	---	---	---	---
Investment in cooperative companies	---	---	---	---	---	---
Investment in associated companies	23,700,374.30	1,400,000.00	22,300,374.30	33,631,904.99	1,400,000.00	32,231,904.99
Other equity investment	27,969,778.02	2,796,977.80	25,172,800.22	27,969,778.02	2,796,977.80	25,172,800.22
Long-term creditor's rights investment	---	---	---	136,566,993.75	136,566,993.75	---
Other long-term investment	4,172,056.01	---	4,172,056.01	4,172,056.01	---	4,172,056.01
Total	55,842,208.33	4,196,977.80	51,645,230.53	202,340,732.77	140,763,971.55	61,576,761.22

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

Unit invested	Register place	Scope of business	Registered capital	Rate of share-holding	Rate of voting rights	Ending total of assets	Total of current period revenue	Net profit of current period
I. Associated company								
Shenzhen Konka Energy Technologies Co., Ltd	Shenzhen	Mobile energy new products etc.	RMB20.00 million	30%	30%	13,853,760.68		(19,909.79)
Chongqing Jingkang Plastic Products Co., Ltd.	Chongqing	Manufacturing and processing of molding products	RMB15.00 million	15%	15%	10,414,116.67	5,380,448.87	(1,729,148.30)
Shenzhen Julong Optical-Electric Co., Ltd.	Shenzhen	R & D, manufacturing and distribution of panel optical-electric display parts & components	RMB10.00 million	20%	20%	20,000,242.20	0	0
Shan Lian Information Technologies Engineering Center Co., Ltd.	Beijing	Technical development, transfer, consultation and services	RMB52.00 million	9.61525%	9.61525%	45,317,325.90	2,802,646.13	(9,498,005.90)
Shenzhen Zhong Cai Lian Technologies Co., Ltd.	Shenzhen	Electronics technological development and economic information consultation	RMB10.00 million	10%	10%	9,128,781.40	440,000.00	(1,008,867.52)
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.*	Huadu	Holding investment, real estate development	USD9.40 million	50%	50%	--	--	--
Shenzhen De Kang Electronics Co., Ltd.	Shenzhen	Manufacturing and distribution of electronics products	RMB10.00 million	30%	30%	39,576,060.91	--	--

* 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 the audit reporting date, formalities for such change is not registered with the industrial & commercial administration.

(2) Long-term equity rights investment

a. Investment in the associated companies

I . Equity rights 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	3,743,929.29	---	(80,876.76)	(2,320,912.66)	3,663,052.53
Shenzhen De Kang Electronics Co., Ltd.	30%	3,000,000.00	7,137,424.83	---	---	4,137,424.83	7,137,424.83
Shenzhen OCT International Media Co., Ltd. *	25%	12,500,000.00	10,310,295.09	(10,310,295.09)	---	(2,189,704.91)	---
Chongqing Jingkang Plastic Products Co., Ltd.	25%	3,750,000.00	3,555,255.78	---	(540,358.84)	(735,103.06)	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	26,746,904.99	(10,310,295.09)	(621,235.60)	(1,108,295.80)	15,815,374.30

* In April 2007, the Company jointly signed the stock right transfer agreement with OCT Group, Shanghai OCT Investment & Development Co., Ltd. and Chengdu Tianfu OCT Industrial Development Co., Ltd., by which the Company's 25% shares of Shenzhen OCT International Media Co., Ltd. held by the Company was transferred to the other Parties of the agreement said at the price of RMB10.80 million, of which 5% of such was transferred to OCT Group, 10% transferred to Chengdu Tianfu OCT Industrial Development Co., Ltd. and 10% transferred to Shanghai OCT Investment Development Co., Ltd., at prices of RMB2.16 million, RMB4.32 million and RMB4.32 million respectively.

II . Stock rights investment based on cost calculation

Unit invested	Rate in unit invested	Initial investing cost	Beginning balance	Current period addition	Current period 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.	9.61525%	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	6,885,000.00	1,000,000.00	---	7,885,000.00
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b. Other stock rights investment

Unit invested	Rate	Initial investing cost	Beginning balance	Addition (decrease) of investment	Addition (decrease) of equities	Accumulated addition 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		---	---	27,969,778.02*

* See Note 10(1) for details.

c. Change of devaluing provision

Unit invested	Beginning balance	Current period addition	Carried back current period	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	---	---	4,196,977.80

(3) Long-term creditor's rights investment

a. Other creditor's rights investment

Unit invested	Initial investing cost	Beginning balance	Current period addition	Current period decrease	Ending balance
US Konka Electronics Co., Ltd. *	70,749,139.10	70,749,139.10	---	70,749,139.10	---
Konka Electronics (India) Co., Ltd. *	65,293,552.41	65,293,552.41	---	65,293,552.41	---
Pacific Konka Co., Ltd. *	524,302.24	524,302.24	---	524,302.24	---
Total	136,566,993.75	136,566,993.75	---	136,566,993.75	---

* The company was cancelled during the current period upon approval of the 5th Board of Directors on the 17th directorate meeting, with details provided in Note 3.1.

b. Provision for devaluing of long-term creditor's rights investment

Item	Beginning balance	Current period addition	Written off current period	Ending balance	Remark
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US Konka Electronics Co., Ltd.	70,749,139.10	---	70,749,139.10	---	The subsidiary has been cancelled
Konka Electronics (India) Co., Ltd.	65,293,552.41	---	65,293,552.41	---	The subsidiary has been cancelled
Pacific Konka Co., Ltd.	524,302.24	---	524,302.24	---	The subsidiary has been cancelled
Total	136,566,993.75	---	136,566,993.75	---	

(4) Other long-term investment

Unit invested	Beginning balance	Current period addition	Current period decrease	Ending balance
Jing Yuan Building	4,172,056.01	---	---	4,172,056.01
Subtotal	4,172,056.01	---	---	4,172,056.01

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

(1) Details listed as follows:

Item	Ending balance			Beginning balance		
	Carrying balance	Devaluing provision	Carrying value	Carrying balance	Devaluing provision	Carrying value
Long-term stock rights investment	898,728,037.58	4,196,977.80	894,531,059.78	790,838,380.17	4,196,977.80	786,641,402.37
Included:						
Investment in subsidiaries	860,873,259.56	---	860,873,259.56	743,673,307.06	---	743,673,307.06
Investment in cooperative companies	---	---	---	---	---	---
Investment in associated companies	9,885,000.00	1,400,000.00	8,485,000.00	19,195,295.09	1,400,000.00	17,795,295.09
Other stock rights investment	27,969,778.02	2,796,977.80	25,172,800.22	27,969,778.02	2,796,977.80	25,172,800.22
Long-term creditor's rights investment	---	---	---	136,566,993.75	136,566,993.75	---
Other long-term investment	4,172,056.01	---	4,172,056.01	4,172,056.01	---	4,172,056.01
Total	902,900,093.59	4,196,977.80	898,703,115.79	931,577,429.93	140,763,971.55	790,813,458.38

(2) Long-term stock rights investment

a. Investment in subsidiaries and associated companies

I . Stock rights investment calculated with the Equity Method

Unit invested	Rate	Initial investing cost	Beginning balance	Investment addition (decrease)	Current period addition/ decrease of equities	Accumulated addition/ decrease of equities	Ending balance
Shenzhen OCT International Media Co., Ltd.	25%	12,500,000.00	10,310,295.09	(10,310,295.09)	---	(2,189,704.91)	---
Shenzhen Julong Optical-Electric Co., Ltd. *	20%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00
Total		14,500,000.00	12,310,295.09	(10,310,295.09)	---	(2,189,704.91)	2,000,000.00

II . Stock rights investment calculated with the Cost Method

Unit invested	Rate in the unit invested	Initial investing cost	Beginning balance	Current period addition	Current period 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. *	9.61525%	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.,	30%	7,500,000.00	---	---	---	7,500,000.00

Ltd.				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	6,792,652.07	68,188,470.00	---	---	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	750,558,307.06	118,199,952.50	---	---	868,758,259.56

B. Other stock rights investment

Unit invested	Rate	Initial investing cost	Initial balance	Investment addition (decrease)	Addition/decrease of equities	Accumulated addition/decrease of equities	Ending balance
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	50%	27,969,778.02	27,969,778.02	---	---	---	27,969,778.02

c. Change in devaluing provision

Unit invested	Beginning balance	Current period addition	Carried back current period	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	---	---	4,196,977.80

(3) Long-term creditor's rights investment

a. Other creditor's rights investment

Unit invested	Initial investing cost	Beginning balance	Current period addition	Current period decrease	Ending balance
US Konka Electronics Co., Ltd.	70,749,139.10	70,749,139.10	---	70,749,139.10	---
Konka Electronics (India) Co., Ltd.	65,293,552.41	65,293,552.41	---	65,293,552.41	---
Pacific Konka Co., Ltd.	524,302.24	524,302.24	---	524,302.24	---
Total	136,566,993.75	136,566,993.75	---	136,566,993.75	---

b. Devaluing provision for long-term creditor's rights investment

Item	Beginning balance	Current period addition	Written off current period	Ending balance	Remark
US Konka Electronics Co., Ltd.	70,749,139.10	---	70,749,139.10	---	The subsidiary has been cancelled
Konka Electronics (India) Co., Ltd.	65,293,552.41	---	65,293,552.41	---	The subsidiary has been cancelled
Pacific Konka Co., Ltd.	524,302.24	---	524,302.24	---	The subsidiary has been cancelled
Total	136,566,993.75	---	136,566,993.75	---	

(3) Other long-term investment

Unit invested	Beginning balance	Current period addition	Current period decrease	Ending period
Jing Yuan Building	4,172,056.01	---	---	4,172,056.01
Subtotal	4,172,056.01	---	---	4,172,056.01

Note 11. Fixed assets & accumulated depreciation

Original value	Beginning balance	Current period addition	Current period decrease	Ending balance
Housing and Building	919,156,868.84	48,872,898.48	5,504,855.83	962,524,911.49
Machinery equipment	991,900,243.79	90,728,829.76	24,946,655.22	1,057,682,418.33
Electronic equipment	291,961,813.63	21,452,146.20	5,453,449.08	307,960,510.75
Transport equipment	71,597,107.00	5,558,364.61	10,178,042.42	66,977,429.59

Other equipment	190,884,238.15	13,528,936.37	5,040,526.03	199,372,648.49
Total	2,465,500,271.41	180,141,175.42	51,123,528.18	2,594,517,918.65

Accumulated depreciation	Beginning balance	Current period addition	Current period decrease	Ending balance
Housing and Building	201,306,117.25	22,869,600.45	1,056,511.98	223,119,205.72
Machinery equipment	600,888,178.16	66,516,544.78	8,286,287.26	659,118,435.28
Electronic equipment	214,111,666.55	19,277,789.34	3,840,969.10	229,548,486.79
Transport equipment	46,076,330.43	7,069,306.12	9,671,597.00	43,474,039.55
Other equipment	126,717,965.35	16,229,562.13	3,630,894.11	139,316,633.37
Total	1,189,100,257.74	131,962,802.82	26,486,259.85	1,294,576,800.71

Devaluing provision	Beginning balance	Current period addition	Current period decrease	Ending balance
Housing and Building	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
Transport equipment	304,230.97	---	---	304,230.97
Other equipment	1,349,827.96	---	---	1,349,827.96
Total	8,286,034.09	---	---	8,286,034.09

Carrying value	Beginning balance	Ending balance
Housing and Building	716,602,945.68	738,157,899.86
Machinery equipment	386,741,898.05	394,293,815.47
Electronic equipment	76,736,145.41	77,298,022.29
Transport equipment	25,216,545.60	23,199,159.07
Other equipment	62,816,444.84	58,706,187.16
Total	1,268,113,979.58	1,291,655,083.85

1. Included in the current increase of fixed assets is the carry-forward from works in progress amounting RMB47,011,178.64;

2. See Note 12 for details of fixed asset mortgage.

Note 12. Works in progress

Name of works	Budget	Beginning balance	Current period addition	Fixed asset carried forward current period	Other decreases current period	Ending balance	Source of funds
SMT cable works		---	9,191,680.25	---	---	9,191,680.25	Self-provided
13, 28/F, Zhongshan Plaza	RMB5,289,400	---	5,289,380.00	---	---	5,289,380.00	Self-provided

Phase II, Kang Jia Yuan	RMB17,697,600	18,757,343.75	1,393,346.19	---	---	20,150,689.94	Self-provided
Konka R & D Building	RMB0.567 billion	26,190.00	17,040,006.69	---	---	17,066,196.69	Self-provided
Plant building of Anhui Konka		1,561,821.75	731,962.91	292,721.75	---	2,001,062.91	Self-provided
Phase II plant works of Boluo Konka	RMB16,790,000	10,446,815.60	4,414,731.00	14,861,546.60	---	---	Self-provided
Phase I plant works of Anhui Electric Appliance		307,250.00	30,332,857.14	30,640,107.14	---	---	Self-provided
Assorted works		3,751,377.56	8,553,452.12	1,216,803.15	2,850,339.88	8,237,686.65	Self-provided
Total		34,850,798.66	76,947,416.30	47,011,178.64	2,850,339.88	61,936,696.44	

Note 13. Intangible assets

Item	Beginning balance	Current period addition	Current period decrease	Ending balance
I. Total of original value	67,328,700.06	10,795,155.95	---	78,123,856.01
1. Land use rights	31,532,933.08	6,353,848.80	---	37,886,781.88
2. Overseas trademark registration fee	2,475,947.61	306,092.00	---	2,782,039.61
3. Patent & proprietary technologies	33,319,819.37	4,135,215.15	---	37,455,034.52
II. Accumulated amortization	21,028,242.15	6,421,028.65	---	27,449,270.80
1. Land use rights	4,474,605.77	732,190.94	---	5,206,796.71
2. Overseas trademark registration fee	2,001,658.15	172,069.33	---	2,173,727.48
3. Patent & proprietary technologies	14,551,978.23	5,516,768.38	---	20,068,746.61
III. Accumulated amounts of devaluing provision for intangible assets	2,901,082.61	---	---	2,901,082.61
1. Land use rights	---	---	---	---
2. Overseas trademark registration fee	---	---	---	---
3. Patent & proprietary technologies	2,901,082.61	---	---	2,901,082.61
IV. Total of carrying values of intangible assets	43,399,375.30			47,773,502.60
1. Land use rights	27,058,327.31			32,679,985.17
2. Overseas trademark registration fee	474,289.46			608,312.13
3. Patent & proprietary technologies	15,866,758.53			14,485,205.30

Note 14. Business reputation

Item	Source of origin	Year-beginning carrying value	Current period addition	Current period decrease	Year-end carrying value
Stock rights acquired of		3,943,671.53	---	---	3,943,671.53

subsidiaries				
Total	3,943,671.53	---	---	3,943,671.53

Note 15. Long-term expenses to amortize

Item	Original amount of accrual	Beginning balance	Current period addition	Current period amortization	Accumulated amortization	Ending balance
						9,961,679.3
Remodeling	18,741,522.83	5,197,232.01	6,877,334.38	2,112,887.00	8,779,843.44	9
Special stands	30,612,308.89	969,473.57	2,932,797.82	1,712,430.14	28,422,467.64	5
Software licensing fee	20,662,790.29	1,467,111.04	1,533,230.77	544,898.55	18,207,347.03	6
Miscellaneous	15,258,352.43	2,846,771.61	9,178,289.24			9,242,674.9
				2,782,385.88	6,015,677.46	7
Total	85,274,974.44	10,480,588.23	20,521,652.21	7,152,601.57	61,425,335.57	23,849,638.87

There is an increase of RMB13,369,050.64 in ending balance over beginning balance, at an increase rate of 127.56%, with main causes as follows:

Note 16. Deferred income tax assets

Item	Ending balance	Beginning balance
1. Bad debt provision for accounts receivable	20,867,189.56	14,309,791.31
2. Devaluing provision for inventories	41,200,967.67	31,300,238.39
3. Long-term investment devaluing provision	1,226,055.36	21,506,761.86
4. Miscellaneous	114,278.51	224,985.60
Total	63,408,491.10	67,341,777.16

Note 17. Asset devaluing provision

Item	Beginning balance	Current period provision	Current period decrease		Ending balance
			Carried back	Written off	
1. Bad debt provision	160,992,630.53	38,076,322.24	342,985.45	671,268.72	198,054.69
2. Provision for inventory devaluing	260,979,681.92	34,284,349.91	54,033.73	2,774,603.42	292,435.39
3. Devaluing provision for long-term stock rights investment	140,763,971.55	---	---	136,566,993.7	4,196,977.8
4. Devaluing provision for fixed assets	8,286,034.09	---	---	---	0
					8,286,034.0
					9

5. Devaluing provision for intangible assets	2,901,082.61	---	---	---	2,901,082.61
Total	573,923,400.70	72,360,672.15	397,019.18	140,012,865.8	505,874,181
				9	7.78

Note 18. Short-term borrowings

Type of borrowing	Ending balance	Beginning balance
Credit loan	---	---
Borrowing on mortgage*	22,000,000.00	15,000,000.00
Borrowing on guarantee	---	---
Total	22,000,000.00	15,000,000.00

1. There was no borrowing in arrear in the ending balances, and the interest rates were all ordinary interest rates for bank loan;

2. There was an increase of RMB7,000,000.00 in the ending balance over the beginning balance, at an increase rate of 46.67%, mainly for the increased bank loan in the subsidiary Anhui Konka Electronics Co., Ltd.

Note 19. Notes payable

Item	Amount	Amounts mature within one year
L/C	517,078,338.55	517,078,338.55
Bank acceptance bill	2,541,176,372.38	2,541,176,372.38
Trade acceptance draft	357,146,587.74	357,146,587.74
Total	3,415,401,298.67	3,415,401,298.67

There was no arrears payable to any shareholding unit holding 5% or above of the Company's shares.

Note 20. Accounts payable

Aging	Ending balance		Beginning balance	
	Amount	Rate in total	Amount	Rate in total
	RMB	%	RMB	%
Within 1 year	792,746,958.59	79.60	1,089,886,840.29	89.47
1- 2 years	119,745,116.60	12.02	34,555,948.18	2.84
2-3 years	34,429,950.43	3.46	54,736,775.83	4.49
Over 3 years	48,975,115.90	4.92	38,954,096.99	3.20
Total	995,897,141.52	100.00	1,218,133,661.28	100.00

There was arrears payable to any shareholder holding 5% or above of the Company's voting rights.

Note 21. Accounts advanced by clients

The ending balance was RMB223,289,431.96, in which there was no arrears payable to any shareholder holding 5% or above of the Company's shares.

There was a decrease of RMB136,609,818.01 in the ending balance of accounts advanced by clients compared to the beginning balance of such, mainly due to the decreases in the current period accounts advanced by clients.

Note 22. Salaries and remunerations payable to staff

Item	Beginning balance	Current period accrual	Current period payment	Ending balance
1. Salaries, bonuses, allowances and subsidies	124,026,919.47	775,711,116.76	774,063,679.64	125,674,356.59
2. Welfare fund for staff workers	24,710,854.22	47,362,512.01	63,241,479.23	8,831,887.00
3. Social securities	12,922,563.22	94,305,727.21	90,336,419.88	16,891,870.55
4. Housing reserve fund	1,052,966.45	3,631,802.31	3,507,769.37	1,176,999.39
5. Subsidies for trade union and education of staff	7,026,302.12	8,341,501.92	7,381,659.78	7,986,144.26
6. Non-monetary welfare fund	---	---	---	---
7. Compensation paid upon cancellation of labor relations	---	1,564,919.48	1,282,569.48	282,350.00
8. Miscellaneous	1,946,972.04	---	---	1,946,972.04
Included: Share payment made in cash	---	---	---	---
Total	171,686,577.52	930,917,579.69	939,813,577.38	162,790,579.83

Note 23. Taxes payable

Taxes	Ending balance	Beginning balance
VAT payable	(21,074,351.68)	(82,581,670.06)
Business tax	4,188,251.14	3,767,410.41
Urban construction tax	188,474.56	152,024.28
Corporate income tax	20,617,608.20	10,087,578.82
Personal income tax	4,833,428.17	1,262,003.94
Educational surcharge	40,234.03	---
Other taxes	253,915.71	113,743.93
Total	9,047,560.13	(67,198,908.68)

There was an increase of RMB 76,246,468.81 in the ending balance of taxes payable over the beginning balance, at an increase rate of 113.46%, mainly for the relatively more purchases of raw materials in December 2006, and more income taxes deductible in year 2006, so causing significant increase in the ending balance of VAT payable compared to the beginning balance.

Note 24. Other payables

Ending balance	Beginning balance
----------------	-------------------

Aging	Amount	Rate in total	Amount	Rate in total
	RMB	%	RMB	%
Within 1 year	535,095,938.80	85.40	519,537,558.85	91.62
1- 2 years	62,847,219.43	10.03	19,691,370.01	3.47
2- 3 years	14,192,128.27	2.27	14,110,504.72	2.49
Over 3 years	14,412,773.45	2.30	13,727,488.14	2.42
Total	626,548,059.95	100.00	567,066,921.72	100.00

Note 25. Deferred gains

Item	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)	---	2,000,000.00
Scientific & technological innovation fund	88,206.98	153,787.61
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	---
Construction of high-definition TV production line	2,000,000.00	---
Total	29,826,225.37	27,494,986.80

(1) According to the approving document of the Ministry of Information Industry coded xin buy un [2004] No.042, the Company received the supporting fund of RMB2,000,000.00 granted by the Electronics & Information Industrial Development Office under the Ministry of Information Industry, for the digital TV modulator R &D and industrialization project. As at the Audit Report date, said project had passed the acceptance inspection of said Office, and is carried forward into the Subsidy Income in current period.

Note 26. Deferred income tax liabilities

Item	Ending balance	Beginning balance
Saleable fair value variation of financial assets	3,783,805.52	---
Total	3,783,805.52	---

Note 27. Stock capital

Item	Beginning balance	Current period addition(decrease)						Ending balance
		Allotment	Bonus share	Share from public reserve	New issue	Others	Subtotal	
I. Un-traded shares	I. Un-traded shares							I. Tradable shares with sales limit
1. Founders' shares	52,392,592.00	---	---	---	---	---	---	52,392,592.00
Included: State held shares	52,392,592.00	---	---	---	---	---	---	52,392,592.00
2. Non-founders' shares	66,511,420.00	---	---	---	---	---	---	66,511,420.00
Included: Domestic legal person held shares	43,546,563.00	---	---	---	---	---	---	43,546,563.00
Overseas legal person held shares	22,960,915.00	---	---	---	---	---	---	22,960,915.00
Domestic natural person held shares	3,942.00	---	---	---	---	---	---	3,942.00
Total of shares not traded	118,904,012.00	---	---	---	---	---	---	118,904,012.00
II. Shares traded	II. Shares traded							II. Tradable shares without sales limit
1. RMB common shares domestic listed	280,244,438.00	---	---	---	---	---	---	280,244,438.00
2. Foreign currency shares domestic listed	202,837,902.00	---	---	---	---	---	---	202,837,902.00
Total of shares traded	483,082,340.00	---	---	---	---	---	---	483,082,340.00
III. Total of shares	601,986,352.00	---	---	---	---	---	---	601,986,352.00

Above-listed capital paid in has been checked by Shenzhen Zhong Tian Certified Public Accountants and reported in the Capital Verification Report coded gu yan bao zi [2000] NO.B020.

Note 28. Capital surplus

Item	Beginning balance	Current period addition	Current period decrease	Ending balance
Capital premium	1,812,471,052.00	---	---	1,812,471,052.00
Donation accepted of non-cash asset provision	621,050.90	---	---	621,050.90

Asset valuation gain appreciation provision	7,300,506.21	---	---	7,300,506.21
Equity rights investment provision	13,334,300.71	---	---	13,334,300.71
Carried forward appropriations	23,980,000.00	---	---	23,980,000.00
Other capital surplus	1,661,816.25	25,530,724.02 *	---	27,192,540.27
Total	1,859,368,726.07	25,530,724.02	---	1,884,899,450.09

* Current period increase of capital surplus: the increase of RMB21,021,141.77 in the fair value variation of saleable financial assets and the less of RMB3,783,805.52 in the deferred income tax liabilities below the estimate, due to the increase of RMB8,293,387.77 in the capital surplus brought forth by the valuation gain appreciation of NDF hedging combined business as at Dec 31, 2007.

Note 29. Surplus reserve fund

Item	Beginning balance	Current period addition	Current period decrease	Ending balance
Mandatory surplus reserve fund	527,608,154.79	---	---	527,608,154.79
Random surplus reserve fund	254,062,265.57	---	---	254,062,265.57
Total	781,670,420.36	---	---	781,670,420.36

Note 30. Profits undistributed

Beginning balance	Current period addition	Current period decrease	Ending balance
122,927,713.69	209,198,469.00	60,654,549.76	271,471,632.93

Note 31. Operating income and operating cost

(1) Details of operating income and cost are listed as follows:

Item	Current period		Last period	
	Operating income	Operating cost	Operating income	Operating cost
1. Main business income	12,064,636,273.80	9,743,937,332.52	12,656,150,985.55	10,522,538,349.15
2. Other business income	104,442,095.70	60,249,024.79	74,827,395.02	41,747,121.53
Total	12,169,078,369.50	9,804,186,357.31	12,730,978,380.57	10,564,285,470.68

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

Current period	Last period
----------------	-------------

Total of first five clients in terms of sales revenue	2,271,344,890.88	975,536,146.11
Rate in the total sales revenue	18.66%	7.71%

(3) Breakdown of main business:

Breakdown of main business	Current period		Last period	
	Main business income	Main business cost	Main business income	Main business cost
Color TV business	9,613,960,868.34	7,646,229,399.76	10,154,982,067.62	8,387,104,157.42
Mobile phone business	1,602,803,486.87	1,303,005,276.31	1,777,535,437.85	1,452,904,465.39
Other business	847,871,918.59	794,702,656.45	723,633,480.08	682,529,726.34
Subtotal	12,064,636,273.80	9,743,937,332.52	12,656,150,985.55	10,522,538,349.15
Internal withholdings among business sectors of the Company	---	---	---	---
Total	12,064,636,273.80	9,743,937,332.52	12,656,150,985.55	10,522,538,349.15

(4) Regional indicators of main business:

Region	Current period		Last period	
	Main business income	Main business cost	Main business income	Main business cost
Domestic sales	10,778,767,660.44	8,549,810,201.24	10,548,249,360.58	8,537,306,901.25
Overseas sales	2,286,824,485.76	2,195,083,003.68	3,868,383,189.33	3,745,713,012.26
Subtotal	13,065,592,146.20	10,744,893,204.92	14,416,632,549.91	12,283,019,913.51
Internal withholdings among regional sectors of the Company	(1,000,955,872.40)	(1,000,955,872.40)	(1,760,481,564.36)	(1,760,481,564.36)
Total	12,064,636,273.80	9,743,937,332.52	12,656,150,985.55	10,522,538,349.15

There was a decrease of RMB591,514,711.70 in the main business income over beginning balance, at a decrease rate of 4.67%, mainly due to the decrease of overseas sales income of color TV products.

(5) Other business breakdown:

Other business	Current period			Last period		
	Other business income	Other business cost	Profit	Other business income	Other business cost	Profit
Transfer of materials	75,472,203.90	52,215,072.65	23,257,131.25	36,716,946.08	29,304,377.80	7,412,568.28
Scrap revenue	18,912,872.51	2,508,297.41	16,404,575.10	23,336,092.77	6,029,350.39	17,306,742.38

Miscellaneous	10,057,019.29	5,525,654.73	4,531,364.56	14,774,356.17	6,413,393.34	8,360,962.83
Total	104,442,095.70	60,249,024.79	44,193,070.91	74,827,395.02	41,747,121.53	33,080,273.49

Breakdown of operating income and cost is as follows:

(1) Breakdown of operating income and cost:

Item	Current period		Last period	
	Operating income	Operating cost	Operating income	Operating cost
1. Main business income	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98
2. Other business income	292,154,327.82	253,143,793.87	41,535,429.79	20,441,208.59
Total	10,136,442,833.46	8,349,432,840.50	10,488,815,775.71	8,977,257,006.57

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

	Current period	Last period
Total sales revenue from first five clients	2,271,344,890.88	1,807,566,086.43
Rate in the sales revenue	23.07%	17.30%

(3) Breakdown of main business:

Breakdown of main business	Current period		Last period	
	Main business income	Main business cost	Main business income	Main business cost
Color TV business	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98
Mobile phone business	---	---	---	---
Other business	---	---	---	---
Subtotal	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98
Internal withholdings among business sectors of the Company	---	---	---	---
Total	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98

(4) Regional indicators of main business:

Region	Current period		Last period	
	Main business income	Main business cost	Main business income	Main business cost
Domestic sales	8,843,332,633.24	7,085,618,160.42	8,686,798,781.56	7,177,686,572.31

Overseas sales	1,000,955,872.40	1,010,670,886.21	1,760,481,564.36	1,779,129,225.67
Subtotal	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98
Internal withholdings among regional sectors of the Company	---	---	---	---
Total	9,844,288,505.64	8,096,289,046.63	10,447,280,345.92	8,956,815,797.98

(5) Breakdown of other business:

Other business	Current period			Last period		
	Other business income	Other business cost	Profit	Other business income	Other business cost	Profit
Transfer of materials	272,769,139.53	252,664,309.01	20,104,830.52	24,687,003.79	19,458,973.71	5,228,030.08
Scrap revenue	11,515,265.26	22,852.08	11,492,413.18	7,953,031.34	---	7,953,031.34
Miscellaneous	7,869,923.03	456,632.78	7,413,290.25	8,895,394.66	982,234.88	7,913,159.78
Total	292,154,327.82	253,143,793.87	39,010,533.95	41,535,429.79	20,441,208.59	21,094,221.20

Note 32. Financial expenses

Item	Current period	Last period
Interest expense	24,330,855.66	4,146,002.51
Less: interest income	4,646,981.77	5,000,217.11
Exchange loss	10,420,796.26	3,187,974.29
Less: Exchange gain	6,930,509.27	1,766,042.80
Miscellaneous	17,677,999.82	13,276,981.95
Total	40,852,160.70	13,844,698.84

There was an increase of RMB27,007,461.86 in current period financial expenses over last period, at an increase rate of 195.07%, 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.

Note 33. Asset impairment loss

Item	Current period	Last period
1. Bad debt loss	37,733,336.79	16,347,489.59
2. Inventory devaluing loss	34,230,316.18	34,836,160.47
Total	71,963,652.97	51,183,650.06

Note 34. Investment income

Type	Current period	Last period
Stock investment gains	8,773,933.59	---
Ending adjusted net increase/decrease of owners'	(621,235.60)	574,107.60

equities of the companies invested		
Gains from transfer of stock rights investment	489,704.91	1,377,792.97
Carry-back of long-term stock rights investment devaluing provision	---	---
Miscellaneous	---	(613,413.82)
Total	<u>8,642,402.90</u>	<u>1,338,486.75</u>

1. There was an increase of RMB7,303,916.15 in current period investment gains over beginning balance, at an increase rate of 545.68%, mainly for increase in the purchase application of new share investment and sales of part of such, which rewarded the gains of RMB8,773,933.59.

2. There was no significant limit over carry-back of investment gains.

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

Type	Current period	Last period
Stock investment gains	8,773,933.59	---
Ending adjusted net increase/decrease of owners' equities of the companies invested	---	(488,294.27)
Subsidiaries' return of investment gains	5,559,890.54	34,285,449.16
Carry-back of long-term stock rights investment devaluing provision	---	---
Gains from transfer of stock rights investment	489,704.91	1,377,792.97
Total	<u>14,823,529.04</u>	<u>35,174,947.86</u>

Note 35. Non-operating income & expenditure

1. Non-operating income

Item	Current period	Last period
1. Total of gains upon disposing non-current assets	1,282,944.23	111,027.29
Included: Gains upon disposing fixed assets	1,282,944.23	111,027.29
Gains upon disposing intangible assets	---	---
Governmental subsidies	3,157,255.00 *	210,000.00
Fixed assets inventory surplus	1,000.00	---
Income from donations accepted	---	---
Net income from fines	2,930,031.36	1,922,339.41
Accounts payable carried forward when unable to be paid	906,840.74	---
Miscellaneous	3,726,644.44	1,308,524.22
Total	<u>12,004,715.77</u>	<u>3,551,890.92</u>

There was an increase of RMB8,452,824.85 in current period non-operating income over beginning balance, at an increase rate of 237.98%, mainly based on significant increases of governmental subsidies and fines.

* Breakdown of subsidy income is listed as follows:

Item	2007
New product financial subsidy by Beijiang District of Chongqing City	347,000.00
Exports financial subsidy by Beijiang District of Chongqing City	600,000.00
Funding for independent innovation provided by Science & Technology Commission	100,000.00
Funding for digital TV receiver modulator program by Information Industry Ministry	2,000,000.00
Scientific & technological insurance subsidies approved independently by Science & Technology Commission	10,255.00
Funding for scientific & technological programs granted by Anhui Provincial Office of Science & Technology	100,000.00
Total	<u>3,157,255.00</u>

2. Non-operating expenditure

Item	Current period	Last period
1. Total of losses on disposing non-current assets	4,022,131.66	1,309,413.40
Included: Loss upon disposing fixed assets	4,022,131.66	1,309,413.40
Loss upon disposing intangible assets	---	---
Fixed assets inventory deficit	3,980.00	12,753.42
Donation expenses	1,098,515.76	2,384,806.20
Expenses for fines	1,094,129.73	332,238.41
Extraordinary losses	369,907.62	55,028.65
Resigning subsidy	2,740,763.40	---
Miscellaneous	1,729,710.82	2,608,818.20
Total	<u>11,059,138.99</u>	<u>6,703,058.28</u>

There was an increase of RMB4,356,080.71 in current period non-operating expenses over beginning balance, at an increase rate of 64.99%, mainly due to significant increases in the subsidies for disposing non-current assets and resigning staff.

Note 36. Income tax

(1) Breakdown of income tax expenses

Item	Current period	Last period
Current period income tax expenses	29,934,598.70	22,393,642.00
Included: Income tax expenses accrued current period	29,934,598.70	22,393,642.00
Current period adjustment over income tax amount of preceding year	---	---

Deferred income tax expenses	3,933,286.06	(10,564,486.16)
Included: Deferred income tax accrued current period	14,022,190.38	(10,564,486.16)
Current period adjustment over deferred income tax amount of preceding year	---	---
Influence of tax rate variation	(10,088,904.32)	---
Total	33,867,884.76	11,829,155.84

Note 37. Other cashes concerning operating activities

Item	Current period	Last period
Other cashes received concerning operating activities		
Current accounts	57,060,347.02	34,853,711.30
Mortgage guarantee deposit	---	---
Fixing fund advanced	2,076,930.98	---
Income from bank deposit interests	5,823,279.06	5,000,217.11
Earnest money and deposit	11,431,853.86	---
Income from fines and penalties	1,298,465.01	---
Repayment for personal loans	3,969,774.39	---
Subsidy income	5,540,000.00	210,000.00
Scrap income	12,708,357.96	41,528,263.73
Financial asset income	266,076,000.00	---
Miscellaneous	40,305,256.39	2,477,871.34
Subtotal	406,290,264.67	84,070,063.48
Other cashes paid concerning operating activities		
Current accounts	41,570,322.85	---
Cash paid with management expenses	162,863,280.22	184,408,206.06
Cash paid with operating expenses	733,309,001.23	709,697,728.82
Earnest money, deposit and fixing expenses	14,197,437.33	2,477,871.34
Staff work reserve fund	18,730,554.07	13,311,707.50
Advance of expenses	48,394,706.96	---
Penalty expenditure	448,220.19	---
Interest and handling charges	23,460,434.77	5,406,781.49
Miscellaneous	119,139,741.68	9,360,370.58
Subtotal	1,162,113,699.30	924,662,665.79

Note 38. Other cashes concerning investing activities

Item	Current period	Last period
Other cashes received concerning investing activities		
Fund recycling inbound on purchasing new shares	2,056,103,685.21	1,943.27
Subtotal	2,056,103,685.21	1,943.27
Other cashes paid concerning investing activities		
Fund flow outbound on purchasing new shares	2,056,005,544.03	---

Subtotal	2,056,005,544.03	---
Total	98,141.18	1,943.27

Note 39. Cash and cash equivalent

Item	Current period	Last period
I. Cash	752,558,414.47	678,239,825.82
Included: cash on hand	10,249.62	11,575.32
Bank deposit available for use in payment any time	752,548,164.85	678,228,250.50
Other monetary fund available for use in payment any time	---	---
Accounts deposited at central bank and available for payment	---	---
Inter-bank deposits	---	---
Release of inter-bank deposits	---	---
II. Cash equivalent	---	---
Included: Bond investment mature in three months	---	---
III. Ending balance of cash and cash equivalent	752,558,414.47	678,239,825.82

Annexed Note 7. Government subsidies

Type of government subsidies	Amount to be deferred
I. Government subsidies 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	88,206.98
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 state debts 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
Total	29,826,225.37

Annexed Note 8. Supplementary disclosure of expense nature

Item	Current period	Last period
1 . Raw materials and other consumed	1,675,442.99	3,178,031.03
2 . Staff salaries, remunerations and expenses accrued	775,711,116.76	702,863,171.88
3 . Depreciation (rejection) reserved	131,962,802.82	137,195,498.68
4 . Amortization of intangible assets and others	6,421,028.65	6,466,095.61
5 . Asset devaluing provision reserved	71,963,652.97	51,183,650.06
6 . Interest accrued	24,330,855.66	4,146,002.51
Total	1,012,064,899.85	905,032,449.77

Annexed Note 9. Supplementary information to cash flow statement

Supplementary information	Current period	Last period
1. Cash flow in operating activities adjusted from net profits:	301,215,498.85	180,581,832.52
Net profits	214,030,900.07	104,268,084.75
More: Asset devaluing provision	71,963,652.97	51,183,650.06
Depreciation of fixed assets, consumption & depreciation of fuel and gas, depreciation of production materials	131,962,802.82	137,195,498.68
Amortization of intangible assets	6,421,028.65	6,466,095.61
Amortization of long-term expenses to amortize	7,152,601.57	8,406,103.32
Loss upon disposing fixed assets, intangible assets and other long-term assets	2,739,187.43	1,279,544.40
Loss upon rejection of fixed assets	---	833,352.98
Loss from fair value variation	---	---
Financial expenses	3,490,286.99	1,421,931.49
Loss of investment	(8,642,402.90)	(1,338,486.75)

Asset decrease of deferred income tax	3,933,286.06	(10,564,486.16)
Liability increase of deferred income tax	3,783,805.52	---
Decrease of inventories	585,811,827.49	(201,174,619.35)
Decrease of operating accounts receivable	238,057,523.33	(718,725,865.40)
Increase of operating accounts payable	(959,489,001.15)	801,331,028.89
Others	---	---
2. Major investing and fund raising activities not concerning cash income and expenditure:		
Liabilities capitalized	---	---
Convertible bonds payable mature in one year	---	---
Fund raised leased to fixed assets	---	---
3. Net changes of cash and cash equivalent:		
Ending balance of cashes	752,558,414.47	678,239,825.82
Less: Beginning balance of cash	678,239,825.82	629,159,950.38
More: Ending balance of cash equivalents	---	---
Less: Beginning balance of cash equivalent	---	---
Net increases of cash and cash equivalent	<u>74,318,588.65</u>	<u>49,079,875.44</u>

Annexed Note 10. Related parties and transactions

(1) Mother Company of the Company

Name and organizational code of Mother Company	Place of registration	Type of incorporation	Registered capital	Rate of share-holding	Rate of voting rights
OCT Group (190346175)	Shenzhen City, GD	Owned by whole people	2,000,000,000.00	8.70%	8.70%

(2) See Note 3 for related information over subsidiaries, associated companies and cooperative companies.

(3) Information of other related parties with the Company:

Name and organizational code	Relationship with Company
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of No. 1 shareholder
Shenzhen OCT Real Estate Management Co., Ltd.	Subsidiary of No. 1 shareholder
Shenzhen OCT Water & Power Co., Ltd.	Subsidiary of No. 1 shareholder
Shanghai Huali Packaging Co., Ltd.	Subsidiary of No. 1 shareholder
Shenzhen Huali Packaging Trading Co., Ltd.	Subsidiary of No. 1 shareholder

Anhui Huali Packaging Co., Ltd.	Subsidiary of No. 1 shareholder
Shanghai OCT Investment Development Co., Ltd.	Subsidiary of No. 1 shareholder
Chengdu Tianfu OCT Industrial Development Co., Ltd.	Subsidiary of No. 1 shareholder
East OCT Co., Ltd.	Subsidiary of No. 1 shareholder
Shenzhen Konka Energy Technologies Co., Ltd.	Associated company
Shenzhen Dekang Electronics Co., Ltd.	Associated company
Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	Associated company

(4) Transactions with related parties

Name of Company	Item	Ending balance			Beginning balance		
		Amount	Rate in like transactions	Pricing policy	Amount	Rate in like transactions	Pricing policy
Shenzhen Dekang Electronics Co., Ltd.	Purchasing goods	76,308,593.1	1.16%	Market	71,109,287.	0.86%	Market
		9		prices	54		prices
Shanghai Huali Packaging Co., Ltd.	Purchasing goods	15,247,129.8	0.23%	Market	54,089,736.	0.65%	Market
		8		prices	02		prices
Shenzhen Huali Packaging Trading Co., Ltd.	Purchasing goods	22,331,121.5	0.34%	Market	29,048,590.	0.35%	Market
		6		prices	63		prices
Anhui Huali Packaging Co., Ltd.	Purchasing goods	42,255,265.0	0.64%	Market	10,105,276.	0.12%	Market
		1		prices	26		prices
OCT Group	Payment of land use charge	334,983.80	100%	---	334,983.80	---	
OCT Group	Stock rights consignment or acceptance	2,160,000.00	20%	Valuated price	---	---	---
Shanghai OCT Investment Development Co., Ltd.	Stock rights consignment or acceptance	4,320,000.00	40%	Valuated price	---	---	---
Chengdu Tianfu OCT Industrial Development Co., Ltd.	Stock rights consignment or acceptance	4,320,000.00	40%	Valuated price	---	---	---
East OCT Co., Ltd.	Purchasing housing estate	42,300,000.0	100%	Market price	---	---	---

(5) Transactions of related parties

Current	Related parties	Transaction	Ending balance	Beginning balance
Accounts receivable	Shenzhen Konka Energy Technologies Co., Ltd.	Current account	1,130,000.00	1,130,000.00
Subtotal			<u>1,130,000.00</u>	<u>1,130,000.00</u>
Other receivables	Shenzhen OCT Real Estate Co., Ltd. Shenzhen OCT Real Estate Management Co., Ltd.	Earning money	1,288,948.86 77,402.65	1,271,836.74 76,876.00

	Shenzhen SEZ OCT Water & Power Co.,Ltd.	Advance for water & power charge	3,574,966.43	2,241,192.11
	Guangzhou Huadu Long Feng Jian Zhi Real Estate Co., Ltd.	Current account	31,900.00	100,000.00
	East OCT Co., Ltd.	Payment for housing purchase	42,300,000.00	---
Subtotal			<u>47,273,217.94</u>	<u>3,689,904.85</u>
Accounts payable	Shenzhen Dekang Electronics Co., Ltd.	Payment for goods	9,106,408.21	356,647.20
	Shanghai Huali Packaging Co., Ltd.	Payment for goods	1,239,864.95	---
	Shenzhen Huali Packaging Trading Co., Ltd.	Payment for goods	3,532,700.55	1,077,046.54
Subtotal			<u>13,878,973.71</u>	<u>1,433,693.74</u>

Annexed Note 11. Non-adjustment matters in matters after the Balance Sheet Date

Draft scheme for profit distribution of year 2007: The proposal of capitalization: based on total share capital of 601,986,352 of the Company as at Dec.31, 2007, the Company transferred capital reserve into share capital at the rate of 10 for 10 to all shareholders.

Annexed Note 12. Other matters of significance

(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, 2007 the Company signed with Bank of China Holdings Ltd. Shenzhen Branch(hereinafter referred to as Bank of China) the Credit Awarding Agreement coded (2007) zhen zhong yin e xie zi No.000006, by which Bank of China shall award the Company with comprehensive loan credit not exceeding RMB 3.5 billion during the period from Jan 11, 2007 to Jan 11,2008. On same date of Jan 11, 2007, the Company and its subsidiaries signed five of the Supplementary Agreement to said Credit Awarding Agreement coded (2007) zhen zhong si zhi e zi No. 0001, 0002, 0003, 0004 and (2007) zhen zhong yin e di xie zi NO. 002, respectively, whereby the Company and its subsidiaries provided guarantee for all debts to be accrue under above mentioned Credit Awarding Agreement with the bank acceptance bill amounting RMB1.2 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 RMB235,404,800.00. As by Dec 31, 2007, said three housing titles and

the bank acceptance bill amounting RMB1,669,548,816.99 had been mortgaged for said credit awarding.

(3) As of Dec 31, 2007, subsidiary of the Company, Dongguan Konka Molds & Plastics Co., Ltd. signed with China Merchants Bank Co., Ltd. Shenzhen Branch Bank Acceptance Mortgage Contracts coded 2007 No. 5007401259, No. 5007401015, No. 5007401120 respectively, for issuing bank acceptance bills with mortgage of two notes receivable coded DB/01 0290107, DB/01 02917701, totaling amount of RMB 10,005,501.45.

(4) 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 USD0.17 billion lans on mortgage with fixed bank deposit amounting 1,032,235,139.55 and bank acceptance bills amounting 263,937,600.00, and meantime continued the “one-year USD exchange rate risk lockup” NDF value maintenance business.

Annexed Note 13. Non-recurring gain & loss

Nature or content	Amount before deducting income tax influences		Amount after deducting income tax influences	
	Current period	Last period	Current period	Last period
1. Gain or loss upon disposing non-current assets				
(1) Income from disposing long-term assets	1,772,649.14	1,488,820.26	1,544,075.78	1,282,151.31
Included: Income from liquidation of fixed assets	1,282,944.23	111,027.29	1,127,826.61	111,027.29
Gains from transfer of intangible assets	---	---	---	---
Gains from transfer of stock rights	489,704.91	1,377,792.97	416,249.17	1,171,124.02
Subtotal	1,772,649.14	1,488,820.26	1,544,075.78	1,282,151.31
(2) Expenses on disposing long-term assets	4,022,131.66	1,309,413.40	3,302,968.62	1,309,413.40
Included: Net loss from disposing fixed assets	4,022,131.66	1,309,413.40	3,302,968.62	1,309,413.40
Loss from transfer of stock rights	---	---	---	---
Subtotal	4,022,131.66	1,309,413.40	3,302,968.62	1,309,413.40
Net gain or loss on disposing non-current assets	(2,249,482.52)	179,406.86	(1,758,892.84)	(27,262.09)
2. Tax refund or exemption & reduction without official approval or with approval of department beyond their authorities.	---	---	---	---
3. Government subsidy 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)	3,157,255.00	210,000.00	2,821,529.50	185,250.00
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 reorganization of liabilities	---	---	---	---
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:	7,564,516.54	3,230,863.63	6,622,342.27	2,853,839.09
Subtotal	7,564,516.54	3,230,863.63	6,622,342.27	2,853,839.09
(2) Less: Non-operating expense	7,037,007.23	5,393,644.88	6,377,855.08	4,942,121.28
Subtotal	7,037,007.23	5,393,644.88	6,377,855.08	4,942,121.28
Net amount of non-operating income and expense	527,509.21	(2, 162, 78 1. 25)	244,487.19	(2,088,282. 19)
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	1,435,281.69	(1,773,374.39)	1,307,123.85	(1,930,294.28)
Less: Amount of minority shareholders' gain and loss influences	2,257,323.87	208,807.74	2,072,763.78	208,807.74
Total non-recurring gain and loss after deducting minority shareholders' gain and loss	(822,042.18)	(1,982,182.13)	(765,639.93)	(2,139,102.02)

Annexed Note 14. Profit margin on net assets (ROE)

Reporting period profit	ROE			
	Fully diluted		Weighted average	
	Current period	Last period	Current period	Last period
Net profit for common shareholders	5.90%	2.87%	6.05%	2.92%
Net profit for common shareholders after deducting non-recurring gain and loss	5.92%	2.94%	6.07%	2.98%

Annexed Note 15. Earning per share (EPS)

Reporting period profit	Earning per share			
	Primary EPS		Diluted EPS	
	Current period	Last period	Current period	Last period
Net profit for common shareholders	0.3475	0.1608	0.3475	0.1608
Net profit for common shareholders after deducting non-recurring gain and loss	0.3488	0.1643	0.3488	0.1643

Item	2007	2006
Calculation of primary and diluted EPS		
I. Numerator:		
After-tax net profit	209,198,469.00	96,774,909.50
Adjustment: Preferred dividend and other tools' influences		
Gain & loss for common shareholders of Mother Company in the calculation of primary EPS	209,196,469.00	96,774,909.50
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	209,196,978.10	96,774,909.50
II. Denominator:		
Weighted average of current period issued shares in the calculation of primary EPS	601,986,352	601,986,352
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	601,986,352	601,986,352
III. Earning per share		
Primary EPS		
Net profit for common shareholders	0.3475	0.1608
Net profit for common shareholders after deducting the non-recurring gain and loss	0.3488	0.1643
Diluted EPS		
Net profit for common shareholders	0.3475	0.1608
Net profit for common shareholders after deducting the non-recurring gain and loss	0.3488	0.1643

Annexed Note 16. Adjustment of owners' equities and revised items upon implementation of new accounting system at current period beginning

Item	Stock capital	Capital surplus	Surplus reserve	Profits undistributed	Others	Minority shareholders' equities	Total
I. Ending balance last year	601,986,352.00	1,859,368,726.07	774,853,299.30	136,146,766.94	(70,595,428.88)	243,608,120.79	3,545,367,836.22
More: Correction of accounting errors and change of accounting estimates of last period	---	---	---	---	---	---	---
II. Balance before adjustment at beginning of current period	601,986,352.00	1,859,368,726.07	774,853,299.30	136,146,766.94	(70,595,428.88)	243,608,120.79	3,545,367,836.22
Process of adjustment:							
Temporary difference of income tax caused by adjustment of carrying values of assets and liabilities and varied taxation bases.	---	---	3,827,819.58	63,470,040.41	---	43,917.17	67341777.16
Accumulated adjustment over losses of subsidiaries not compensated	---	---		(73,699,792.18)	73,699,792.18	---	---
Surplus reserve influenced under	---	---	(2,989,301.49)	2,989,301.49			

traced adjustment of Mother Company with Cost Method						---	---
III. Current period beginning balance	601,986,352.00	1,859,368,726.07	775,691,817.39		3,104,363.30	243,652,037.96	3,612,709,613
after adjustment				128,906,316.66			.38

Annexed Note 17.Reconciliation of difference in shareholders' equity between the New and Old Accounting Standard for Business Enterprise

Unit: RMB Yuan

Item	Amount disclosed in Annual Report 2007	Amount disclosed in Annual Report 2006	Difference	Explanation for reason
Shareholder's Equity as at Dec. 31, 2006 (old Accounting Standards)	3,301,759,715.43	3,301,759,715.43	0.00	
Balance of long-term equity investment				
Of which: balance of long-term equity investment formed in the merger of an enterprise under the same control				
Credit balance for long-term equity investment calculated based on equity method				
Investment real estate measured based on fair value model				
Depreciation over the past years supplemental withdrew due to dismantling cost of assets				
Employee termination indemnity according with projected liability				
Share based payments				
Reorganization obligation according with projected liability				
Business Combinations				
Of which: Book value of goodwill formed in the merger of an enterprise under the same control				
Reserve for impairment of goodwill withdrawn based on new accounting standards				
Financial assets and available-for sale financial assets measured in line with fair value and its change amounts was recognized in profit or loss of current period				

Financial liability measured in line with fair value and its change amounts was recognized in profit or loss of current period				
Equity increased due to division of financial instrument				
Derivative financial instruments				
Income Tax	67,297,859.99		67,297,859.99	The Company performed new accounting standard for business enterprise since Jan. 1, 2007, income tax was measured based on balance sheet liabilities approach from the former tax payable method; temporary difference between book value of the balance sheet and tax base was made retroactive adjustment; from which impact amount was adjusted and recorded into retained earnings. Impact on income tax was RMB 67,297,859.99.
Minority interests	243,652,037.96	243,608,120.79	43,917.17	The Company performed new accounting standard for business enterprise since Jan. 1, 2007, income tax was measured based on balance sheet liabilities approach from the former tax payable method; temporary difference between book value of the balance sheet and

				tax base was made retroactive adjustment; from which impact amount was adjusted and recorded into retained earnings. Impact on minority interests was RMB 43,917.17.
Special retroactive adjustment on listed company with B-share and H-share				
Other				
Shareholder Equity as at Jan. 1, 2007 (New Accounting Standard)	3,612,709,613.38	3,545,367,836.22	67,341,777.16	The Company performed new accounting standard for business enterprise since Jan. 1, 2007, income tax was measured based on balance sheet liabilities approach from the former tax payable method; temporary difference between book value of the balance sheet and tax base was made retroactive adjustment; from which impact amount was adjusted and recorded into retained earnings.

Annexed Note 18. Adjustment items in Income Statement

(Jan. 1, 2006—Dec. 31, 2006)

Unit: RMB Yuan

Items	Prior to the adjustment	Subsequent to the adjustment
Operating cost	10,522,538,349.15	10,564,285,470.68
Sale expense	1,528,856,382.78	1,528,856,382.78
Administrative expense	503,916,820.81	452,733,170.75
Income from change of fair value	0.00	
Investment income	1,338,486.75	1,338,486.75
Income tax	1,338,486.75	11,829,155.84

Net profit	102,638,435.58	96,774,909.50
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Annexed Note 19. Reconciliation to net profit

Unit: RMB Yuan	
Items	Amount
Net profit from Jan. 1, 2006 – Dec. 31, 2006 (the old accounting standards)	102,638,435.58
Total amount influenced by retroactive adjustment items	-5,863,526.08
Including: Operation cost	-41,747,121.53
Sales expense	0.00
Administrative expense	51,183,650.06
Income from change of fair value	0.00
Investment income	0.00
Income tax	10,564,486.16
Other	-25,864,540.77
Less: Influence on minority interest due to retroactive adjustment items	0.00
Net profit attributable to owners of parent company from Jan. 1, 2006 – Dec. 31, 2006 (the New Accounting Standard)	96,774,909.50
Reference information of supposing implement the New Accounting Standard for Business Enterprise	
I. Add: Total amount influenced by other items	
Including: development expense	
Gains and losses from debts restructuring	
Gains and losses from non-monetary assets exchange	
Investment income	
Income tax	
Other	
II. Add: Influence on minority interest due to retroactive adjustment items	
III. Add: minority interest listed in the financial statement over the previous year	
Simulated net profit from Jan. 1, 2006 – Dec. 31, 2006	96,774,909.50

Annexed Note 20. Approval of financial statements

Financial statements of the Company were approved by the Board of Directors on April 3, 2008.