

KONKA GROUP CO. , LTD.

Annual Report 2008

Chairman of the Board: Hou Songrong

April 2009

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### Section . Important Notice

The Board of Directors, the Supervisory Committee, as well as directors, supervisors and senior management staffs 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 2008 and its Summary has been examined and approved by the 6<sup>th</sup> Board of Directors at the 23<sup>rd</sup> session.

By reviewing at the 11<sup>th</sup> session of the 6<sup>th</sup> Supervisory Committee, it believed that the Annual Report 2008 and the Summary are in compliance with the content and format stipulated by CSRC and Stock Exchange, in which the information contained can reflect the Company ' s business management and financial status for the year 2008 in true, accurate and complete. None of director, supervisor or senior management staff stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

A standard Auditor ' s Report with unqualified opinion was produced by BDO. Guangdong Dahua Delu CPA, LLP.

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 2008 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 . Company Profile

1. Legal Name in Chinese: 康佳集团股份有限公司  
Abbr. in Chinese: 康佳集团  
Legal Name in English: KONKA GROUP CO. , LTD.  
Abbr. in English: KONKA GROUP
2. Registered (office) address: Overseas Chinese Town, Nanshan District, Shenzhen  
Post Code: 518053  
Internet website: <http://www.konka.com>  
E-mail: [szkonka@konka.com](mailto:szkonka@konka.com)
3. Legal Representative : Chairman of the Board Mr. Hou Songrong
4. Secretary to the Board: Mr. Xiao Qing  
Securities Affairs Representative: Mr. Wu Yongjun  
Contact address: Secretariat of the Board of Directors, Konka Group Co. , Ltd. , Overseas Chinese Town, Nanshan District, Shenzhen  
Contact Telephone Number: 0755-26608866  
Fax: 0755-26600082  
E-mail: [szkonka@konka.com](mailto:szkonka@konka.com)
5. Newspaper designated by the Company for information disclosure: Securities Times, etc.  
International Internet Website appointed by CSRC: <http://www.cninfo.com.cn>  
Place where the Annual Report is prepared: Secretariat of the Board of Directors
6. Exchange where the stock of the Company is listed: Shenzhen Stock Exchange  
Stock Abbr.: Shen Konka A, Shen Konka B  
Stock Code: 000016, 200016
7. Initial registration date: 1 Oct. 1980  
Place: Shenzhen
8. Registration number of corporate business license: 440301501121863
9. Tax registration number: 440301618815578
10. Certified Public Accountants engaged by the Company  
Name: BDO. Guangdong Dahua Del u CPA, LLP (original name: Shenzhen Dahua Ti ancheng Certi fi ed Publ ic Accountants)  
Address: 11/F, Block B, Union Square, 5022 Binhe Av. , Futian District, Shenzhen, Guangdong

**Section . Accounting Data and Business Highlights I. Major accounting data as of the year 2008**  
(I) Major accounting date

Unit: RMB Yuan

Items	Amount
Operating profit	265,873,912.89
Total profit	280,845,894.52
Net profit attributable to shareholders of the Company	250,817,154.35
Net profit attributable to shareholders of the Company after deducting extraordinary gains and losses	254,938,313.48
Net cash flows arising from operating activities	362,642,078.29

## Major accounting data

Unit: RMB Yuan

	2008	2007		Increase/decrease year-on-year (%)	2006	
		Before the adjustment	After the adjustment		Before the adjustment	After the adjustment
Operating income	12,205,292,227.57	12,169,078,369.50	12,169,078,369.50	0.30	12,656,150,985.55	12,730,978,380.57
Total profit	280,845,894.52	247,898,784.83	256,450,384.55	9.51	116,097,240.59	116,097,240.59
Net profit attributable to shareholders of listed company	250,817,154.35	209,198,469.00	207,091,715.42	21.11	102,638,435.58	96,774,909.50
Net profit attributable to shareholders of listed company after deducting extraordinary Gain and Loss	254,938,313.48	209,964,108.93	217,833,696.81	17.03	104,777,537.60	98,914,011.52
Net cash flow arising from operation activities	362,642,078.29	301,215,498.85	35,139,498.85	932.01	180,581,832.52	180,581,832.52
	31 December 2008	31 December 2007		Increase/decrease year-on-year (%)	31 December 2006	
		Before the adjustment	After the adjustment	After the adjustment	Before the adjustment	After the adjustment
Total assets	10,517,285,515.63	9,277,974,998.92	10,599,949,691.10	-0.78	9,952,185,214.15	10,019,526,991.31
Owners' equity (shareholders' equity)	3,775,042,931.48	3,547,827,071.63	3,541,109,135.15	6.61	3,301,759,715.43	3,369,057,575.42
Share capital	1,203,972,704.00	601,986,352.00	601,986,352.00	100.00	601,986,352.00	601,986,352.00

## 3.2 Major financial indexes

Unit: RMB Yuan

	2008	2007		Increase/decrease year-on-year (%)	2006	
		Before the adjustment	After the adjustment		Before the adjustment	After the adjustment
Basic EPS (RMB/share)	0.2083	0.174	0.1720	21.10	0.085	0.080
Diluted EPS (RMB/share)	0.2083	0.174	0.1720	21.10	0.085	0.080
Basic EPS after deducting extraordinary gain and loss (RMB/share)	0.2117	0.174	0.1809	17.03	0.087	0.082
Fully diluted return on net assets (%)	6.64%	5.90%	5.85%	0.79	3.11%	2.87%
Weighted average return on net assets (%)	6.84%	6.05%	6.00%	0.84	3.16%	2.92%
Fully diluted return on net assets after deducting	6.75%	5.92%	6.15%	0.60	3.17%	2.94%

extraordinary gain and loss (%)						
Weighted average return on net assets after deducting extraordinary gain and loss (%)	6.95%	6.07%	6.31%	0.64	3.19%	2.98%
Net cash flow per share arising from operation activities (RMB/share)	0.301	0.25	0.06	401.67	0.15	0.15
	31 December 2008	31 December 2007		Increase/decrease year-on-year (%)	31 December 2006	
		Before the adjustment	After the adjustment	After the adjustment	Before the adjustment	After the adjustment
Net assets per share attributable to shareholders of listed company (RMB/share)	3.135	2.947	2.941	6.60	2.742	2.798

Note: In accordance with the resolutions of the Annual Shareholders' General Meeting 2007, the Company implemented the plan on transferring capital reserve into stock in June 2008, namely, based on total stock capital of 601,986,352 shares as at the end of 2007, transferring capital reserve into stock at the rate of 10 for 10 to all the shareholders. After transfer, total share capital of the Company had increased to 1,203,972,704 shares. In the above table, data such as basic EPS, diluted EPS, basic EPS after deducting extraordinary gains and losses, net cash flow per share arising from operation activities and net assets per share attributable to shareholders of listed company have been adjusted accordingly in the light of total share capital after transfer.

#### II. Items of extraordinary gains and losses and amount involved (Unit: RMB Yuan)

Items of extraordinary gains and losses	Amount
Profit and loss from disposal of non-current assets	2,459,884.77
Governmental grants counted into the current profit and loss, except for the one closely related with the normal operation of the company and gained constantly at a fixed amount or quantity according to certain standard based on state policies	9,944,243.96
Profit or loss from change in fair value by holding tradable financial assets and liabilities, and investment income from disposal of tradable financial assets and liabilities as well as salable financial assets, excluding the effective hedging businesses related with the normal operations of the company	-18,295,684.10
Other non-operating income and expenses besides the above items	5,363,152.68
Amount affected by income tax	-3,486,638.48
Amount affected by minority interest	-106,117.96
<b>Total</b>	<b>-4,121,159.13</b>

#### III. Changes in shareholders' equity in the reporting period (Unit: RMB Yuan)

Items	Opening amount	Increase in 2008	Decrease in 2008	Closing amount
Share capital	601,986,352.00	601,986,352.00	-	1,203,972,704.00
Capital reserve	1,876,606,062.32	-	620,467,767.11	1,256,138,295.21
Surplus reserve	781,670,420.36	23,226,113.46	-	804,896,533.82
Including: statutory welfare fund	-	-	-	-
Retained profit	273,047,084.22	227,591,040.89	-	500,638,125.11
Currency translation difference	7,799,216.25	1,598,057.09	-	9,397,273.34
Accumulated losses of subsidiaries that the Company did not make up	-	-	-	-
Shareholders' equity attributable to parent company	3,541,109,135.15	233,933,796.33	-	3,775,042,931.48
Minority interest	238,161,627.35	-	13,731,360.28	224,430,267.07
<b>Total shareholders' equity</b>	<b>3,779,270,762.50</b>	<b>220,202,436.05</b>	<b>-</b>	<b>3,999,473,198.55</b>

## Section . Changes in Share Capital and Particulars about Shareholders

### I. Change in shares

(I) In accordance with the resolutions of the Annual Shareholders' General Meeting 2007, the Company implemented the plan on transferring capital reserve into stock in June 2008, namely, based on total stock capital of 601,986,352 shares as at the end of 2007, transferring capital reserve into stock at the rate of 10 for 10 to all the shareholders. After transfer, total share capital of the Company had increased to 1,203,972,704 shares.

(II) In the reporting period, change in shares of the Company as below:

Unit: share

	Prior to the change		Increase/decrease (+, -)					Subsequent to the change	
	Number	Ratio	Issuance of new share	Bonus	Capitalization of capital reserve	Other	Subtotal	Number	Ratio
I. Shares subject to trading moratorium	118,902,545	19.75%	-	-	99,193,445	-19,707,816	79,485,629	198,388,174	16.48%
1. Shares held by state	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned corporations	52,392,592	8.70%	-	-	99,190,970	46,798,378	145,989,348	198,381,940	16.48%
3. Shares held by other domestic investors	43,549,038	7.23%	-	-	2,475	-43,545,279	-43,542,804	6,234	0.00%
Including:									
Shares held by domestic corporations	43,546,563	7.23%	-	-	0	-43,546,563	-43,546,563	0	0.00%
Shares held by domestic natural person (shares held by senior management staffs)	2,475	0.00%	-	-	2,475	1,284	3,759	6,234	0.00%
II. Shares held by foreign investors	22,960,915	3.81%	-	-	0	-22,960,915	-22,960,915	0	0.00%
Including:									
Shares held by foreign corporations	22,960,915	3.81%	-	-	0	-22,960,915	-22,960,915	0	0.00%
Shares held by foreign natural person	-	-	-	-	-	-	-	-	-
III. Shares not subject to trading moratorium	483,083,807	80.25%	-	-	502,792,907	19,707,816	522,500,723	1,005,584,530	83.52%
1. RMB ordinary shares (A-share)	280,245,905	46.55%	-	-	299,955,005	19,707,816	319,662,821	599,908,726	49.83%
2. Domestically listed foreign shares (B-share)	202,837,902	33.69%	-	-	202,837,902	0	202,837,902	405,675,804	33.69%
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	601,986,352	100.00%	-	-	601,986,352	0	601,986,352	1,203,972,704	100

(III) Change in shares subject to trading moratorium

Unit: Share

Name of shareholder	Number of shares subject to trading moratorium at year-begin	Number of shares released from trading moratorium in current year	Increased number of shares subject to trading moratorium in current year	Number of shares subject to trading moratorium at year-end	Reason	Date of releasing trading moratorium
OVERSEAS CHINESE TOWN GROUP CORPORATION	52,392,592	0	145,989,348	198,381,940	Commitment made in the share merger reform	-
ANHUI TIANDA ENTERPRISE (GROUP) CO., LTD.	43,546,563	43,546,563	0	0	Commitment in the share merger reform	-
TIG Holdings Limited	22,960,915	22,960,915	0	0	Commitment in the share merger reform	15 May 2008
Shares held by senior management staffs	2,475	0	3,759	6,234	Shares held by senior management staffs	-
Total	118,902,545	66,507,478	145,993,107	198,388,174	-	-

Note: In accordance with the resolutions of the Annual Shareholders' General Meeting 2007, the Company implemented the plan on transferring capital reserve into stock in June 2008, namely, based on total stock capital of 601,986,352 shares as at the end of 2007, transferring capital reserve into stock at the rate of 10 for 10 to all the shareholders. After transfer, the share subject to trading moratorium

had increased.

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

3. In accordance with commitments made by OCT Group Corporation in the Document on Share Merger Reform of Konka Group Co., Ltd., OCT Group Corporation (original nontradable shareholders of the Company) would advance 35% of consideration that need to be executed on behalf of TIG Holdings Limited (the former name as THOMSON INVESTMENTS GROUP LIMITED, original nontradable shareholders of the Company), totaling 3,251,815 shares, accounting for 0.54% of total share capital of the Company. In line with the Agreement on Repaying Advance Shares signed between the OCT Group Corporation and TIG Holdings Limited, TIG Holdings Limited had returned such consideration shares to OCT Group Corporation on 18 Apr. 2008.

4. The Company's shares subject to trading moratorium held by TIG Holdings Limited, the original shareholders holding shares subject to trading moratorium, has been released from trading moratorium.

#### II. Issuing and listing of the shares

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

(II) Apart from 6,234 shares held by senior management staffs of the Company, there are no nontradable inner employee shares.

#### III. About shareholders

(I) Time when the shares subject to trading moratorium can be listed for trade on the market

Date	Additional number of shares that can be listed for trade after expiration of trading moratorium	Balance of number of shares subject to trading moratorium	Balance of number of shares not subject to trading moratorium	Remark
30 Mar. 2009	120,397,270	77,984,670	1,125,988,034	
30 Mar. 2010	77,984,670	0	1,203,972,704	

Note: 1. The Company's shares subject to trading moratorium held by TIG Holdings Limited, the original shareholders holding shares subject to trading moratorium, has been released from trading moratorium.

2. In accordance with commitments made by OCT Group Corporation, original nontradable shareholders of the Company in the Share Merger Reform, the shares subject to trading moratorium held by OCT Group Corporation can be listed for trade or transferred since 30 Mar. 2008. However, OCT Group Corporation, as at the disclosure date of this annual report, failed to apply to Shenzhen Stock Exchange for any matter that the trading moratorium is released.

3. Number of shares subject to trading moratorium in the table exclude such shares subject to trading moratorium held by senior management staffs.

(II) As at the end of reporting period, shares held by the top ten shareholders and the top ten shareholders subject to trading moratorium:

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

Unit: share

No.	Name of shareholder subject to trading moratorium	Number of shares subject to trading	Actual number of shares subject to trading moratorium	Time that can be listed	Additional number of shares that can be listed for trade	Trading moratorium
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		moratorium	that can be applied for circulation	for trade		
1	OCT Group Corporation	198,381,940	198,381,940	2009-3-30	120,397,270	Note
				2010-3-30	77,984,670	

Note: 1. Overseas Chinese Town Group Corporation, the original nontradable shareholder of the Company, promised not to trade or transfer the nontradable shares of the Company within 24 months since the day such shares were authorized with listing and circulation rights on the market of A-share. After the expiration of the aforesaid commitment, the number of nontradable shares of the Company sold by OCT Group Corporation 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.

2. In accordance with commitments made by OCT Group Corporation, original nontradable shareholders of the Company in the Share Merger Reform, the shares subject to trading moratorium held by OCT Group Corporation can be listed for trade or transferred since 30 Mar. 2008. However, OCT Group Corporation, as at 29 Apr. 2009, failed to apply to Shenzhen Stock Exchange for any matter that the trading moratorium is released.

3. In the above table, the shares subject to trading moratorium held by senior management staffs failed to be considered.

(III) Shares held by the top ten shareholders and the top ten shareholders subject to trading moratorium

Unit: Share

Total number of shareholders		113,544			
Shares held by the top ten shareholders					
Name of shareholder	Nature of shareholder	Proportion of shares held	Total number of shares held	Number of shares subject to moratorium	Number of shares pledged or frozen
OCT Group corporation	State-owned corporation	16.68	200,792,011	198,381,940	0
GAO-LING FUND, L. P.	Foreign corporation	4.83	58,097,079	0	Unknown
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign corporation	2.32	27,876,300	0	Unknown
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	Foreign corporation	2.15	25,865,179	0	Unknown
TIG HOLDINGS LIMITED	Foreign corporation	1.77	21,330,045	0	Unknown
NOMURA SECURITIES CO. LTD	Foreign corporation	1.12	13,500,000	0	Unknown
NAM NGAI	Foreign natural person	0.84	10,112,183	0	Unknown
Orient Securities - Agricultural Bank of China - Dongfanghong 3 Set Asset Management Plan	Domestic non-state-owned corporation	0.76	9,198,332	0	Unknown
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT	Foreign corporation	0.63	7,591,700	0	Unknown
Shanghai Pudong Development Bank - Jiashi Excellent Enterprise Stock Open-end Securities Investment Fund	Domestic non-state-owned corporation	0.51	6,195,994	0	Unknown
Particulars about shares held by the top ten shareholders not subject to moratorium					
Name of shareholders		Numbers of shares not subject to moratorium held		Type of shares	
GAO-LING FUND, L. P.		58,097,079		Domestically listed foreign share	
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED		27,876,300		Domestically listed foreign share	
SBCI FINANCE ASIA LTD A/C SBC HONG KONG		25,865,179		Domestically listed foreign share	
TIG HOLDINGS LIMITED		21,330,045		RMB common share	
NOMURA SECURITIES CO. LTD		13,500,000		Domestically listed foreign share	
NAM NGAI		10,112,183		Domestically listed foreign share	

Orient Securities - Agricultural Bank of China - Dongfanghong 3 Set Asset Management Plan	9,198,332	RMB common share
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT	7,591,700	Domestically listed foreign share
Shanghai Pudong Development Bank - Jiashi Excellent Enterprise Stock Open-end Securities Investment Fund	6,195,994	RMB common share
Orient Securities - BOC - Dongfanghong 3 Set Asset Management Plan	5,500,050	RMB common share
Explanation on associated relationship among the top ten shareholders or acting-in-concert	There was no associated relationship between the first principal shareholder (OCT Group Corporation) and other shareholders, and OCT Group Corporation did not join in any consistent actions. Whether there is any associated relationship or acting-in-concert among other shareholders.	

#### (IV) Shareholders holding over 5% of total shares

Name	Type of shares held	Nature of the business	Legal representative	Date of foundation	Registered capital (RMB ' 0000)	Main operations
Overseas Chinese Town Group Corporation	State-owned corporation	Wholly state-owned company	Ren Kelei	Nov. 1985	RMB200,000	Development and operation of real estate and hotels; operation of tourism and relevant cultural industries; manufacture of electronics and supporting packing products.

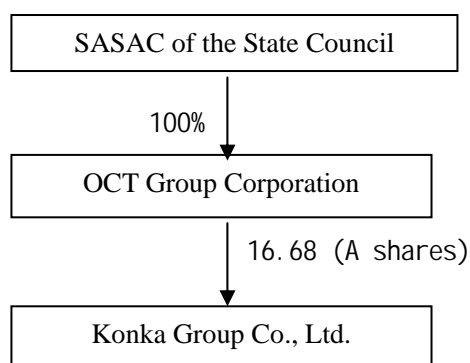
#### IV. About the controlling shareholder and actual controller

##### (I) The first principal shareholder and actual controller

In the reporting period, the first principal shareholder and actual controller remained unchanged, both being Overseas Chinese Town Group Corporation, whose shares of the Company had not been pledged, entrusted or frozen.

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

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



##### (III) About corporate shareholder holding over 10% equities of the Company (including 10%)

Apart from OCT Group Corporation, the controlling shareholder of the Company, there is no other shareholder holding over 10% equities of the Company (including 10%)

#### Section . Particulars about Directors, Supervisors, Senior Management Staffs and Employees

##### I. About directors, supervisors and senior management staffs

##### (I) General information

Name	Office title	Sex	Age	Term of office	Remarks
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Hou Songrong	Chairman of the Board	Male	40	Aug. 2007 ~ Aug.2010	
Su Zheng	Director	Male	52	May 2008 ~ Aug. 2010	
Wang Xiaowen	Director	Female	39	May 2008 ~ Aug. 2010	
Huo Jun	Director	Female	42	Aug. 2007 ~ Aug.2010	
Feng Yutao	Independent Director	Male	41	Aug. 2007 ~ Aug.2010	
Yang Haiying	Independent Director	Female	41	Aug. 2007 ~ Aug.2010	
Zhang Zhong	Independent Director	Male	40	Aug. 2007 ~ Aug.2010	
Dong Yaping	Chairman of the Board of Supervisors	Male	55	May 2008 ~ Aug. 2010	
Wen Tongyun	Supervisor	Female	41	Aug. 2007 ~ Aug.2010	
Ye Xiayang	Supervisor	Male	40	Aug. 2007 ~ Aug.2010	Worker representative
Chen Yuehua	President	Male	45	Feb. 2009 ~ Feb.2011	
Cheng Dahou	Vice President	Male	46	Feb. 2009 ~ Feb.2011	
Yang Guobin	CFO	Male	40	Feb. 2009 ~ Feb.2011	
Wang Youlai	Vice President	Male	47	Feb. 2009 ~ Feb.2011	
He Jianjun	Vice President	Male	39	Feb. 2009 ~ Feb.2011	
Xiao Qing	Secretary to the Board	Male	39	Aug. 2007~ Aug. 2010	

Note: By considering and deciding at the 21<sup>st</sup> meeting of the 6<sup>th</sup> Board of Directors held on 16 Feb. 2009, the Company changed the senior management staffs.

1. As advised by Mr. Hou Songrong, the Chairman of the Board, he no longer acted as president concurrently, moreover, the daily operation and management of the Company was assigned to a full-time president. At the same time, he propose Mr. Chen Yuehua to take the post of President. In accordance with the suggestion of Mr. Hou Songrong, the Board of Director, by reviewing and nominating officially by the Nomination Committee of the Board, agreed to appoint Mr. Chen Yuehua as President of the Company.

2. Mr. Yang Guobin was reengaged as CFO of the Company, and Mr. Cheng Dahou, Mr. Wang Youlai and Mr. He Jianjun were reengaged as Vice President of the Company respectively.

Of which, the situation that the directors or the supervisors take the position in shareholding units

Name	Name of shareholding unit	Office title held in the shareholding units	Term of office	Whether remuneration and allowance are received from the Company or not
Dong Yaping	OCT Group Corporation	Standing committee of Party Committee, Vice President, Chairman of the Board of Supervisors in Shenzhen Overseas Chinese Town Holding Company	-	No
Su Zheng	OCT Group Corporation	Standing committee of Party Committee, Deputy Secretary of Party Committee, Secretary of Inspecting Discipline Commission	-	No
Wang Xiaowen	OCT Group Corporation	Standing committee of Party Committee, Chairman of the Board and Secretary of Party Committee Overseas Chinese Town Hotel Group Co., Ltd.	-	No
Hou Songrong	OCT Group Corporation	Standing committee of Party Committee	-	Yes

(II) Shares of the Company held by the directors, supervisors and senior management staffs

1. In the reporting period, the Company's directors and supervisors did not hold the shares of the Company, and the shares held by them remained unchanged.

2. In the reporting period, the Company implemented the plan on transferring capital reserve into stock at the rate of 10 for 10 to all the shareholders, accordingly, number of shares held by Mr. Wang Youlai, Vice President of the Company, had increased. Except for this, other senior management staffs did not hold the shares of the Company, and the shares held by them remained unchanged.

Name	Office title	Number of shares at the year-begin	Additional number of shares in the reporting period	Decreased number of shares in the reporting period	Number of shares at the year-end	Reason for change
Wang Youlai	Vice President	3,300	3,300	0	6,600	The Company implemented the plan on transferring capital reserve into stock

3. In the reporting period, the Company's directors, supervisors and senior management staffs did

not hold stock options of the Company or restricted shares entitled.

(III) Major work experience of directors, supervisors and senior management staffs and particulars about the post held in other units except for shareholding unit

#### 1. Director

Mr. Hou Songrong, Chairman of the Board, CEO and Secretary of the CPC, was born in 1968 with the Han nationality; he got master of economics, economic manager. 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 Corporation, and Vice-president, standing Vice-president, Vice Secretary of the CPC and President in Konka Group Co., Ltd. Now he serves as Standing committee of Party Committee in Overseas Chinese Town Group Corporation and as Chairman of the Board in Konka Group Co., Ltd.

Mr. Su Zheng, Director of the Company, was born in 1956 with the Han nationality; he is senior engineer. He have served successively as Vice Chairman of the Board and as Secretary to the CPC in Aerospace Science & Industry Shenzhen (Group) Co., Ltd., as Deputy Secretary to the CPC in 999 Group Corporation (Shenzhen Southern Pharmaceutical Factory), as Deputy Secretary to the CPC in China Resources Medications Group Limited. Now he occupies the posts of Standing committee of Party Committee, Deputy Secretary to the CPC, as well as Secretary of Inspecting Discipline Commission in Overseas Chinese Town Group Corporation.

Ms. Wang Xiaowen, Director of the Company, was born in 1969 with the Han nationality; she filled successively the post of Director and Chief Financial Officer of Shenzhen Overseas Chinese Town Industry Development Co, Ltd., of Chief Executive Officer, Chief Financial Officer and Assistant President in Overseas Chinese Town Group Corporation. Now she serves as Standing committee of Party Committee in Overseas Chinese Town Group Corporation, as well as Chairman of the Board and Secretary to the CPC in OCT Hotel Group Co., Ltd.

Ms. Huojun, Director of the Company, was born in 1966 with the Han nationality; she got MBA of KELLOGG Management School of Northwest University in America. She used to work in such investment bank or fund management corporation as CLSA (Asia) of France, BNP Paribas Peregrine Securities Ltd, Marilyn Securities, Banque Nationale de Paris, and Da Cheng Fund Management Co., Ltd. for a long time. Now she is the copartner of PreIPO Capital Limited.

#### 2. Independent Director

Mr. Feng Yutao, Independent Director of the Company, was born in 1967 with the Han nationality, he graduated from Duke University with doctor of electronics engineering. He ever took senior management in C-Cube Microsystems, LSI Logic Inc. and Zoran Corporation. Now he acts as Vice President of Ambarella Inc., and General Manager of Ambarella Inc., China.

Ms. Yang Hanying, Independent Director of the Company, was born in 1967 with the Han nationality, and she graduated from the department of accounting of Shanghai Maritime University, being a senior accountant. She used to work in Waterway Bureau of Guangzhou as Accountant, and in China Shipping Container Lines Co., Ltd. as senior accountant. Now she serves as Senior Accountant in Hamburg Fritz und Mark Certified Public Accountants.

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

#### 3. Supervisor

Mr. Dong Yaping, Chairman of the Board of Supervisors, was born in 1953 with the Han nationality, being Senior political officer. He has successively held the posts of Division Chief of Department of Foreign Affairs Financial Supervision under the Ministry of Supervision, of Division Chief of Department of Personnel Supervision of Overseas Chinese Affairs Office of The State Council, of Deputy Secretary of the CPC and Secretary of Inspecting Discipline Commission of Overseas Chinese Town Economic Development Corporation. Now he acts as Standing committee of Party Committee, Vice President, as well as Chairman of the Board of Supervisors in Shenzhen Overseas Chinese Town Holding Company.

Ms. Wen Tongyun, Supervisor of the Company, 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 Manager in PreIPO Capital Limited.

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

#### 4. Senior Management Staffs

Mr. Chen Yuehua, President of the Company, was born in 1963 with the Han nationality; he got bachelor degree, being Senior Engineer. He successfully took the posts of Designer and Business Manager in Technology Development Center of Konka Group Co., Ltd., of General Manager of Development Center, of General Manager of President's Office, of General Manager of Dongguan Konka Electronics Co., Ltd. and of Deputy General Manager of Multimedia Division and concurrently General Manager of Development Center of Konka Group Co., Ltd., as well as Vice President of Konka Group Co., Ltd.

Mr. Cheng Dahou, Vice President of the Company, was born in 1962 with the Han nationality; he obtained bachelor degree, being senior engineer. He served successfully as Deputy General Manager of Overseas Chinese Town Property Management Limited, Director of Customer Service Center in Overseas Chinese Town Real Estate Co., Ltd., Chief Officer of HR in Overseas Chinese Town Group Corporation, as well as Chairman of the Board in Overseas Chinese Town Xinqiao Industrial Development Co., Ltd..

Mr. Yang Guobin, Chief Financial Officer of the Company, was born in 1969 with the Han nationality; he gained bachelor degree, being CPA. He successfully took the posts of Vice CFO of Financial Dept. in Overseas Chinese Town Group Corporation.

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

Mr. He Jianjun, Vice President of the Company, was born in 1969 with the Han nationality; he obtained bachelor degree; being Economist. He has served successfully as Deputy Director of Secretariat of the Board, Deputy Chief Officer and Chief Officer of Strategic Development Dept. and Secretary to the Board in Konka Group.

Mr. Xiao Qing; Secretary of the Board; was born in 1969 with the Han nationality; he got bachelor degree, being 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, as well as Chief Officer of the Investment Development Center in Konka Group Co., Ltd..

#### II. Remunerations as of the year 2008

(I) The Company did not pay directors (excluding independent directors) or supervisors any remunerations or subsidies. The total remunerations paid to the top three directors that enjoyed the highest amounts total ed RMB 285,600, i.e. the total remunerations for the three independent directors. Subsidies for each independent director of the Company were RMB 80,000 for every year (tax excluded). Other treatment for independent directors: travel expense when they went to attend the Board meetings or Shareholders' General Meetings and the expenses when they were performing their duties as stipulated in the relevant regulations and the Articles of Association and other relevant systems, all these could be reported for deletion.

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

(III) Change in shares held by directors, supervisors and senior management staffs and their remunerations

Name	Number of shares held at year-begin	Number of share held at year-end	Reasons for change	Total remuneration before tax received from the Company in the reporting period (RMB 10 Thousand)		
				Wage, allowance and the part of social insurance undertaken by the Company	Reward	Total
Hou Songrong	0	0	-	45.64	20.47	66.11
Su Zheng	0	0	-	0	0	0
Wang Xi aowen	0	0	-	0	0	0
Huo Jun	0	0	-	0	0	0
Feng Yutao	0	0	-	9.52	0.00	9.52
Yang Hai ying	0	0	-	9.52	0.00	9.52
Zhang Zhong	0	0	-	9.52	0.00	9.52
Dong Yapi ng	0	0	-	0	0	0
Wen Tongyun	0	0	-	0	0	0

Ye Xi angyang	0	0	-	26.08	18.83	44.91
Chen Yuehua	0	0	-	29.44	19.89	49.33
Cheng Dahou	0	0	-	29.44	19.89	49.33
Yang Guobin	0	0	-	29.44	19.89	49.33
Wang Youlai	3,300	6,600	Capitalization of capital reserve	29.44	19.89	49.33
He Ji anjun	0	0	-	29.44	19.89	49.33
Xi ao Qing	0	0	-	29.44	19.89	49.33
Total	3,300	6,600	-	276.92	158.61	435.53

## (IV) Directors and supervisors receiving no remuneration from the Company

Name of directors and supervisors receiving no remuneration from the Company	Whether they draw remuneration or subsidy from shareholding units or the other related units or not
Dong Yaping, Su Zheng, Wang Xiaowen, Hou Songrong	All of them draw the remuneration from shareholding units that they occupied the posts
Huo Jun and Wen Tongyun	Drawing no remuneration or subsidy from shareholding units

## (V) Presences at the Board meeting by the directors

Name of the directors	Position	Due presence (times)	Presence in person (times)	Attending the meeting by communication (times)	Entrusted presence (times)	Absence (times)	Whether attending the meeting in person in successive two times or not
Hou Songrong	Chairman of the Board	15	2	13	0	0	No
Su Zheng	Director	10	1	9	0	0	No
Wang Xiaowen	Director	10	0	7	0	3	Yes
Huo Jun	Director	15	2	13	0	0	No
Feng Yutao	Independent Director	15	2	13	0	0	No
Yang Haiying	Independent Director	15	2	13	0	0	No
Zhang Zhong	Independent Director	15	2	13	0	0	No

Note: 1. Mr. Su Zheng and Ms. Wang Xiaowen are newly elected as directors of the Company on 26 May 2008. Between 26 May 2008 and 31 Dec. 2008, the Company held 10 meetings of the Board in total, i.e. from the 11<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors to 20<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors, including one on-site meeting and 9 meetings by communication.

2. Ms. Wang Xiaowen, Director of the Company, failed to attend the Board meeting twice in succession for any reason, but she seriously reviewed the information of the Board meeting before the two meetings and gave verbal assent to the proposals of such board meetings. When the Company held the 14<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors, Ms. Wang Xiaowen was traveling abroad for important business, difficult to contact with her for inconvenient communication, therefore, Ms. Wang failed to attend such 14<sup>th</sup> meeting in person or by means of fax. When the Company held the 15<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors, Ms. Wang Xiaowen was in hospital because of illness, difficult to attend such 15<sup>th</sup> meeting by means of fax. As a result, she failed to attend the board meetings in person twice in succession.

Meetings of the Board held during the year 2008 (times)	15
Of which: site meetings (times)	2
Meetings held by communication (times)	13
Meetings held by both spot and communication (times)	0

III. In the reporting period, the Company elected and changes directors, supervisors and senior management staffs

(I) In the reporting period, the Company changed the members of the Board of Directors

1. Mr. Ye Shiqu and Mr. Liu Peng who nominated by Anhui Tianda Enterprise (Group) Co., Ltd. resigned from the post of director of the Company on 27 Mar. 2008 because Anhui Tianda Enterprise (Group) Co., Ltd. no longer holds the equity of the Company.

2. At the Annual Shareholders' General Meeting 2007, Mr. Su Zheng and Ms. Wang Xiaowen were newly elected as Director of the 6<sup>th</sup> Board of Directors.

(II) In the reporting period, the Company changed members of the Board of Supervisors

1. Mr. Zhang Jianhui who nominated by Anhui Tianda Enterprise (Group) Co., Ltd. resigned from the post of supervisor of the Company on 27 Mar. 2008 because Anhui Tianda Enterprise (Group) Co., Ltd. no longer holds the equity of the Company.

2. At the Annual Shareholders' General Meeting 2007, Mr. Dong Yaping was newly elected as supervisor of the 6<sup>th</sup> Board of Supervisors.

(III) In the reporting period, the Company changed senior management staffs

The 6<sup>th</sup> Board of Directors decided to appoint Mr. Cheng Dahou as Vice President of the Company at the 14<sup>th</sup> meeting, and to leave Mr. Huang Zhongtian out of his job as Vice President.

(IV) By considering and deciding at the 21<sup>st</sup> meeting of the 6<sup>th</sup> Board of Directors held on 16 Feb. 2009, the Company decided to change senior management staffs:

1. As advised by Mr. Hou Songrong, the Chairman of the Board and concurrently CEO, he no longer acted as president concurrently, moreover, the daily operation and management of the Company was assigned to a full-time president. At the same time, he propose Mr. Chen Yuehua to take the post of President. In accordance with the suggestion of Mr. Hou Songrong, the Board of Director, by reviewing and nominating officially by the Nomination Committee of the Board, agreed to appoint Mr. Chen Yuehua as President of the Company.

2. Mr. Yang Guobin was reengaged as CFO of the Company, and Mr. Cheng Dahou, Mr. Wang Youlai and Mr. He Jianjun were reengaged as Vice President of the Company respectively.

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

Unit	Shenzhen headquarter	Selling branch	Mudan River Konka	Shannxi Konka	Anhui Konka	Chongqing Konka	Dongguan Konka	Konka Mould Plastic	Anhui Electrical Appliane	Boluo Konka	Changshou Konka	Chongqing Qingjia	Total
Number	2684	4485	483	872	2804	292	2470	1324	782	564	128	329	17217

Among which, the structure of staff in Shenzhen headquarter:

Classification	Production staff	Salesperson	Technical staff	Financial staff	Administrative staff	Retired workers requiring to bear the cost by the Company	Higher than undergraduate	Doctor	Master	Bachelor
Number	795	383	656	126	540	184	1147	15	164	968
Ratio	29.62%	14.27%	24.44%	4.69%	20.12%	6.86%	42.73%	0.56%	6.11%	36.07%

## Section . Corporate Governance

### . Corporate Governance

In the reporting period, in accordance with Company Law, Securities Law, Code of Corporate Governance for Listed Companies, Share Listing Rules of Shenzhen Stock Exchange and relevant regulations of CSRC, the Company revised in time the rules and regulations such as its Articles of Association, Rules for Independent Directors, Specific Rules of Implementation for Financial Audit Committee of the Board of Directors, continuously improved the corporate governance structure and further standardized the operation, so as to perfect the corporate governance. By the end of the reporting period, the actual situation of the Company's corporate governance had been basically in line with the regulatory documents concerning the corporate governance of listed companies issued by CSRC.

1. About shareholders and Shareholders' General Meeting

The Company organized and convened the Shareholders' General Meeting in strict accordance with Rules of Procedure for Shareholders' General Meeting and other regulations, which made sure that all the shareholders, especially the minority shareholders, enjoyed fair treatment and were able to fully execute their rights.

2. About the Company and controlling shareholder

Enjoying independent businesses and the ability to run its own businesses, the Company was independent from its controlling shareholder in terms of businesses, personnel, assets, organization and financial affairs. The Company's Board of Directors, Supervisory Committee and other internal organs worked independently. And the controlling shareholder was able to regulate its behaviors, without going beyond the Shareholders' General Meeting and directly or indirectly interfering in the Company's decision-making and operating activities.

3. About directors and Board of Directors

The Company elected its directors in strict accordance with the prescribed procedure in the Articles of Association; Currently, the Company had three independent directors, with the number of directors

and the personnel composition of the Board in line with relevant laws and regulations, as well as the Articles of Association. According to Rules of Procedure for Board of Directors, Rules for Independent Directors and other regulations, all the directors of the Company carried out their work by attending the board meetings and the Shareholders' General Meeting on time, readily receiving the relevant trainings and studying relevant laws and regulations.

#### 4. About supervisors and Supervisory Committee

The Company engaged its supervisors in strict accordance with Company Law, Articles of Association and other laws and regulations, with the personnel number and composition of the Supervisory Committee in line with the relevant laws and regulations. According to the Rules of Procedure for Supervisory Committee and other regulations, the Supervisory Committee conscientiously performed its duties by conducting effective supervision and expressing independent opinions on the Company's significant events, related transaction, financial status, duty fulfillment of the directors and other senior management personnel, etc..

#### 5. About performance appraisal and incentive and disciplinary mechanism

The performance appraisal standards, as well as the incentive and disciplinary mechanism for the Company's senior management personnel had been established and continuously improved. And the Company engaged its senior management in an open and transparent way, which was in line with relevant laws and regulations.

#### 6. About the stakeholders

The Company fully respected and protected the legal interests of the stakeholders, and tried to achieve a balance among the society, the shareholders, the Company, the employees and other stakeholders, so as to jointly promote the sustained and sound development of the Company.

#### 7. About information disclosure and transparency

As appointed by the Company, Board Secretary was in charge of the Company's information disclosure, the management of the relationship with investors and the reception of visiting shareholders; Meanwhile, with Securities Times and other newspapers as the newspapers for its information disclosure and <http://www.cninfo.com.cn> as the website for its information disclosure, the Company disclosed relevant information in a factual, accurate and timely way in strict accordance to relevant laws and regulations, making sure that all the shareholders were equal in terms of information acquisition. Due to an excellent job in terms of promoting the standardized operation of the listed company, complying with the requirements of the regulatory authorities, managing the relationship with investors, disclosing relevant information, etc., Mr. Xiao Qing, the Company's Board Secretary, was honored as "Gold-medal Board Secretary" in the fourth and fifth award ceremonies conducted by New Wealth Magazine, and "Board Secretary Vigorously Promoting Standardization of Listed Company Governance in 2008" by CSRC Shenzhen Bureau.

#### . Special campaign of corporate governance

( ) Particulars about special campaign of corporate governance in 2008

According to the Circular of CSRC on Relevant Matters Concerning Special Campaign to Strengthen the Corporate Governance of Listed Companies (ZJGS Zi (2007) No. 28), as well as the Circular of CSRC Shenzhen Bureau on Special Campaign to Strengthen the Corporate Governance of Listed Companies in Shenzhen and other regulatory documents, the Company actively carried out the special campaign for corporate governance in 2007 and conducted systematic rectification of the problems found. In late May, 2007, the Company issued the Self-inspection of Konka Group Co., Ltd. on Special Campaign to Strengthen Corporate Governance of Listed Company, as well as the Self-inspection Report and Rectification Plan of Konka Group Co., Ltd.; In Oct. 2007, the Rectification Report Concerning Corporate Governance was issued. The aforesaid reports were all reviewed and approved at the Company's board meeting and the Supervisory Committee meeting. At the same time, they got the approval of CSRC Shenzhen Bureau and Shenzhen Stock Exchange and were published.

After the successful accomplishment of the special campaign on corporate governance for listed companies in 2007, the Company, according to the requirements of CSRC and Shenzhen Stock Exchange, consolidated the achievements of the Company's special campaign for corporate governance in 2007, and continued to advance the campaign and conduct self-supervision and rectification on the deficiencies of the Company's corporate governance. In accordance with the plan, the Company conscientiously implemented and successfully accomplished the rectification. Meanwhile, in compliance with the Public Notice of CSRC (【2008】No. 27), the Circular of CSRC Shenzhen Bureau on further Promoting Special Campaign of Corporate Governance and other regulatory documents, the Company issued the Report on Progress of Corporate Governance Rectification, specifying the progress of the rectification items in the Rectification Report Concerning Corporate Governance. And the Report on



Progress of Corporate Governance Rectification were reviewed and approved at the 12<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors, and were published on 19 Jul. 2008.

( ) Other activities concerning the improvement of corporate governance

In 2008, according to the requirements of the securities regulatory authorities, the Company revised its rules and regulations such as the Articles of Association, the Rules for Independent Directors, and the Rules of Procedure for Financial Audit Committee of the Board.

1. The Company's Articles of Association was amended, with the amended version making clear the proportion of cash dividends.

According to the Decisions of CSRC on Amending Some Provisions on Cash Dividends by Listed Companies, the Company made clear the specific proportion of its cash dividends in the new version of the Articles of Association: On the premise that the Company's cash flows are able to satisfy the needs of its normal operation and long-term development, the profits which the Company has accumulatively distributed in cash in the recent three years shall not be less than 30% of the average annual distributable profits realized in the recent three years; The specific proportion of cash dividends distributed shall be put forward by the Company's Board of Directors in accordance with relevant regulations of CSRC and the Company's actual operation, and determined by the Shareholders' General Meeting upon deliberation.

2. The work process for the Financial Audit Committee of the Board concerning annual reports was formulated.

In order to make clearer the responsibilities of the Financial Audit Committee of the Board in the preparation and disclosure of the Company's annual reports and give full play to the supervisory role of the Committee, the Company amended, according to the Circular on 2007 Annual Reports of Listed Companies and Relevant Matters and other law and regulatory documents, the Specific Rules of Implementation for Financial Audit Committee of the Board based on the Company's actual situation, and thus established the work process for the Committee concerning annual reports. And the said Specific Rules of Implementation were approved at the 7<sup>th</sup> meeting of the 6<sup>th</sup> Board of Directors and were later published.

3. The rules for independent directors concerning annual reports were established.

In order to make clearer the responsibilities of the independent directors in the preparation and disclosure of the Company's annual reports and give full play to their supervisory role, the Company amended, according to the Circular on 2007 Annual Reports of Listed Companies and Relevant Matters and other law and regulatory documents, the Rules for Independent Directors based on the Company's actual situation, and thus established the rules for independent directors concerning annual reports. And the said Rules for Independent Directors were approved at the Company's board meeting and the Shareholders' General Meeting, and were later published.

( ) Irregular situations in the corporate governance of the Company

1. Irregular situations in the corporate governance of the Company

As approved at the 14<sup>th</sup> meeting of the 6<sup>th</sup> Board of the Company on 27 Aug. 2008, the Company started to provide undisclosed information (including the production and investment plans and financial budgets) for the major shareholder from 1 Sept. 2008.

2. Information provided for the major shareholder and the frequency

(1) Monthly financial data;

(2) Monthly operation analysis.

3. Reasons for the said irregular situation in the corporate governance of the Company

According to the requirements of the major shareholder, the Company provided the monthly financial data and other undisclosed information for the major shareholder.

4. Influence on the Company's independence

Upon the Company's self-examination, it was found that the Company's provision of relevant information for its major shareholder was in strict compliance with the Circular on Strengthening Supervision on Supplying Undisclosed Information to Controlling Shareholders and Actual Controllers of Listed Companies, the Supplementary Circular on Strengthening Supervision on the Supply of Undisclosed Information to Controlling Shareholders and Actual Controllers of Listed Companies and Other Irregular Situations Concerning Corporate Governance, and other relevant regulatory documents; that the necessary procedure was strictly followed; and that the major shareholder did not abuse the control right by letting out the undisclosed information and conducting insider dealings, which thus had no impact on the Company's influence.

#### . Duty fulfillment of independent directors

In the reporting period, the independent directors of the Company faithfully executed the

responsibilities and obligations endowed by relevant laws and regulations and the Company's Articles of Association, carefully examined the proposals and significant matters reviewed by the Board of Directors, and expressed their independent opinions on relevant matters, who played an active role in the Company's decision-making, promoted the standardized operation and scientific decision-making, gave full play to the due role of the independent directors, and protected the interests of the Company as a whole, as well as the legal rights and interests of the minority shareholders. In the reporting period, there existed no objections raised by the independent directors to any relevant matter of the Company.

#### Duty fulfillment of independent directors in 2008

Name of independent directors	Times of board meetings that should be attended	Present in person (times)	Presence by proxy (times)	Times of absence	Remarks
Feng Yutao	15	15	0	0	
Yang Haiying	15	15	0	0	
Zhang Zhong	15	15	0	0	

#### 2. Particulars about the objections raised by independent directors to relevant matters of the Company

In the reporting period, the independent directors did not raise any objection to the proposals of the Board and other relevant matters of the Company.

##### . Independence from controlling shareholder in terms of five aspects

The Company was independent from its controlling shareholder in terms of businesses, personnel, assets, organization and financial affairs, with independent and complete businesses and the ability to run its own businesses.

( ) In terms of businesses: The Company's businesses were independent from those of the controlling shareholder and its subordinate companies, with independent and complete systems of supply, production and marketing. And the Company conducted business activities independently from the shareholder or any other related parties.

( ) In terms of personnel: The Company was completely independent in terms of its personnel and the salary for the personnel. All working in and receiving salaries from the Company, the senior management personnel did not take any position in or get paid by the controlling shareholder and its subordinate companies.

( ) In terms of assets: The Company possessed production and operation sites independent from its controlling shareholder, an independent and complete asset structure, and independent production systems, auxiliary production systems, supporting facilities, housing ownership and other assets, as well as independent purchasing and marketing systems.

( ) In terms of organization: The Company established a sound organizational structure, which operated independently with no subordinate relationship with the controlling shareholder and its functional departments.

( ) In terms of financial affairs: The Company had its own financial accounting department with an independent accounting system and financial management system, which enabled the Company to make its own financial decisions. Meanwhile, the Company had its own bank account and paid the taxes independently.

##### . Performance appraisal and incentive mechanism of senior management personnel

In order for the Company's senior management personnel to better perform their responsibilities and have a clear idea about their rights and duties, the Company actively developed and improved the performance appraisal standards and the incentive & disciplinary mechanism for its senior management personnel characteristic of fairness, transparency and high-efficiency. The Company conducted, on a yearly basis, appraisals on the duty performance and business objective accomplishment of its senior management; and it adopted the combination of salaries and perks as the main incentives. And such an appraisal was conducted by the Board of Directors and supervised by the Supervisory Committee.

##### . Self-evaluation report on internal control

According to the Circular of Shenzhen Stock Exchange on 2008 Annual Reports of Listed Companies, the Guidelines for Internal Control of Listed Companies, the Articles of Association, etc., the Company's internal audit department conducted a thorough and close examination on the Company's internal control in 2008. After that, the Board of Directors further reviewed the Company's rules and regulations, and got a deeper understanding of the Company's efforts in 2008 to strengthen its internal control, so as to give an accurate assessment.

( ) Summary of the Company's internal control in 2008

1. Organizational structure of the Company's internal control

In accordance with the requirements of relevant laws, regulations and regulatory authorities, the Company established an organizational structure in line with its business scale and the operation need; Meanwhile, according to the principle of separating the interlinked duties, the Company properly designed the layout of departments and positions and scientifically allocate powers and responsibilities, which resulted in the formation of an internal control system characteristic of each performing his own functions and taking his own responsibilities, as well as mutual cooperation and restriction.

The organizational structure of the Company's internal control consisted of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the management, functioning well respectively as the power organ, the decision-making organ, the supervisory organ and the execution organ. The Board of Directors and the Supervisory Committee were responsible to the Shareholders' General Meeting, and the management to the Board of Directors. As a result, a relationship was formed among the Shareholders' General Meeting, the Board of Directors and the Supervisory Committee with such characteristics of clear powers and responsibilities for each, checks and balances, and mutual coordination and complement.

(1) The Shareholders' General Meeting exercised the supreme power in the Company. It made sure the equal treatment towards all the shareholders (especially the minority ones), as well as all the shareholders' being able to fully execute their rights.

(2) The Board of Directors exercised the decision-making power in operation and was responsible for the establishment and supervision of the Company's internal control system. It put forward and improved the strategies and plans concerning internal control and supervised the relevant execution.

(3) The Supervisory Committee exercised the supervisory power and was responsible to the Shareholders' General Meeting. It conducted supervisions and checks on the behaviors of the directors and the management, as well as the financial affairs of the Company, and reported to the Shareholders' General Meeting.

(4) The four special committees subordinate to the Board (the Strategy Committee, the Nomination Committee, the Financial Audit Committee and the Remuneration & Appraisal Committee) functioned according to their own responsibilities.

(5) The management exercised the execution power. It was engaged by and responsible to the Board. And its main responsibilities were to execute the decisions made by the Board and other routine operation and management of the Company.

(6) The functional departments were responsible for drafting, improving and executing the internal control system relating to their own departments.

(7) The internal audit organ was responsible for the audit and checks of the execution of the Company's internal control.

2. Establishment and improvement of the Company's internal control system

In compliance with the principles of being scientific, standardization, transparency, clear powers and responsibilities for each, a reasonable structure, and the powers with corresponding responsibilities, the internal operation and management organization was established on the basis of the Company's actual situation. Meanwhile, a complete set of rules and regulations and corresponding operation flows covering all aspects of the Company's management were formulated on the principles of creating positions according to the operation needs, allocating personnel according to the position needs, making available the relevant regulations and working according to the regulations, which greatly promoted the Company's standardized operation and laid a foundation for the Company's sustainable development.

The Company successively established and improved the internal management systems covering the investments, financing, securities affairs, operation, financial auditing, human resources, administrative affairs, legal affairs, etc., corresponding to the requirements of CSRC and Shenzhen Stock Exchange for listed companies to establish rules concerning information disclosure, management of the relationship with investors, capital raising and using, internal control, etc..

3. Internal audit department

Subordinate to the Board, the Financial Audit Committee was the supervisory organ of the Company's internal control. Meanwhile, the Company established its own internal audit department, which was responsible to the Financial Audit Committee. Professional personnel were engaged by the internal audit department to conduct the internal audit of the Company.

According to the responsibilities of the Financial Audit Committee of the Board, as well as the

Guidelines of Shenzhen Stock Exchange for Internal Control of Listed Companies, the internal audit was effectively conducted with the objectives of strengthening the internal control, preventing risks and improving efficiency. The internal audit department and the Financial Audit Committee, timely spotted the deficiencies and weakness of the Company's internal control through checks and supervisions, carefully analyzed the problems found and the causes of the problems, accordingly put forward the rectification plans and supervised the execution of the plans, so as to strengthen the Company's management and further prevent operation and financial risks.

4. Major activities conducted by the Company for establishing and improving its internal control in 2008, as well as the relevant achievements

(1) Established and improved the various internal control systems

In 2008, in accordance with the Share Listing Rules of Shenzhen Stock Exchange, the Guideline of Shenzhen Stock Exchange for Internal Control of Listed Companies and other regulatory documents, the Company greatly improved its corporate governance. Based on the need of the Company's business development, the various internal control systems were gradually perfected, including the financial management, human resources management, investment management, etc.. And these adjustments and improvements were effectively executed, which ensured the safety and completeness of the Company's assets, as well as the factuality, accuracy and completeness of its financial data.

(2) Carried forward the special campaign concerning corporate governance of listed companies

In 2008, in strict accordance with the Public Notice of CSRC (【2008】No.27), the Circular of CSRC Shenzhen Bureau on Further Promoting the Special Campaign of Corporate Governance, as well as Company Law, Securities Law, administrative regulations, ministerial rules and other relevant laws and regulations, the Company examined the rectification progress concerning the special campaign of corporate governance. And it was found that the Company had, according to the rectification plan, successfully addressed the problems found in the self-examination and accomplished the rectification.

(3) Formulated the policy of cash dividends

According to the Decisions of CSRC on Amending Some Provisions on Cash Dividends by Listed Companies, the Company revised its Articles of Association and made clear the Company's policy of cash dividends.

(4) Formulated the rules for independent directors concerning annual reports, as well as the rules of procedure for the Financial Audit Committee

According to the requirements of CSRC and Shenzhen Stock Exchange to further specify the responsibilities of independent directors and give full play to the supervisory role of the financial audit committees, the Company revised its Rules for Independent Directors and the Specific Rules of Implementation for Financial Audit Committee of the Board, and thus improved the rules for independent directors concerning annual reports, as well as the rules of procedure for the Financial Audit Committee.

( ) Key control activities

1. Control structure of holding subsidiaries and proportion of shares held

Full name of controlling subsidiary companies	Registered capital (Unit: ten thousand)	Proportion of shares held	
		Direct	Indirect
Dong Guan KONKA Electronic Co., Ltd.	RMB20,000	100%	—
An Hui KONKA Electronic Co., Ltd.	RMB14,000	78%	—
Mudanjiang KONKA Industrial Co., Ltd.	RMB6,000	60%	—
Shenzhen Konka Electronic Co., Ltd.	RMB830	51%	—
Chong Qing KONKA Electronic Co., Ltd.	RMB4,500	60%	—
Shenzhen Konka Visual Information System Engineering Co., Ltd.	RMB1,500	60%	—
Chong Qing Konka Automobile Co., Ltd.	RMB3,000	57%	—
KONKA AMERICA, INC.	USD100	100%	—
Shenzhen KONKA Telecommunications Technology Co., Ltd.	RMB12,000	75%	25%
Shenzhen Shushida Electronic Co., Ltd.	RMB4,200	75%	25%
Hong Kong Konka Limited	HKD50	99%	1%
Anhui Konka Electric Appliance Co., Ltd	RMB7,819	92.97%	4.48%

Shenzhen Konka Injected Plastic Manufactory Co., Ltd.	RMB950	49%	51%
Chong Qing KONKA Electronic Co., Ltd.	RMB1,500	---	40%
Shan Xi KONKA Electronic Co., Ltd.	RMB6,950	45%	15%
Shenzhen Konka Communication Network Co., Ltd.	RMB3,000	75%	25%
Shen Zhen Konka Electronics Technology Co., Ltd.	RMB6,500	75%	25%
Dong Guan Konka Packaging Co., Ltd.	RMB1,000	—	100%
Dong Guan Konka Plastic Mould Co., Ltd.	RMB1,000	—	100%
Hong Din Investment Development Limited	HKD50	—	100%
Hong Din International Trade Limited	HKD50	—	100%
Chang Shu KONKA Electronic Co., Ltd.	RMB2,465	—	60%
Boluo Konka Printed Co., Ltd.	RMB4,000	—	51%
Shenzhen Konka Precision Mould Co., Ltd.	RMB1,450	—	51%
Boluo Konka Precision Technology Co., Ltd.	RMB1,500	—	100%
Konka (Nanhai) Development Center	RMB50	100%	---
Konka (Europe) Co., Ltd	EUR2.5	100%	---
Kunshan KONKA Electronic Co., Ltd.	RMB35,000	100%	---

## 2. Internal control on holding subsidiaries

The Company established the control system of its holding subsidiaries and appointed directors and management personnel to those subsidiaries with their powers and responsibilities clearly specified; Also, the Company adopted strict approving and authorizing systems concerning the financial affairs and operation of its holding subsidiaries; Meanwhile, the holding subsidiaries developed the significant event reporting system, reporting in time to the Company's relevant people-in-charge concerning their significant operational and financial affairs, and reporting their significant events to the Company's Board or Shareholders' General Meeting for review. Besides, the Company regularly convened meetings of operational analysis to discuss the execution of operation plans by its holding subsidiaries, and set up a system for the performance appraisal of those subsidiaries. The management control and financial supervision on the subsidiaries was strengthened by the implementation of various management and control systems on the subsidiaries. Meanwhile, the standardized operation of the subsidiaries was ensured through the execution of various rules and regulations.

## 3. Internal control concerning the Company's related transactions

The Company had formulated the Rules for Managing Related Transactions, which specified the principles for the Company's related transactions, related parties and relationship, the decision-making procedure for related transactions, the disclosure procedure for related transactions, etc.. And the Company closely followed the rules and ensured the timeliness and regularity of the decision-making procedure of related transactions.

## 4. Internal control concerning the Company's provision of external guarantees

The Company established and improved the Rules for Managing External Guarantees, which specified the basic principles for the company's provision of external guarantees, responsibilities allocation, guarantee evaluation, approving and authorizing procedure, control on guarantee execution, guarantee supervision and checks, etc..

In the reporting period, there existed no provision of guarantees by the Company to the principle shareholder or any external parties.

## 5. Internal control concerning the Company's raise and use of funds

The Company established and improved the Management Rules for Funds Raising, which specified the placement, use, management, information disclosure and supervision of the raised funds.

In the reporting period, the Company conducted no fund-raising.

## 6. Internal control concerning the Company's major investments

The Company formulated the Rules for Investment Management, which mainly specified the responsibilities allocation, authorization and approval, investment feasibility studies, evaluation

and decision-making, execution and sale of the Company's major investments.

#### 7. Information disclosure

In accordance with the Guideline for Fair Information Disclosure of Listed Companies and the Management Measures for Information Disclosure of Listed Companies, the Company conducted reception of and communication with the investors, which ensured the fairness of information disclosure. The people with reporting obligations reported in time the relevant information to the Company's Board and Board Secretary, who analyzed the internal important information reported. Where the obligation of information disclosure should be executed according to regulations, Board Secretary reported in time to the Board and urged the Board to implement the relevant procedure of information disclosure. The Rules for Managing Information Disclosure were established and improved by the Company, which specified the basic principles of information disclosure, as well as the obligors of information disclosure and their responsibilities. And a thorough and effective control was conducted on the Company's information disclosure to ensure that the Company disclosed its relevant information in a timely, accurate, complete and fair manner.

Compared with relevant regulations of the Guideline of Shenzhen Stock Exchange for Internal Control of Listed Companies, the Company was able to conduct a strict, thorough and effective internal control on its holding subsidiaries, related transactions, external guarantees, raise and use of funds, significant investments, information disclosure, etc., with no violations against the said Guideline and the Company's rules for internal control.

#### ( ) Self-evaluation on the Company's internal control system

In strict compliance with the requirements of standardization operation for listed companies, the Company actively promoted the innovations in the modern enterprise management system and paid much attention to the development of its internal control system. Through constant adjustments and optimization, the Company's internal control systems were greatly improved to cover all the Company's business divisions, subsidiaries and businesses. Meanwhile, the internal control systems were effectively implemented in the Company's decision-making, execution, supervision and feedback. At the same time, the internal management and control system, the approving procedures and the approving powers covering all the operation links were established and improved, which ensured a rational layout of the Company's organs, posts, powers and responsibilities, as well as the clear powers and responsibilities, checks and balances, mutual supervision among different organs and posts. Currently, the Company's Shareholders' General Meeting, Board of Directors, Supervisory Committee and management enjoyed clear powers and responsibilities, as well as a standardized operation; And the Company disclosed its relevant information on the principles of factuality, accuracy, completeness, timeliness and fairness; Also, the Company's risk control system worked effectively, which ensured the healthy operation of all the Company's business activities.

To sum up, according to Company Law, Code of Corporate Governance for Listed Companies, Guideline for Internal Control of Listed Companies and other laws and regulations, the Company established and put into operation an effective internal control in terms of all major aspects, which complied with relevant requirements of CSRC and Shenzhen Stock Exchange. And the internal control system was proved to be able to reasonably ensure the realization of the Company's strategic objectives, objectives concerning the efficiency and outcome of operation and management, objectives of factual and complete financial reports and relevant information, and objectives of the safety of the Company's assets.

#### ( ) Problems found in key control activities, as well as the rectification plans

By 31 Dec. 2008, through the Company's self-evaluation and rectification, the Company's internal control system was basically in a sound position, with no deficiencies or abnormalities found affecting significantly the Company's governance, operational management and development.

In order to ensure a thorough implementation of the Basic Standards for Enterprise Internal Control and further strengthen the Company's internal control system and the relevant supervisory system, the Company kept adjusting its internal control system and operation process, improving the deficiencies and optimizing the internal control on the basis of compliance with relevant laws and regulations.

#### ( ) Evaluation by supervisory authorities and an independent third party on the Company's internal control

1. In 2008, the Company received no punishments from CSRC and Shenzhen Stock Exchange in terms of its internal control.

2. The registered accountants for the Company's annual audit expressed no disagreement on the effectiveness of the Company's internal control.

#### ( ) Opinions by Supervisory Committee and independent directors on the Company's self evaluation

of its internal control

1. Opinions by Supervisory Committee on the Company's self evaluation of its internal control  
Upon examination, the Company's Supervisory Committee was of the opinion that the Company's existing internal control system was in a sound position and effectively executed, which was in line with the requirements of CSRC, Shenzhen Stock Exchange and other securities regulatory authorities; that the Company's self-evaluation report on its internal control factually and objectively presented the establishment and execution of the internal control systems.

2. Opinions by independent directors on the Company's self evaluation of its internal control  
Upon examination, the Company's independent directors (Mr. Feng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong) was of the opinion that the Company's 2008 Self-evaluation Report on Internal Control presented the actual situation of the Company's internal control development and operation in a thorough, objective and factual manner, and that the Company's 2008 Self-evaluation Report on Internal Control was thus agreed to.

### **Section . Shareholders' General Meeting**

In the reporting period, the Company convened one annual shareholders' general meeting and two provisional shareholders' general meeting.

. The 2007 Annual Shareholders' General Meeting of Konka Group Co., Ltd. was convened at the Central Meeting Room on the 1<sup>st</sup> floor of the office building of Konka Group in Shenzhen Overseas Chinese Town at 9:30 a.m. on 26 May 2008 (Monday).

. The 1<sup>st</sup> Provisional Shareholders' General Meeting in 2008 of Konka Group Co., Ltd. was convened at the Central Meeting Room on the 1<sup>st</sup> floor of the office building of Konka Group in Shenzhen Overseas Chinese Town at 9:30 a.m. on 11 Jul. 2008 (Friday).

. The 2<sup>nd</sup> Provisional Shareholders' General Meeting in 2008 of Konka Group Co., Ltd. was convened at the Central Meeting Room on the 1<sup>st</sup> floor of the office building of Konka Group in Shenzhen Overseas Chinese Town at 9:30 a.m. on 18 Dec. 2008 (Thursday).

The resolutions made at the said three meetings were published on China Securities Journal, Securities Times, Shanghai Securities News and Ta Kung Pao (HK), as well as the international website <http://www.cninfo.com.cn> respectively on 27 May 2008, 12 Jul. 2008 and 19 Dec. 2008.

### **Section . Report of Board of Directors**

#### **. Main operation condition of the Company in the reporting period**

( ) General business performance in 2008

In 2008, on the basis of the three major projects of fine products, quality and innovation, the Company continued to strengthen its value operation strategy, seized the opportunities brought by the Olympic Games, and further strengthened the technological innovation to advance along with the times, which resulted in a steady business growth of the Company.

1. About the business performance:

(1) With the negative impacts of the natural disasters, the global financial crisis and other factors, the Company achieved, in 2008, a sales revenue of RMB 12,205 million, with a small increase over last year.

The severe snow storm before the Spring Festival of 2008 made it almost impossible for the Company's products to reach the affected areas or to go out of the production bases, which brought adverse influence on the Company's sales in the Spring Festival; Meanwhile, the Sichuan Earthquake led to a halt of the Company's business in the disaster area, which significantly affected the Company's sales in May. It was estimated that the snow storm and the earthquake caused a decrease of the Company's sales revenue reaching about RMB 600 million, as well as a decrease of the gross profit approximately amounting to RMB 120 million. Besides, in the second half of 2008, the globally-felt financial crisis also created difficulties to the Company's overseas business.

The upgraded consumption of color TV products and the opportunities brought by the Beijing Olympic Games served as the main contributors to the Company's growth of sales revenue. The color TV industry was experiencing a revolutionary transformation, with an accelerated replacement of flat-panel TVs by the traditional picture-tube TVs. And it was expected that the proceeding of the consumption upgrade of color TV products would increase the market capacity in value terms, which would serve as the main driving force for the sales growth in the color TV industry. At the same time, the Company made full use of the enormous opportunities brought by the Olympic Games in terms of products, technologies, marketing, and service and so on, with the considerable sales increase of the color TV products during the Games as a desirable outcome. To sum up, the aforesaid factors helped the Company achieve a small year-on-year increase of its sales revenue despite the negative influence from the natural disasters, the global financial crisis and other adverse conditions.

(2) Due to the considerable sales growth of high-end products and the significant results of the efforts in reducing expenditures and improving efficiency, the Company achieved, in 2008, a net profit of RMB 251 million, with a year-on-year increase of 21.11%, which marked the significant increase of gross profit for three consecutive years.

In the reporting period, the Company adopted the high-end marketing going with the brand promotion, and further optimized its product structure. As a result, the Company successfully increased the market shares of its products with high added value, expanded the space for it to increase product prices and strengthened the brand visibility and profitability of its products. Meanwhile, the Company further strengthened its efforts to reduce expenditures and increasing efficiency, improved the supervision and management, and ensured the effective, orderly and vigorous proceeding of expenditure reduction and efficiency improvement, which was awarded with a significantly favorable outcome. As a result of all these efforts, the Company achieved a year-on-year increase of 21.11% of the net profit attributable to the owners of the parent company in the reporting period.

(3) The net inventory decreased by 12.30% over last year, which marked the decrease of the net inventory for a third consecutive year. As proved, the Company was in a healthy and safe operation.

The Company further strengthened the inventory management, accelerated the turnover of flat-panel TV products, and effectively reduced the inventory, which further improved the turnover efficiency of the inventory. By the end of 2008, the inventory decreased by 12.30% compared to that at the end of 2007, with the decrease of 17.38% at the end of 2007 compared to that at the end of 2006, which marked the inventory decrease for a third consecutive years. As proved, the Company was operating healthily and safely.

(4) The Company enjoyed a sound financial position and a smooth capital turnover.

In the reporting period, the net cash flows arising from the Company's operating activities increased by 932.01% over last year. At the end of the reporting period, the Company held the monetary capital amounting to RMB845 million; the value of the banker's acceptance bills discountable on demand reaching RMB 2.6 billion; and the cash and cash equivalents available for spending reaching RMB3445 million. As could be seen, the Company enjoyed good cash flows. In the year 2008, the Company's asset-liability ratio stood at 61.97%, decreasing by 2.37% over last year. As proved, the Company enjoyed a sound financial position and a smooth capital turnover.

(5) The Company also enjoyed a fast increase of the quantity and quality of patents applied.

In 2008, the number of the patents applied by the Company amounted to 639, with a year-on-year increase of 30%. Among them, the number of the applied patents for invention and utility models took up 80% of the total number applied, which ranked among the top of the enterprises in the same line. As could be seen from above, the Company enjoyed a fast increase of the quantity and quality of patents applied.

2. About the performance in the market:

(1) According to the statistics from Beijing Zhongyikang Times Market Research Co., Ltd., the Company had the largest share in the color TV market at the end of 2008; Meanwhile, the market share and the sales of CRT TVs both ranked the first in the industry, with the Company's largest market share reaching 23.34%, which was 7% ahead of the competitor with the second largest market share; The market share of flat-panel TVs was also increasing, with the market rank rising to No.2 at the end of 2008 from No.5.

(2) With the rapidly decreased sales of cell phones of many brands and the accelerated reshuffle of the downstream industry, the Company enjoyed a sound business basis, which ensured the healthy and stable development of its cell-phone business and made it a top brand in the cell phone industry.

(3) The Company's white goods successfully entered the chain store sector in the urban market, with a considerable increase of the supermarket coverage and the market shares. In 2008, the Company's brand climbed to No. 4 in the supermarket sector, with its rural market coverage rising to 84%.

3. About the project of fine products

In terms of color TVs: In Mar. 2008, the Company introduced the i-sport 08 series of sport high-definition LCD TVs, with the best picture quality and functions in the world, which later became the dedicated TV products for the National Swimming Center (the "Water Cube"). In Sept., the i-sport 68 series of LCD TVs with the globally thinnest monitor (3.5 cm) were introduced, which won the Gold Prize for Innovative Design in IFA in Germany, as well as the Prize for Innovative Design of China Consumer Electronics and other honors. With the high-quality products ranging from the 08 series to the 68 series, the Company was able to maintain its leading position in the high-end market of sport high-definition LCD TVs.

In terms of cell phones: The Company kept a leading position in the market of double-SIM-card and double-standby market. And the 5610 Cell Phone won the China Red Star Design Award.



In terms of white goods: With the “energy-saving” notion as the promotion core, top energy-saving refrigerators with the daily power consumption below 0.4 kilowatt-hour were introduced. Among them, the daily power consumption of the two-door refrigerator BCD181 was only 0.27 kilowatt-hour, and that of the three-door refrigerator BCD-232 only 0.37 kilowatt-hour, both of which reached the most advanced level in the industry.

#### 4. About the marketing during the Olympic Games

In 2008, with the sport high-definition LCD TVs as the leading products, the Company conducted a successful marketing campaign during the Olympic Games. As one of the sponsors, the Company, joining hands with the National Swimming Center and the Samaranch Foundation, conducted the public welfare event of “Dream Realized in 2008” in April. Later in June of the same year, the Signing Promotion of “Olympic Champions City Tour” was started, covering the Company’s 34 controlled companies and 72 cities in China. 109 of such promotions were held, involving over 1 million consumers, which effectively promoted the sales.

#### 5. About the key projects

(1) The Project of Kunshan LCD Modules witnessed a smooth start. In 2008, the Company successfully finished the purchase of the land for factory building of the Project, the purchase, debugging and examination of the Dongguan testing line, and the trial production of the LCD module products. It was expected that in 2009, the Company would be able to finish the investment for the relevant devices and equipments of 4 module production lines, and 2 production lines of complete machines.

(2) The Konka R&D Building Project entered the construction phase in a smooth manner. By the end of 2008, the Company had finished all the construction drawing of the building, the basic pit support and most of the earthwork. And the construction is currently proceeding in a rapid and orderly manner.

(3) The Company won the tender of the Project of “Promoting Application of Electric Appliances in the Countryside”. Meanwhile, the Company also won tenders concerning its color TV, cell phone, refrigerator and washing machine businesses. At the same time, the Company also won the tenders in some provinces during the national tender of the circulation enterprises, which laid a foundation for the market exploration.

#### 6. About the development of new businesses:

(1) The sales of LED products surpassed the RMB 100 million mark. With the fierce competition in the industry and the rising cost of raw materials, the Company still hit a record high in terms of the LED sales. Furthermore, the Company’s notability and leading position in the LED industry were further strengthened through the key projects such as the Project of Morgan Plaza in Beijing Olympic Village and the Wangfujing Project, which laid a solid foundation for the proceeding of the Company’s LED strategies.

(2) The sales in the Company’s digital network business also surpassed the RMB 100 million mark, registering the best performance in the history of the said business. In terms of the digital network business, the sales revenue and profit both experienced a considerable increase due to the implementation of a series of measures such as optimizing the organizational structure, smoothing the internal operation flow, implementing internal incentives, strengthening the market promotion, strengthening the talent introduction, etc..

#### ( ) Main work conducted in the reporting period

##### 1. Value operation strategy as a magic key to deal with market competition

The year 2008 saw the significant achievement arising from the implementation of the value operation strategy in the Company. With the adverse operation environment at home and abroad, as well as the harsh natural environment, the Company seized in time the opportunities brought by the consumption upgrade of household electric appliances and the Beijing Olympic Games, thoroughly implemented the value operation strategy and introduced to the market a series of fine-quality and innovative machines. In dealing with the market competition, the Company focused on the optimal product structure, the scientific management of the supply chain, the effective promotion strategy and excellent customer service, which produced a desirable outcome.

In terms of its flat-panel products, the Company introduced to the market, in Mar. 2008, the first sport high-definition LCD TV (i-sport 08 collectable edition), with many of its technical indexes better than those in the main high-end market. It carried the exclusive “double 120Hz+FHD” technological platform, as well as the first use of traceless plastic injecting techniques. The frame of the TV machine was made of the high-rigidity aerospace materials, with the thinnest rim (1.5 inches) in the industry. It marked an innovation breakthrough in the industrial design, with its exterior, techniques, functions and picture quality representing the best in the industry.

In Sept. 2008, the Company introduced to the market the thinnest (3.5 cm) LCD TV in the world—the

i-sport 68 series. The series adopted the top components (such as the integrated low-power-consumption IC and the ultra-thin LCD screen) and the most advanced technologies (such as the mosaic prefixed assembly techniques, and the new heat-dissipation technique of high and low holes), which realized the integration of the circuit board, the power source and the complete machine. And this new TV product marked a breakthrough of the design bottleneck in the flat panel industry, and thus won a varieties of honors such as the Gold Prize for Innovative Design in IFA in Germany, the Top Ten Flat-panel TVs in China and the Prize for Innovative Design of China Consumer Electronics. With high-quality products ranging from the 08 series to the 68 series, the Company maintained a leading position in the high-end market of sport high-definition LCD TVs.

In terms of the color kinescope products, the Company successively introduced the new products of 808 series, 827 series, 828 series, Classic 898 and so on, which promoted the replacement of old products by new ones in the CRT TV business, as well as the constant increase of the relevant sales. And the sales of those new products contributed over 20% to the total sales. Among them, the Olympic Fine Product Series 808 was the “star” product of the best market performance, with sales of 200,000 sets, sales revenue reaching RMB 270 million and a gross profit exceeding 100 million.

In terms of the cell phone products, the Company achieved a leading position in the market of double-SIM-card and double-standby cell phones by developing the full cell phone series of D260, D6670, E303, C602 and so on. Meanwhile, the Company’s two cell phone varieties of 5610, EC006 won the China Red Star Design Prize, with A3, D680 winning the Innovative Design Gold Award 2008 (Kapok Prize). In terms of white goods, the Company accurately analyzed the energy-saving trend in the market, set the high-end three-door refrigerators as the promotion core, and introduced the top energy-saving refrigerators with a daily power consumption below 0.4 kilowatt-hour, which greatly promoted the sales increase of the super-efficient products, soft freezing products and other middle-and-high-end white goods.

Due to the guidance of the value operation strategy, the Company developed a group of fine product varieties with great competitiveness, which ensured the steady growth of the Company’s sales and profits in the adverse operation environment. According to the statistics from Beijing Zhongyikang Times Market Research Co., Ltd., the Company has climbed from No.5 at the beginning of 2008 to No.2 at present in terms of the market share in the flat-panel industry. What’s more, the Company has taken up a share of 14.8% in the 42-inch flat-panel TV market, with a larger share of 20.93% in the 47-inch flat-panel TV market.

## 2. Olympic marketing achieved complete success

Year 2008 is Olympic year for China, market competition was unprecedented fierce. The Company formulated a set scheme on Olympic marketing with target, and carefully disposed relevant extension activities.

At the year-begin, based on development and recognition of “Sport high-definition LCD”, the Company took leading in release technology of “Double 120Hz+FHD”, which was focused by industry and media, and lay sound foundation on publicity of Olympic marketing.

In Apr., the Company confirmed new model of Olympic marketing “Products+ Public Welfare” by the method of developing core products i-sport08 for collection, supporting National Aquatic Center, cooperated to sponsor public welfare activity “Dream realized in 2008” with Samaranch Foundation, donated television to remote regions, selected “Angle of Hope” and development of “One Hundred Percentage Care and Love Activity”

Since Jun. 2008, the Company introduced Olympic Champion, that was the direct Olympic element, in sales promotion activity, started up three phases “Olympic champion in Urban”, which was large-scale sales promotion activities with signature of champions, and push the marketing to upsurge. The Company totally invited more than 20 Olympic champions to develop large-scale sales promotion activities with signatures respectively before Olympic games, on national day and in Nov. 2008, involving 34 branches and 72 cities, 109 scenes, influencing more than 1 million person, and promote sale amount being 500 million, which greatly promoted sales of products and brand publicity.

According to research result from All View Consulting Ltd, Konka Sport high-definition was mentioned mostly in brand publicity. Olympic marketing of Konka won prize of TOP10 Marketing Innovation Enterprise of China in 2008, Prize of “Excellent marketing of China” awarded by Hong Kong Enterprise Management Association and “Marketing Innovation Prize” awarded by China Marketing.

## 3. Domestic sales of color television

In respect of marketing of color television, the Company deepened sport high-definition strategy, successively launched medium ended 60 series, Olympic masterpiece 08 series and Super slim after Olympic 68 series, promoted competitive power by a large margin in flat-panel field, and realized

further optimization of product structure. The Company also pushed project of “pushing flat-panel products to the rural market”, supported by which the Company rebuilt rural market and further optimized channel network in rural regions. The Company enhanced management of branches, improved capacity of self operation and faithfully improved operating quality.

In respect of research & development and manufacturing of color television: the Company focused on diversity masterpieces, achieved breakthrough in design with low cost, 1D innovational design and application of new technology, new material and new technics. The Company has successfully completed task of exploitation of 327 patterns of color television for domestic and overseas sales. As for reduction of cost, the Company implemented in purchase, design, replacement of raw material and production, continuously and further adopted tendering and bidding system, and guaranteed overall accomplishment of all targets of cost reducing.

#### 4. In respect of mobile phone

The Company established operating system with low cost and expense, which promoted operating efficiency and capacity of risk prevention. As for domestic sales, the Company has completed transformation of business operation model, and created new model of TV shopping sales. As for overseas sales, the Company strengthened construction of foreign sales projects and programming capacity of mobile phone, and sales amount of C602 pattern for foreign market achieved 200,000 sets within 3 months, which was historical record for foreign sales of single units. In new business, the Company innovated and explored additional business, greatly improve engineering and sales of main board, and made new business became important point of growth in communication science and technology.

#### 5. In respect of white electrical business

The Company enhanced system establishment of white electrical business, promoted integration, accuracy and foresight of programming on white electrical business, actively programmed and perfected production line of medium and small pattern. The Company promoted channel coverage of white electrical products, realized important breakthrough in key regions and cities and extended channel of supermarket in urban. As at the end of 2008, white electrical products of the Company has listed in 602 markets in urban, 7385 third or fourth market and traditional customers, amounting to 8000 distributors, and enhanced increased of sales of white electrical products.

#### 6. Export sales business of color television

In 2008, overseas business was uncertain. Influenced by appreciation of RMB and rise of cost of raw materials, gross profit on sales declined rapidly in the first half year of 2008. At the end of 3<sup>rd</sup> quarter, orders decreased by a large margin with breakout of global financial crisis. Under this condition, the Company strengthened to exploited other new market except Europe and America, strictly implement reduction of cost and expense, and launched new competitive patterns with low cost, meanwhile, strictly controlled risk and risks of inventories and accounts receivable controlled well.

#### 7. Other work developed in the report period

In 2008, the Company also developed the following work:

Firstly, technical research acquired plentiful and substantial achievements. The Company has accomplished research & development of IPTV set top box and realized sales of products. Meanwhile, the Company acquired a series of achievements in research & development of LCOS, IPv6 and IP module for network television.

Secondly, research on investments has acquired active progress. With a view to long-term development, the Company researched and discussed industrial programming and distribution, and generated clear, definite and complete idea on diversification development. After adequate investigation and approval from the Board of Directors, the Company started LCD module project in Kungshan.

Thirdly, talent development system was further perfected. In 2008, the Company carried forward pyramid talent cultivation structure which was classified and space supplementary, and formally developed LDP Project, which supply human resource reserves for business development strategy, propelled delicacy management and realized target on control of labor expense better.

Fourthly, customer service management system of call center has been switched over. Successful switching of this system indicated that service information system has been put into use roundly. Call center of the Company, which is the largest call platform in domestic industry, is able to supply turnkey solution service for 24 hours with high quality and efficiency.

Fifthly, the Company actively participated relief of earthquake and disaster and rebuild. The Board of Directors approved charitable donation of RMB 5 million to disaster area. The Company successively mobilized employees and raised charitable fund more than RMB 1 million, collected and donated RMB 120,000 special party membership dues. The Company also donated 770 tents and consoled with family dependents of some employees from disaster area. Moreover, the Company has set up Konka Hope Fund,

developed activities of angle and realization of dreams with China Youth Development Foundation, donated money and good & materials for emergent succor of the front earthquake relief and subsidized students, arranged hope angle from disaster area to visit Beijing Olympic venue and experienced Olympic games.

Meanwhile, the Company normally and orderly pushed works in operation management, financial management, auditing management, informatization, discipline inspection and supervision.

With effective advance of the above work, the Company successively won a series of prizes, such as "National Business Management Innovation Prize" in the 3<sup>rd</sup> Communication Conference on Innovative Achievements of National Business Enterprise, mini 668 artistic television won "RedDot Design Award" in 2008, marketing extending plan on Konka sports high definition televisions has won National Business Enterprise Marketing Innovation Award 2008 and so on.

## II. Composition of operating income and profit

(I) Business classified according to industry, product and region

1. Main business classified according to industry and product

Unit: RMB ' 0000

Main business classified according to industry						
Industries or products	Operating income	Operating cost	Operating profit ratio (%)	Increase/decrease of operating income than last year (%)	Increase/decrease of operating cost than last year (%)	Increase/decrease of operating profit ratio than last year (%)
Multi-media(Domestic)	836,512.8	668,952.2	20.0	3.7	3.8	0.0
White electrical and others	170,525.2	131,061.8	23.1	101.1	64.9	16.9
Communication	126,192.0	110,780.1	12.2	-21.3	-15.0	-6.5
Multi-media(overseas)	72,147.8	67,691.6	6.2	-41.9	-40.6	-2.1
Total	1,205,377.8	978,485.7	18.8	-0.1	0.4	-0.4
Main business classified according to product						
Color television(Domestic)	836,512.8	668,952.2	20.0	3.7	3.8	0.0
White electrical and others	170,525.2	131,061.8	23.1	101.1	64.9	16.9
Mobile phone	126,192.0	110,780.1	12.2	-21.3	-15.0	-6.5
Color television(overseas)	72,147.8	67,691.6	6.2	-41.9	-40.6	-2.1
Total	1,205,377.8	978,485.7	18.8	-0.1	0.4	-0.4

2. Main business classified according to region

Unit: RMB ' 0000

Region	Operating income	Increase/decrease than last year (%)
Domestic	1,225,898.58	13.73
Overseas	304,859.03	33.31
Offsetting each other among segments in each area	-325,379.81	-
Total	1,205,377.80	-0.09

## III. Analysis on financial indices of the Company

(I) Comparison analysis on the major financial indicators

1. Main financial indices in the report period

Unit: RMB ' 000

Items	At the end of Year 2008	At the end of Year 2007	Increase/decrease (%)
Total Assets	10,517,285.52	10,599,949.69	-0.78
Net accounts receivable	1,326,261.32	1,040,182.92	27.50
Net inventories	2,573,776.87	2,934,629.18	-12.30
Net long-term investment	21,610.34	51,645.23	-58.16
Net fixed assets	1,344,177.90	1,286,740.99	4.46
Long-term liabilities	44,141.44	33,610.03	31.33
Short-term Loan	1,346,375.61	1,275,584.10	5.38
Shareholders' equity	3,999,473.20	3,779,270.76	5.83
Items	2008	2007	Increase/decrease (%)
Operating profit	265,873.91	255,504.81	4.06
Net profit	250,817.15	207,091.72	21.11
Sales expense	1,520,386.79	1,592,452.28	-4.53
Financial expense	1,318.51	15,050.94	-91.24

Administrative expense	432,537.98	418,146.61	3.44
Income tax	22,521.42	44,526.24	-49.42

## 2. Explanation and analysis on main changes of items:

(1) Inventories in this period decreased 12.30% year-on-year, mainly because the Company continued to adopt effective measures to strengthen inventory management, accelerated turnover of inventories and controlled scale of inventories.

(2) Long-term investment decreased 58.16 year-on-year, which was mainly because the Company sold holding equity of Guangzhou Huadu Huamei Industrial Co., Ltd, settled book value of long-term equity investment and confirmed gains and losses from share transfer.

(3) Financial expense in this period decreased 91.24%, mainly because balance between recording foreign exchange rate of NDF business and exchange rate at the period-end offset gains and losses from exchange.

(4) Long-term liabilities in this period increased 31.33% year-on-year, mainly because government subsidies received in this period amortized and recorded into deferred non-operating income.

(5) Income tax decreased 49.42% year-on-year, mainly because income tax was offset by increase of deferred income tax assets confirmed in this period, which was due to increase of income tax rate executed in Shenzhen from 2009 to 2012 compared with 2008.

## (II) Analysis on composition of assets

### 1. Composition of assets in the report period

Items	At the end of 2008	At the end of 2007	Increase/decrease (%)
Net accounts receivable/total assets	12.61%	9.81%	2.80
Transaction financial assets	0.00%	0.22%	-0.22
Net inventories/total assets	24.47%	27.69%	-3.22
Net long-term investment/total assets	0.21%	0.49%	-0.28
Net fixed assets/total assets	12.78%	12.03	0.75
Long-term Loan/total assets	0.00%	0	0.00
Short-term Loan/total assets	12.80%	12.09%	0.71
Shareholders' equity/total assets	38.03%	35.65%	2.38

### 2. Measurement attribute of main assets of the Company

Other main assets of the Company adopted historical cost method except that financial assets available for sale adopted fair value measure.

## (III) Analysis on cash flow indices

### 1. Cash flow indices

Unit: RMB '000

Items	2008	2007	Increase/decrease (%)
Net increase in cash and cash equivalents	92,468.45	74,318.59	24.42
Cash flow arising from operating activities	362,642.08	35,139.50	932.01
Cash flow arising from investing activities	-58,138.61	-160,924.07	63.87
Cash flow arising from financing activities	-203,287.72	203,593.45	-199.85

### 2. Comparison between cash flow arising from operation activities and net profit

Unit: RMB '000

Cash flow arising from operation activities	Net profit	Cash flow arising from operation activities /net profit
362,642.08	258,324.47	1.40

### 3. Explanation and analysis on main changes of main items

Cash flows from operating activities in this period increased 932.01% than last period, mainly because the Company paid notes receivable due to its mature and discount increased.

Cash flows from investment activities in this period increased 63.87% than last period, mainly due to callback of long-term equity investment fund for Longfeng Jianzhi Real Estate Co., Ltd. Of Huadu, Guangzhou and funds from customer for comfortable housing "Konka Yuan".

Cash flows from financing activities in this period decreased 199.85%, mainly because of repayment of foreign currency borrowings for NDF business.

## V. Principal holding company and joint stock company

### (1) Operation and performance of principal shareholding company and joint stock company

#### 1. Shenzhen Konka Communications Technology Co., Ltd

With its 100% equity directly and indirectly held by the Company and registered capital of RMB 120 million, Shenzhen Konka Communications Technology Co., Ltd, 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 RMB840,711,361.50 and net assets were RMB2,597,810.15, the sales income in 2008 was RMB1,303,623,623.76, operating profit was RMB 37,674,778.16 and net profit was RMB34,354,948.06.

#### 2. Dongguan KONKA Electronics Co., Ltd.

With its 100% equity held directly and indirectly by the Company and registered capital of RMB 200 million, Dongguan KONKA is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB375,119,358.57 and the net assets were RMB155,145,955.31, the sales income in 2008 was RMB 151,634,631.12, profit from sales income was RMB5,606,546.94 and net profit was RMB3,813,442.35.

#### 3. Shanxi KONKA Electronics Co., Ltd.

With its 60% equity held directly and indirectly by the Company 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 129,963,170.44 and the net assets were RMB106,798,728.36, the sales income in 2008 was RMB 146,122,365.36, profit from sales income was RMB 1,042,179.23 and net profit was RMB1,514,621.24

#### 4. Anhui KONKA Electronics Co., Ltd.

With its 78% equity held by the Company 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 RMB350,346,812.92 and the net assets were RMB226,376,793.21, the sales income in 2008 was RMB448,588,895.28, profit from sales income was RMB6,686,566.48 and net profit was RMB 7,263,565.10.

#### (II) Special purpose entity controlled by the Company

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

#### V. Principal suppliers and customers

In the report period, the total purchase amount from the top five suppliers was RMB 1,953,983,359.00, accounting for 18.63% 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.

#### VI. Risks in the operation and countermeasure

2009 will be an uncertain year, and operation of the Company will have the following risks:

(I) Global financial crisis will further diffuse, which will cause recession of global economy and decline of consumption demand, and economy will be worsen.

(II) With background of global financial crisis, economy growth of China will slower, consumption demand declined and uncertain factors increased.

(III) Increasing capacitance of domestic household electrical appliance market will be slowed and risk of price competition will increase; meanwhile, competition of flat-panel industry will be fiercer due to large-margin drop of material price as LCD and contradiction of supply and demand will be largened.

(IV) Products structure of color TV changed continuously, and flat-panel era is coming. Television with color picture tube is important resource of net profit of domestic brand, but market quota shrunk continuously. Market quota of LCD TV increased continuously, but profit capacity of LCD TV in domestic brand is low.

However, the Company will envisage risks caused by economic crisis, will adjust business model, organization structure, sales strategy, enhance internal management, and make effort to promote comprehensive ability in the ruthless market environment. Details for countermeasures are as follows:

(I) Insist on value operation strategy, product innovation, create different masterpieces, and realize enlargement of market quota and increase of additional value of products with different products.

(II) Promote operating efficiency, accelerate turnover of inventories and accounts receivable.

(III) Improve competition advantage of products by integration of upstream and downstream business, improve competitive power and accelerate update and transformation by integration of module and machine.

(IV) Enhance exploitation of rural market, pay more attention on development of products suitable for rural market, shape advantage of different low ended products in rural area, guarantee advantage of cost of different products and improve competitive power of products for rural area.

(V) Adopted strict measure to economize cost, reduce expense, promote competitive power in respect of research & development, purchase, manufacture and sales & marketing and so on.

## VII. Operation plan in the new year

(I) Analysis on operation environment and operating method in 2009

### 1. Operation environment

As a whole, 2009 is an uncertain year, which faced challenge and opportunity.

In respect of challenge:

Firstly, global financial crisis will further diffuse, which will cause recession of global economy and decline of consumption demand, and economy will be worsen.

Secondly, with background of global financial crisis, economy growth of China will slower, consumption demand declined and uncertain factors increased.

Thirdly, increasing capacitance of domestic household electrical appliance market will be slowed and risk of price competition will increase; meanwhile, competition of flat-panel industry will be fiercer due to large-margin drop of material price as LCD and contradiction of supply and demand will be largened.

Fourthly, products structure of color TV changed continuously, and flat-panel era is coming. Television with color picture tube is important resource of net profit of domestic brand, but market quota shrunk continuously. Market quota of LCD TV increased continuously, but profit capacity of LCD TV in domestic brand is low.

In respect of opportunity:

Firstly, overall scale of color TV industry will keep increase. China Market Monitor Co., Ltd forecasts that sale amount of color television in 2009 will increase by 1.8%. Color television industry is still a market whose total sales amount will keep increase on condition that other industries fell off.

Secondly, potential of rural market is large. Owing to little influence of financial crisis on rural market, television with color picture tube have space of development; flat-panel will increase market quota with rapid drop of price; policy of pushing household electrical appliance to the rural market will further promote consumption of household electrical appliance in rural market.

Thirdly, domestic brand has competitive advantage gradually. In color television market, domestic brand has absolute advantage, and policy of pushing household electrical appliance to the rural market will enlarge this advantage. In LCD television market, competitive advantage of foreign brand in domestic market has been cut down, domestic brand has comparative advantage without competent owing to slip of global market sales and large-margin drop of price of LCD caused by financial crisis.

### 2. Operation method of 2009

Continuing to persisting in and deepening value operation stratagem, based on the three projects of masterpiece, quality and innovation, effectively push combination of difference and low cost, emphasize to promote speed and efficiency, strictly control operating risk, further advance and enhance technical innovation, be firm in confidence, face under pressure to solve the problem and make effort to create new advantage of value operation.

(II) Principal work in 2009

Based on acceleration of routine operation management as annual plan and scheme, the Company will do well in following eight work:

#### 1. Deepen push value operation and create diversity advantages

In 2009, the Company will insist on value operation strategy, product innovation, create different masterpieces, and enhance additional value of products, which is long-term persistent competitive strategy of the Company not changed, and also basic countermeasure to current economy.

##### (1) Masterpiece project

In respect of flat-panel television, the Company will actively optimize sales structure of flat-panel products, and guarantee new products list and sell as scheduled with principle of "distribution effective products with effective price". As for high ended products, the Company will develop high ended different products as 240Hz and back light LCD, develop network television basing on demand of consumption, continue to lead trend of high ended flat-panel products, and support with brand; as for medium and low ended products, the Company will actively optimize distribution of production lines, enhance competitive power of high ended flat-panel market in rural market, and make effort to enlarge market quota.

In respect of color television, the Company will implement programming on super low ended products, continue to reduce model, improve efficiency of single products and competitive power of products, keep urban market and exploit rural market, carry out sales management, keep sales scale and ensure maximums profit.

In respect of mobile phone, the Company will insist on programming, research & development, operating of masterpieces and innovation of mode, ensure success rate of pattern of masterpieces, promote overall benefit by masterpieces.

In respect of white electrical products, the Company will insist on core of "energy saving products", develop masterpieces of refrigerator and washing machine, do well in extending of planning, production and sales of star products like peak energy-saving refrigerator with three doors and super energy-saving refrigerator and so on.

#### (2) Innovation project

The Company will enhance design innovation of ID, organically combine self design with cooperative design, struggle for leading development trend. The Company will also strengthen exploitation and application of diverse functions, especially development trend of track digital television, wireless high definition video transmission, network television, LED back light, actively accelerate application of new materials and technics in products, and ensure key products like LED back light television list in market as scheduled.

#### (3) Quality project

With basis of keeping current quality management, the Company will promote connotation of quality management, emphasize comprehensive quality of products, service and cost, faithfully promote quality in overall progress, quality of staff and enterprise. The Company will continue to carry out principle of "determined account, determined counting measure and determined rules", especially prevention.

#### 2. Supplement and perfect super low ended production lines, establish stable market scale

The Company will make effort to innovate design with low cost, further select with basis of general, pattern and standard design, enlarge reuse rate of module after selection, push application of replacement of component and new technology, and ensure the lowest cost from headstream of the design. Meanwhile, the Company will meet demand of customers with low revenue with diverse products with low cost, and pertain to the national "Comfortable Housing Project".

#### 3. Effectively enlarge exploitation of rural market

In 2009, the Company will pay more attention to rural market with large potential, and will enlarge exploitation.

Firstly, the Company will manufacture products according to demand of rural market, especially products qualified with policy of pushing household electrical appliance to the rural market. All production lines, no matter what is color television, refrigerator or mobile phone, will emphasize products for rural market as key work, establish diversity advantage of rural low ended products, ensure advantage of cost in diverse products and improve competitive power of products in rural market, which is base of exploitation of rural market.

Secondly, the Company will catch advantage chance of development of policy of pushing household electrical appliance to the rural market, combined deepening project of pushing flat-panel products to the rural market and traditional advantage of white electrical appliance and shaped complete promotion sales system. As for different operating policy of phone mobile, the Company will make use of traditional advantage, national chain and operator, and perfect rural system with support policy of the state.

Thirdly, the Company will enhance reconstruction of stores in county, publicity of flat-panel products and pattern, ensure advantage position of brand in progress of large-margin increase of flat panel market. The Company will further enhance systematization management and supervision, emphasize establishment and promotion of core stores, and create core customers of flat-panel in rural market.

#### 4. Acceleration project and benefit from speed

Color television market has entered in ear of flat-panel in 2008. The most obvious character of flat-panel products are high price of products and raw materials, but price drop are fast and risk is large. Especially with exploitation of rural market, inventories increased, and risk is larger on the condition that management efficiency of rural network marketing is low. Mobile phone is a market that never stop cheapening. Therefore, the Company will enhance improvement of turnover of inventories.

Meanwhile, aiming at uncertainty of economic environment of 2009, the Company will pay attention to risk of accounts receivable. Promotion of turnover of inventories is the core in operation of the Company in 2009.

#### 5. To make every endeavor to reduce cost and expenses

In 2009, the Company must adopt strict measure to reduce cost and expenses, which is the key measure to promote competitive power and confront crisis.

As for engineering: in respect of research & development, the Company will reduce cost in view of



pattern, structure, hardware and software; in respect of purchase, the Company will push invitation bidding, replacement of component, advising supplier to reduce cost; in respect of manufacturing, the Company will continue to enhance “refined and benefit production” and improve productive efficiency; meanwhile, the Company will learn from upstream manufacturer, strengthen share and communication of experience, and continuously reduce cost.

As for marketing: on one hand, the Company will economize expense and promote efficiency, and control expenses; on the other hand, the Company will optimize operating sales, input limited resource to effective environment and reduce input without efficiency.

#### 6. Faithfully strengthen CPC construction and effectively accelerate development of talent

In 2009, the Company will further strengthen leading of CPC, promote importance of exemplar of party member and cadres. Based on achievement of 2008, the Company will strengthen important role in party commission, stabilization of situation and talent development, especially development of talent, which is the key work in 2009. The Company will accelerate training and introduce comprehensive and professional talent with high political consciousness, overall consciousness, excellent capacity of business, consciousness of innovation and learning ability.

Firstly, will discover talent, check the amount of backbones and talent in important position periodically, and train the talent with LDP and MDP projects. Secondly, the Company will establish more systemizing and normative mechanisms on cadre promotion, training and elimination. The Company will appoint with high standard, strictly appraise and strengthen training and elimination, which will ensure cadre team develop soundly. Thirdly, focus on cultivation of talent, which will ensure effect of cultivation of important talent. Fourthly, the Company will supplement and introduce scarce talent to enlarge talent team of the Company.

#### 7. Accelerate construction of key projects

Project of Kunshan Konka: Kunshan LCD module project, as an important project in integration of flat-panel industry chain, will actively influence cost control, responsible speed and grasp the power of speech. On one hand, the Company arranged construction as scheduled and make effort to construction of hardware environment; on the other side, the Company will focus on cultivation of staff, establishment of system procedure and technical reserves, which will lay the foundation of software in successful input production of Kunshan Base; meanwhile, the Company will enhance communication with local government, arranger and construction party, trace the project, control risks, prepare for production, and make sure successful production and operation at the end of 2009.

Konka Digital Development & Research Centre Building project: the Company will implement requirements of safety, quality, cost and schedule in the progress of construction, struggle for roof-sealing as scheduled.

#### 8. reform is the invariable theme to deal with market changes

In 2009, systems and structure will be more optimized, and organization of the Company will be more innovative and active. In view of current situation, the Company focus on reform on channel and supply chain system in flat-panel era reform on management system of white electrical business to meet opportunity and requirement of new development, reform on mobile phone to confront operator, MTK Mobile Phone and channel innovation, reform on incentive mechanism to meet complicated competition, and demand for reform on other management and procedure.

#### 9. Seek appropriate chance to realize stable and sound extending of industrial capital

The Company will accord to base on self strength, actively seek chance to realize stable and sound extending, adjustment and optimization of industry and region distribution with capital operating method as acquisition and merger and holding shares, therefore, to promote comprehensive competitive power, realize stable and sound increase of overall scale and benefit, and also lay the foundation for future durative and stable development of the Company.

#### 10. Continually push sound development of all business

As for manufacture of color television, the Company will continue to push “three projects”, with basis of safety production and stable promotion of quality, focus on execute reduction of cost and expense, accelerate delivery period of flat-panel, accomplish project on construction of LCD module as scheduled, and adjust operating strategy. Meanwhile, will continuously improve competitive power of products on base of stable talent team for research & development.

As for sales and marketing of multi-media, the Company will focus on “Economization of expense and increase of efficiency, optimization of structure and exploitation market in county”, meanwhile, ensure normal operation of two production lines for black electrical and white electrical products. The Company will implement four operating factors “Cost, Speed, Structure and Innovation”, insist on operation and promotion sales with low cost, speed being the first, optimize products structure,

channel structure and organization structure, reform and innovate, continuously improve system ability and prevention of risk of multi-media business.

As for mobile phone business, the Company will insist on principle of stable, healthy and durative operation, profit-oriented being first, strengthen control on risks, expense and cost, promote benefit capacity of communication science and technology, and keep stable and sound development.

As for white electrical business, the Company will catch up opportunity of policy of "pushing household electrical appliance to the rural market", especially opportunity of relax from pressure of inventories, accelerate development. With precondition of guarantee products quality, economize energy as the core, reduce cost, develop masterpiece, optimize production lines and increase market share, meanwhile, continuously promote establishment of internal management and procedure system and lay stabilized foundation for development of white electrical business.

As for overseas business, with the precondition of control risks, the Company will balance sales amount and profit, promote sales of LCD television, struggle for exploitation of new market, enlarge sales brand amount, deepen localized operation, reduce cost and expense by large-margin, and guarantee sound development.

As for video business, the Company will enhance cooperation with customers of traveling, advertisement and entertainment industry, and extended influence in industry. The Company will insist on creating masterpieces with low cost, built up position of pioneer in industry. Meanwhile, the Company need accelerate research of feasibility of LED lighting, upstream chips and encapsulate field, establish LED chain from epitaxial slice, chips, encapsulate to application of module.

As for digital network business, the Company will base upon self research, control products quality, support Affairs Department with domestic sales market and gain extra profit with foreign market, centralize resources to establish core base with principle of "more investment on key market".

As for living electrical appliances business, the Company will actively introduce backbone talent and enhance professional competence. The Company will also set up marketing network, strengthen research & development of products, accelerate products innovation, and create masterpiece. The Company will properly push strategic cooperation of capital, set up production and supply base and ensure rapid development of living electrical appliances.

Otherwise, the Company will push various work such as operating management, financial management, investment development, human resource, auditing and legal affairs, information construction, CPC construction and construction of enterprise culture, and roundly accelerate rapid, stable and sound development of the Company.

#### VIII. Demand for funds, source of funds and usage plan and of the Company in the future

In order to realize operation target of 2009, expected capital demand of the Company is RMB 695 million. For details are as follows:

##### (I) Capital demand and usage plan

No.	Investment project	Planned investment amount (RMB '0000)
1	Fixed capital investment of white household electric appliance digital television, and relevant industry	10,507.90
2	Investment on Konka Digital Development & Research Centre Building in 2009	10,994.00
3	Investment on Kongka Kunshan LCD module project in 2009	48,039.85

##### (II) Source of capital

The Company will enhance fund management, adopt active and effective measures to call back the fund, flexibly and reasonably make use of all credit loan policies, improve available capital scale; strengthen capital budget, make both ends meet, guarantee adequate capital supply and support stable and sound development of production and operation of the Company.

#### IX. Investment of the Company

(1) In the report period, investment of the Company are as follows:

Items	2008	2007	Change amount	Change range (%)
Short-term investment	0	0	0	0
Sub-total	0	0	0	0
Long-term investment				
(1) Investment on stocks	21,610,338.75	51,645,230.53	-30,034,891.78	-58.16%
(2) Investment on bonds	0	0	0	0.00%
(3) Other investment	0	0	0	0.00%

Total	21,610,338.75	51,645,230.53	-30,034,891.78	-58.16%
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No.	Full name of invested company	Main business scope	Proportion of equity in the invested company
1	Kunshan Konka Electronics Co., Ltd	Production and sales of LCM LCD module	100%
2	Anhui Konka Electronics Co., Ltd	Mainly engage in processing and sales of color television	78%

(II) In the report period, the Company had no proceeds raised or significant investments.

(III) Significant projects invested with non-raised capital

1. 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 with 9633 m<sup>2</sup> located in South District, Science and Technology Park, Shenzhen City, which was used to built Konka Digital Development & Research Centre Building. The Company will invest no more than RMB 567 million to the project and the construction area was about 80000 m<sup>2</sup>. At present, the project has begun formally.

2. In order to promote competitive power in LCD television field and enhance benefit capacity of LCD television, the Company decided to invest LCD module in Kunshan with investment amounting to RMB 886 million. On one hand, the Company will construction strictly as scheduled, make effort to construction of hardware environment; on the other hand, the Company focuses on cultivation of personnel, establishment of rules procedure and technical reserves, which will lay the foundation of software in successful input production of Kunshan Base; meanwhile, the Company will enhance communication with local government, arranger and construction party, trace the project, control risks, prepare for production, and make sure successful production and operation at the end of 2009.

X. Routine work of the Board of Directors

(I) Meetings and resolutions of the Board in the report period

During the report period, the Board of the Company held 15 meetings in total, i.e. the 6<sup>th</sup> to 20<sup>th</sup> meeting of the 6<sup>th</sup> Board, with details of the meetings, resolutions, and public notice are as follows:

1. The 6<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Jan. 28, 2008 (Monday).
2. The 7<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held on Apr. 3, 2008 (Thursday).
3. The 8<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Apr. 24, 2008 (Thursday), which deliberated and approved the First Quarterly Report 2008.
4. The 9<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on May 4, 2008 (Sunday).
5. The 11<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Jun. 24, 2008 (Tuesday).
6. The 12<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Jul. 17, 2008 (Thursday).
7. The 13<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Aug. 21, 2008 (Thursday), which deliberated and approved the Semi-Annual Report 2008.
8. The 14<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held at the meeting room of Inter-Continental Shenzhen Hotel on Aug. 27, 2008 (Wednesday).
9. The 15<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Sep. 5, 2008 (Friday).
10. The 16<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Oct. 27, 2008 (Monday), which deliberated and approved the Third Quarterly Report 2008.
11. The 18<sup>th</sup> meeting of the 6<sup>th</sup> Board of Konka Group Co., Ltd was held through fax on Nov. 27, 2008 (Thursday).

The resolutions of the Board meetings above were published on the newspapers designated by CSRC: China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as the designated internet website www.cninfo.com.cn respectively on Jan. 29, 2008, Apr. 8, 2008, Apr. 22, 2008, May 6, 2008, Jun. 26, 2008, Jul. 19, 2008, Aug. 23, 2008, Aug. 29, 2008, Sep. 9, 2008, Oct. 29, 2008, Nov. 29, 2008.

(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 in 2008:

1. Revised the Article of Association, System of Independent Directors.
2. According to resolution of the Shareholders' General Meeting, the Company has converted the capital

reserve to share capital: based on the total capital of 601,986,352 shares at that time, the Company converted 10 shares for every 10 shares with capital surplus to all shareholders. After the conversion, total share capital increased by 601,986,352 shares.

3. Implemented application for comprehensive credit line of Bank of China
4. According to resolution of the Shareholders' General Meeting, the Company supplemented some Directors and Supervisors.
5. Engagement of BDO. Guangdong Dahua Delu CPA, LLP. as the audit institution for the audit of Annual Report 2008 of the Company.

XI. Summary report on the performance of the Audit Committee subject to the Board of Directors  
The Financial Audit Committee under the Board of the Company was composed of two Independent Directors, and the post of Chairman was held by Ms. Yang Haiying, an Independent Director with specialty in accounting.

The Financial Audit Committee under the Board of the Company has fulfilled the following duties based on the principle of diligence and responsibility and according to relevant laws and regulations of CSRC and Shenzhen Stock Exchange, as well as relevant provisions in Work Rules for the Financial Audit Committee under the Board and System of Independent Directors:

(I) It has fulfilled the following duties during the preparation of Annual Report 2007:

1. Reviewed and approved the arrangement for 2007 annual auditing of the Company;
2. Issued Audit Opinion of the Financial Audit Committee on Financial Accounting Statements Prepared by the Company before CPAs' entry of Audit;
3. Communicated and exchanged ideas with the CPAs responsible for annual auditing on the problems occurring during the auditing;
4. Issued Audit Opinion on Financial Accounting Statements of the Company after CPAs Issued the Preliminary Audit Opinion;
5. Issued Summary Report on Annual Auditing by BDO. Guangdong Dahua Delu CPA, LLP;
6. Submitted the decision on the resolution of the annual financial statement of the Company to the Board

7. Submitted the decision on the resolution of engagement of the CPAs in 2008 to the Board

(II) In 2008, according to the authorization of the Board of Directors, the Financial Audit Committee accepted the report on the work of the Company's Internal Auditing Department and carried out management over the Internal Auditing Department of the Company and its work.

(III) Reviewed the First Quarterly Report 2008, Semi-Annual Report 2008, and the Third Quarterly Report 2008, and had no objection to the aforesaid financial statements.

(IV) Proposed to engage BDO. Guangdong Dahua Delu CPA, LLP. as the audit institution for annual financial statement auditing 2008 of the Company after investigation.

(V) During the preparation of the Company, it mainly fulfilled the following duties:

1. Before the CPAs started the annual auditing, the Financial Audit Committee communicated with the CPAs responsible for the annual auditing face to face, and discussed about the personnel component of the auditing group, the plan of auditing and the focus of the annual auditing.

2. It deliberated the Financial Accounting Statements prepared by the Company before the CPAs' entry of Auditing, and issued the Audit Opinion of the Financial Audit Committee on Financial Accounting Statements Prepared by the Company before CPAs' entry of Audit, with details as follows:

(1) We agreed to submit the Financial Statements to the CPAs for auditing.

(2) The intermediary institution for annual auditing engaged by the Company should carry out the audit work stringently according to the requirement of Professional Code of China's CPA in the process of auditing, and duly communicate with the committee if significant problems were discovered.

3. It reviewed the Financial Statement 2008 prepared by the Company before the CPAs' entry of Auditing, the Arrangement for Annual Auditing 2008 of Konka Group Co., Ltd, and approved the arrangement for the auditing of annual report.

4. The Financial Audit Committee communicated with the internal auditing department on the internal auditing.

5. During the auditing of the annual financial report, the Committee twice sent letters to urge the CPAs responsible for annual auditing to complete the auditing as scheduled.

6. It deliberated the Financial Accounting Statements of the Company after the CPAs issued the preliminary audit opinion, and issued the Audit Opinion on Financial Accounting Statements of the Company after CPAs Issued the Preliminary Audit Opinion, with details as follows:

The Committee kept in touch with the CPAs when the Financial Statements 2008 of the Company were audited.

We inquired the management of the Company about 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 gave an explanation to us on the problems which were discovered during auditing and the events, which needed adjusting, and the Company conducted corresponding adjustment based on the opinion of the annual audit institution. We didn't have objection to the Financial Accounting Statements 2008 of the Company audited preliminarily by BDO. Guangdong Dahua Delu CPA, LLP..

7. It deliberated the Financial Statements 2008 after the auditing by annual audit institution, and issued the resolution of the Financial Accounting Statements 2008 of the Company, with details as follows:

After careful checking by members of the Financial Audit Committee, we have no objection to the standard unqualified Auditors' Report 2008 of the Company issued by BDO. Guangdong Dahua Delu CPA, LLP..

8. It issued the Summary Report on the Annual Auditing 2008 by BDO. Guangdong Dahua Delu CPA, LLP.. According to the requirement of relevant documents like Work Rules for the Financial Audit Committee under the Board, it summarizes the annual auditing 2008 of the Company by the CPAs as follows:

(1) General information

The CPAs communicated with Independent Directors, the Committee and the Management Team of the Company before the auditing, and signed the audit engagement with the Company with full understanding of the Company's internal control. Besides, the general schedule for auditing of the Company's Financial Statements 2008 was made and the time for issuance of the report was set.

(2) Confirmation of the general audit plan

Before the formal entry of the CPAs' auditing, the CPA firm and Independent Directors, the Committee as well as the Management Team of the Company drew out the plan for the Company's annual auditing 2008 through consultation with each other. In our opinion, the plan was detailed and the responsibility of each person was specified, which made sufficient preparation for the annual auditing.

(3) Communication during the auditing

During the auditing, the person in charge of projects from the CPAs maintained sufficient and continuous communication with members of the Financial Audit Committee, so that the CPAs responsible for the annual auditing had more mature judgment for the issuance of fair auditing conclusion.

(4) Reply to the supervision letter and inquiry

During the auditing, the Committee fully communicated and exchanged opinions with the CPAs on the problems occurring during the auditing, and sent the Supervision Letter of Urging the CPAs to Submit the Auditor's Report on Time, to urge the CPAs responsible for annual auditing to speed up the pace and improve the efficiency so as to accomplish the auditor's report as scheduled; The CPAs gave positive response to the supervision letters and the inquiry.

(5) Accomplishment of auditing on schedule

In our opinion, the CPAs responsible for annual auditing conducted auditing stringently according to provisions in China's Independent Auditing Standards and issued the auditor's report based on the results of auditing. Its arrangement of work was reasonable, its practice was standard, and its auditing was comprehensive.

9. It issued the resolution of engagement of CPAs in 2009, with details as follows:

The Company is formulating the Special System for engagement of CPAs according to the requirement of the securities regulatory department. As the System still needs approval from the Board meeting and Shareholders' General Meeting, the Committee suggests that the Board shall not make any decisions on the engagement of the auditing institution responsible for financial statement auditing in 2009 at the moment, and the engagement of the auditing institution responsible for financial statement auditing in 2009 shall be carried out based on the provisions in the System, after the Board's approval of the System.

XII. Summary report on the performance of the Remuneration Committee subject to the Board of Directors  
The Remuneration and Appraisal Committee under the Board of Directors was composed of three Directors, two Independent Directors and one Non-Independent Director. Mr. Feng Yutao, the Independent Director, held the post of Chairman.

Within the report period, the Remuneration and Appraisal Committee examined the remuneration of Directors, Supervisors and Senior Management Staff, and expressed opinions as follows:

(I) The Remuneration and Appraisal Committee has drawn the Administrative Method for Business Performance Appraisal and Incentive of Senior Management Staff and submitted it to the Board for approval.

(II) The Remuneration and Appraisal Committee expressed its opinions on the remuneration of Directors,

Supervisors and Senior Management Staff, which was disclosed in the Annual Report 2008, as follows:

1. The remuneration of Directors, Supervisors and Senior Management Staff of the Company disclosed in the Annual Report 2008 was in line with the actual situation.
2. The disclosed remuneration of the Company's Directors, Supervisors and Senior Management Staff was in line with the remuneration management system of the Company, and no breach of the remuneration management system occurred in the Company.
3. The Remuneration and Appraisal Committee would continuously promote the improvement of the Company's internal incentive and restraint mechanism, gradually establish an incentive system of short-term and long-term, promote the close combination of the management team with the profit of the Company as well as its shareholders.

XIII. Annual distribution preplan or preplan of turning capital reserve into share capital

(I) Annual distribution preplan

In 2008, the net profit belonging to shareholders of the parent company after auditing was RMB 250,289,213.62. Based on the actual status and the requirement for long-term development of the Company, the Board of Directors decided the annual profit distribution plan 2008 after serious deliberation at the 23<sup>rd</sup> meeting of the 6<sup>th</sup> Board of Directors, with details as follows:

1. Based on the net profit in 2008, the Company withdrew RMB 23,173,319.38, i.e. 10% of statutory surplus.
2. The profit distribution plan: based on the Company's total share capital of 1,203,972,704 shares as of Dec. 31, 2008, the Company distributed cash dividends RMB 0.5 (tax included) to every 10 shares. The distributed profits aggregated RMB 60,198,635.2 and the retained profit was carried forward next year for distribution.

The plan needs approval from Shareholders' General Meeting.

(II) Opinion of Independent Directors

Mr. Feng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong, the Independent Directors of the Company, believed that the profit distribution preplan of the Company was in line with the actual situation of the Company, and the cash dividends in the recent three years surpassed 30% of the Company's distributable profits in the recent three years. There was no violation of relevant provisions in the Company Law and the Article of Association, nor any damage to the interest of shareholders, which was good for the normal operation and healthy development of the Company.

(III) Cash dividends in the previous three years

	Amount of cash dividends (tax included)	Net profit belonging to owners of the parents company in consolidated financial statement	Percentage that cash dividends take up in net profit belonging to owners of the parents company in consolidated financial statement
2007	0	207,091,715.42	0
2006	60,198,635.20	96,774,909.50	62.20%
2005	0	28,834,780.98	0

XIV. Special explanation on capital transaction with affiliated parties and external guarantees  
HDZS Zi No. [2009]260

To the Board of Directors of Konka Group Co., Ltd,

Entrusted by the Company, we have audited financial statements of Konka Group Co., Ltd (herein after refer to as "the Company") as of 31 Dec. 2008 in accordance with Professional Code of China's CPA, which comprise the consolidated balance sheet and balance sheet, the consolidated income statement and income statement 2008, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement, and issued audit report with standard unqualified opinion with HDGS ZI [2009] No. 29 on 28 Apr. 2009.

As CPA for audit of financial statement 2008 of the Company, we issued specific explanation on Summary Statements on Capital Occupation by Controlling Shareholders and Other Related Parties in 2008 (hereinafter refer to as "Summary Statement") prepared by the Company in accordance with Circular on Certain Issues regarding Regulating Capital Flow between Listed Companies and Related Parties and Outward Guarantee Provided by Listed Company (ZJF [2003] No. 56), which was issued by China Securities Regulatory Commission.

It is the responsibility of the Company to faithfully prepare, disclose the Summary Statement and guarantee its authenticity, legitimacy and integrity. We have checked materials in summary statement against rechecked accounting data and relevant content of financial statements as of 31 Dec. 2008, and there are no difference in significant aspects. We never executed extra audit procedure on

materials carried in Summary Statement except audit procedure relating to related transaction in financial statements of the Company as of 31 Dec. 2008.

There was a series of related transactions and cash flows between the Company and OCT Group Corporation-the principal shareholder of the Company, related parties and affiliated companies in 2008. The above transactions and cash flows formed related accounts receivable and payable as of 31 Dec. 2008. In order to reflect essential of transactions, the Company consolidated capital flows of related parties into Summary Statement.

The specific explanation is issued by us according to requirements of CSRC and its agency and Shenzhen Stock Exchange, and it is will not use for any other purpose. It is nothing to do with CPA and accounting firm who conducted audit for results caused by improper use.

Attachment I: Konka Group Co., Ltd Summary Statement on Capital Occupation by Controlling Shareholders and Other Related Parties in 2008

BDO. Guangdong Dahua Delu CPA, LLP.  
China Shenzhen

CPA  
CPA

28 Apr. 2009

## Attachment I

## Konka Group Co., Ltd Summary Statement on Capital Occupation by Controlling Shareholders and Other Related Parties in 2008

Unit: RMB ' 0000

Category	Name of occupied parties	Relationship between occupied parties and the Company	Accounting subject	Balance at the period-end of 2008	Accumulative amount in 2008 (excluding interest)	Interest of occupied capital in 2008	Accumulative repayment in 2008	Balance at the period-end of 2008	Reason for occupation	Nature
Controlling shareholder, actual controller and its affiliated enterprises	Shenzhen OCT East Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	230.75	619.42	-	223.20	626.97	Payment for goods	Operating occupation
	Chengdu Tianfu OCT Development Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	-	2,046.00	-	778.60	1,267.40	Payment for goods	Operating occupation
	Beijing Century OCT Industrial Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	-	125.00	-	37.50	87.50	Payment for goods	Operating occupation
	Shenzhen OCT Real Estate Co., Ltd	Subsidiary of the first principal shareholder	Other accounts receivable	128.89	1.44	-	-	130.34	Deposit	Operating occupation
	Shenzhen OCT Property Management Co., Ltd	Subsidiary of the first principal shareholder	Other accounts receivable	7.74	3.38	-	3.38	7.74	Deposit	Operating occupation
	Shenzhen OCT Water and Electricity Co., Ltd	Subsidiary of the first principal shareholder	Other accounts receivable	365.54	1,000.34	-	1165.10	200.77	Fees for water and electricity paid in advance	Operating occupation
	Shenzhen OCT East Co., Ltd	Subsidiary of the first principal shareholder	Other accounts receivable	4,230.00	-	-	4,230.00	-	Payment for purchasing house	
	Shanghai Huali Packing Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	(123.99)	(2,652.80)		2,612.36	(164.43)	Payment for goods	Operating occupation
	Shenzhen Huali Packing & Trading Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	(353.27)	(789.43)		978.03	(164.67)	Payment for goods	Operating occupation
	Anhui Huali Packaging Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	-	(4,419.18)		4,419.18	-	Payment for goods	Operating occupation
	Shenzhen Huayou Packing Co., Ltd	Subsidiary of the first principal shareholder	Account receivable	-	(1,562.62)		1,301.73	(260.88)	Payment for goods	Operating occupation
Subtotal	-	-	-	4,485.67	(5,628.45)	-	15,749.08	1,730.74		
Related natural person and cooperation controlled by them										
Subtotal										
Subsidiaries and affiliated enterprise of the Company										
Subtotal										
Other related parties and affiliated enterprises	Shenzhen Konka Energy Technology Co., Ltd.	Affiliated company	Account receivable	113.00	4.03	-	113.00	4.03	Deposit	Operating occupation
	Longfeng Jianzhi Real Estate Co., Ltd. Of Huadu, Guangzhou	Affiliated company	Other accounts receivable	3.19	-	-	3.19	-	Correspondent fund	
	Shenzhen Dekon Electronics Co., Ltd	Affiliated company	Account receivable	(910.64)	(4,670.50)	-	5,250.00	(331.14)	Payment for goods	Operating occupation
Subtotal	-	-	-	(794.45)	(4,666.47)	-	5366.19	(327.11)		
Total	-	-	-	3,691.22	(10,294.91)	-	21,115.26	1,403.63		



(II) The special explanation and independent opinions given by Independent Directors on external guarantees of 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), we, as the Independent Directors of KONKA GROUP CO., LTD (hereinafter refer to as "the Company"), examined capital transaction with affiliated parties as well as external guarantees provided by the Company, and carefully read the Auditors' Report 2008 and the Special Statement on Fund Appropriation by the Controlling Shareholder and Affiliated Parties of KONKA GROUP CO., LTD, which were issued by BDO. Guangdong Dahua Delu CPA, LLP.. The independent opinions were expressed as follows:

1. As of Dec. 31, 2008, large shareholders of the Company did not appropriate capital of the Company; it was normal for the business transaction when such affiliated parties of 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 Co., Ltd appropriated capital of the Company due to collecting deposits and other timing difference.

2. The Company had routine affiliated transactions of packing materials for color TV with such subsidiaries indirectly controlled by the Company's large shareholders as Shanghai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Anhui Hui Li Packing Co., Ltd, and Shenzhen Huayou Packing Co., Ltd. The affiliated transactions had been submitted to and approved by the Board meeting, with relevant information disclosed. The affiliated companies of the Company had affiliated transactions of video wall with the controlling subsidiaries of the Company's large shareholders such as Shenzhen OCT East Co., Ltd and Chengdu Tianfu OCT Industrial Development Co., Ltd. As for the affiliated transactions above, the Company conducted settlements with the affiliated parties at regular intervals according to the agreement in contracts, and the Company had no non-business capital transaction.

3. In 2008, the Company did not have any non-business capital transaction with large its shareholders and their affiliated parties.

4. As of Dec. 31, 2008, the Company operated normatively and had no external guarantee.

To sum up, we believed that there was no breach of the regulation of ZJF [2003] No. 56 in the Company.

Independent Director: Feng Yutao, Yang Haiying and Zhang Zhong

#### XV. Explanation on adjustment in accounting items

1. Shenzhen Financial Ombudsman's Office of Ministry of Finance examined quality of accounting information of 2007 in Jul. 2008, in light of the examination conclusion and treatment decision, the Company has made correction on the accounting errors for the year of 2007 as presented in the conclusions, and conducted accounting treatment for the significant accounting errors with Retrospective Restatement method when preparing the comparative statements for the year of 2008. The detailed information and influences concerning significant accounting errors are as follows:

(I) With a view to avoiding the risk of fluctuation in exchange, the Company handled NDF portfolio business in the bank in 2007, which was pledge of fixed deposit and acquired loans of USD. In 2007, the Company recognized and measured the business in accordance with requirements in *Accounting Standards for Business Enterprise No. 24-Hedging*, and considered that the event does not confirm Article 16 of *Accounting Standards for Business Enterprise No. 24-Hedging*, Article 2 of *Application Guideline* and (V) Article 25 of *Accounting Standards of PRC*. In this year, the Company adjusted to confirm and measure in accordance with *Accounting Standards for Business Enterprise No. 22-Recognition and Measurement of Financial Instruments* and restated financial statement 2007 with retrospective and restatement method. Due to influence of the error, increased monetary capital on 31 Dec. 2007 RMB 1,032,235,139.55, transaction financial assets increased RMB 22,840,195.08, notes receivable increased RMB 263,937,600.00, interest receivable increased RMB 12,477,951.79, arbitrated items decreased RMB 1,222,806.47, arbitrage instruments decreased RMB 8,293,387.77, short-term borrowings decreased RMB 1,259,269,907.72, transaction financial liabilities increased RMB 40,089,820.00, interest payable increased RMB 22,356,752.51, capital reserves decreased RMB 8,293,397.77, financial expense decreased RMB 25,801,224.64 and income from change of fair value decreased RMB 17,249,624.92. Due to the above events, net profit in 2007 increased RMB 8,551,599.72 and retained profit increased RMB 8,551,599.72.

(II) At the end of 2007, the subsidiaries of the Company-Shenzhen Konka Information Network Co.,

Ltd. and Shenzhen Konka Household Appliances Co., Ltd. had negative net assets, which caused the Company to undercount the assets depreciation reserves by RMB 33,232,484.69. According to examination conclusions, the Company fails to withdraw the assets deprecation reserves in accordance with the regulations as specified in the *Accounting Standard for Business Enterprises No.8--Assets Depreciation*. Affected by it, when prepared financial statements for the year of 2008, the Company has adjusted the comparative data of parent company for the year of 2007, increased long-term equity investment depreciation reserves by RMB 33,232,484.69 and reduced the retained profits by RMB 33,232,484.69.

II. In the year of 2007, the Company made the retrospective adjustment on the long-term equity investment of subsidiary companies in accordance with *Accounting Standards for Business Enterprises*. Initial investment costs for Dongguan Kaonka Electronic Co., Ltd. are overstated RMB 12,982,156.25, initial investment costs for Shenzhen Konka Household Appliances Co., Ltd understated RMB 1,074,221.97, initial investment cost for Chongqing Qingjia Electronic Co., Ltd overstated RMB 3,000,000.00, initial investment cost for KONKA AMERICA, INC and Konka (Pacific) Electronic Co., Ltd has been canceled overstated RMB 17,706,170.72, which caused retained profit of parent company at the period-begin overstating RMB 32,614,105.00. When prepared financial statement 2008, the Company adjusted comparative data of parent company, long-term equity investment decreased RMB 32,614,105.00 and undistributed profit decreased RMB 32,614,105.00.

III. Influenced by the timing difference of final settlement of business income tax, for the Company, the difference between the income tax payable after the final settlement of business income tax and the carrying amount of current income tax was RMB -3,682,204.87 in the year of 2006, and the difference between the income tax payable after the final settlement of business income tax and the carrying amount of current income tax was RMB 10,658,353.30 for the year of 2007. In order to make the final settlement of business income tax payable identical with the carrying amount of income tax, the Company has made the retroactive adjustment for the financial statements for the year of 2007 to increase the tax payable-business income tax expenses by RMB 6,976,148.43, and increase the income tax expenses for the year of 2007 by RMB 10,658,353.30. The aforementioned events has influenced the net profit to decreased RMB 10,658,353.30, tax payable indecreased RMB 6,976,148.43, income tax expenses increased RMB 10,658,353.30, and undistributed profit decreased RMB 6,976,148.43 for the year of 2007.

IV. In accordance with the regulations as specified in *Accounting Standard for Business Enterprises No. 38-Initial Implementation of Accounting Standards for Enterprises*, the land tenancy that has been recorded in construction work in progress and fixed assets prior to the initial implementation date, eligible for the standard of intangible assets shall be recognized as the intangible assets, and shall be reclassified on the initial implementation date. The segments ascribing to the land tenancy shall be separated from the accounting values, be taken as the recognized costs of land tenancy, and be treated subject to the regulations of intangible assets standards. According to the above regulations, the Company has made adjustment for the land tenancy calculated subject to the fixed assets, and made restatement for the financial statements for the year of 2007. Under influence of the said reclassification, the intangible assets have been increased by RMB 16,070,982.37, fixed assets have been reduced by RMB 16,070,982.37 and construction in progress decreased RMB 16,888,006.69.

Influences of aforesaid adjustment on the Comparative Financial Statements 2007 of parent company are as follows:

Items	After adjustment	Before adjustment	Adjusted amount
Monetary fund	1,408,031,605.07	556,082,988.52	851,948,616.55
Transaction financial assets	22,840,195.08	---	22,840,195.08
Notes receivable	2,795,341,615.11	2,531,404,015.11	263,937,600.00
Interest receivable	10,408,705.86	---	10,408,705.86
Arbitrage project	---	1,268,883.47	(1,268,883.47)
Arbitrage tool	---	6,945,398.81	(6,945,398.81)
Long-term equity investment	758,072,537.19	823,919,126.88	(65,846,589.69)
Construction in progress	39,443,796.12	56,331,802.81	(16,888,006.69)
Intangible assets	20,731,159.66	3,843,152.97	16,888,006.69

Short-term loans	1,084,909,105.72	---	1,084,909,105.72
Transaction financial liabilities	34,738,640.00	---	34,738,640.00
Tax payable	42,471,363.43	35,495,215.00	6,976,148.43
Interest payable	18,806,676.01	---	18,806,676.01
Capital surplus	1,869,357,278.29	1,876,302,677.10	(6,945,398.81)
Financial expenses	3,429,346.76	24,739,603.97	(21,310,257.21)
Gains and losses from change of fair value	(11,898,444.92)	---	(11,898,444.92)
Income tax expense	25,989,601.39	15,331,248.09	10,658,353.30
Net profit	238,115,008.75	239,361,549.76	(1,246,541.01)
Undistributed profits	379,887,701.30	443,298,627.13	(63,410,925.83)

Influences of aforesaid adjustment on the Consolidate Financial Statements 2007 of parent company are as follows:

Items	After adjustment	Before adjustment	Adjusted amount
Monetary fund	1,784,793,554.02	752,558,414.47	1,032,235,139.55
Transaction financial assets	22,840,195.08	---	22,840,195.08
Notes receivable	2,916,377,359.85	2,652,439,759.85	263,937,600.00
Interest receivable	12,477,951.79	---	12,477,951.79
Arbitrage project	---	1,222,806.47	(1,222,806.47)
Arbitrage tool	---	8,293,387.77	(8,293,387.77)
Fixed assets	1,275,584,101.48	1,291,655,083.85	(16,070,982.37)
Construction in progress	45,048,689.75	61,936,696.44	(16,888,006.69)
Intangible assets	80,732,491.66	47,773,502.60	32,958,989.06
Short-term loans	1,281,269,907.72	22,000,000.00	1,259,269,907.72
Transaction financial liabilities	40,089,820.00	---	40,089,820.00
Tax payable	16,023,708.56	9,047,560.13	6,976,148.43
Interest payable	22,422,410.53	65,658.02	22,356,752.51
Capital surplus	1,876,606,062.32	1,884,899,450.09	(8,293,387.77)
Financial expenses	15,050,936.06	40,852,160.70	(25,801,224.64)
Gains and losses from change of fair value	(17,249,624.92)	---	(17,249,624.92)
Income tax expense	44,526,238.06	33,867,884.76	10,658,353.30
Net profit	211,924,146.49	214,030,900.07	(2,106,753.58)
Undistributed profits	273,047,084.22	271,471,632.93	1,575,451.29

#### XVI. Fair Value Measurements

(I) Rules for internal control relevant to fair value

(1) Internal control rules concerning fair value

The Company defined the scope of application of the fair value measurement, conducted confirmed measurement on the businesses relating to fair value measurement, strictly implemented the decision-making and approving procedures concerning the purchase and sale of the projects relating

to fair value measurement, made clear the purchasing and holding purposes, and disclosed the relevant information according to the share listing rules. In terms of the institution, the Company strengthened its supervision on the management, so as to prevent the use of fair value to manipulate the Company's financial information. At the same time, the Company strengthened its efforts in providing relevant trainings to its financial personnel and punishing those violating the relevant laws and regulations.

(II) Items relevant to fair value measurement

Unit: (RMB) Yuan

Items	Amount at the period-begin	Profits and losses due to change of fair value in the period	Change of fair value cumulatively accounted into equity	Withdrawal of devaluation in the period	Amount at the period-end
Financial assets:					
Including: 1. The financial assets measured by fair value, whose variations are accounted into the current profits and losses	22,840,195.08	(22,840,195.08)		0.00	0.00
Including : Rami fied financial assets	22,840,195.08	(22,840,195.08)		0.00	0.00
2. Financial assets available for sale	21,021,141.77	(22,576,240.34)	(1,555,098.57)	0.00	(1,555,098.57)
Sub-total of Financial Assets	43,861,336.85	(45,416,435.42)	(1,555,098.57)	0.00	(1,555,098.57)
Financial Liabilities	40,089,820.00	(27,607,939.84)	0.00	0.00	12,481,880.16
Investment Real Estate	0.00	0.00	0.00	0.00	0.00
Capitalized biological assets	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00
Total	83,951,156.85	(73,024,375.26)	(1,555,098.57)	0.00	10,926,781.59

(III) Particulars about financial assets and liabilities of foreign exchange held by the Company

XVII. Other events

(I) In the report period, the Company continued to designate Securities Times as the newspaper for information disclosure without any change.

(II) The Company continued to engage BDO. Guangdong Dahua Del u CPA, LLP. to take charge of the Company's annual auditing 2008.

#### Section IX. Report of the Supervisory Committee

I. Particulars about the work of the Supervisory Committee

During the report period, the 6<sup>th</sup> Supervisory Committee of the Company held 7 meetings: the 4<sup>th</sup> to 10<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee, with details of the meetings and the resolutions as follows:

(I) The 4<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held at the meeting room in the office building of KONKA GROUP, Shenzhen OCT, on Apr. 3, 2008 (Thursday), which deliberated and approved the Annual Report 2007 and its Summery, as well as the Self-Appraisal Report on Internal Control.

(II) The 5<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on Apr. 24, 2008 (Thursday), which deliberated and approved the First Quarterly Report 2008 of KONKA GROUP CO., LTD.

(III) The 6<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on May 4, 2008 (Sunday), which deliberated and approved the Report on the Work of the Supervisory Committee 2007 and the Proposal on Increasing Some Supervisors.

(IV) The 7<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on May 26, 2008 (Monday), which elected Mr. Dong Yaping as Chairman of the 6<sup>th</sup> Supervisory Committee of the Company.

(V) The 8<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on Jul. 17, 2008 (Thursday), which deliberated and approved the Self-Check Report on Capital Appropriation by Large Shareholders and their Affiliated Parties.

(VI) The 9<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on Aug. 21, 2008 (Thursday), which deliberated and approved the Semi-Annual Report 2008 of KONKA GROUP CO., LTD and its Summary.

(VII) The 10<sup>th</sup> meeting of the 6<sup>th</sup> Supervisory Committee of the Company was held through fax on Oct. 27, 2008 (Monday), which deliberated and approved the Third Quarterly Report 2008 of KONKA GROUP CO., LTD.

Resolutions of the aforesaid meetings of the Supervisory Committee were published on the newspapers designated by CSRC: China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao, as well as the designated internet website www.cninfo.com.cn respectively on Apr. 8, 2008, Apr. 28, 2008, May 6, 2008, May 28, 2008, Aug. 2, 2008, Aug. 23, 2008, Oct. 29, 2008.

#### 11. Independent opinions of the Supervisory Committee

In 2008, the Supervisory Committee seriously fulfilled its duties authorized by Shareholders' General Meeting with responsible attitude towards shareholders and according to provisions in the Company Law, Securities Law and the Article of Association. Members of the Supervisory Committee attended the Board meetings and conducted supervision and examination on the voting procedures of significant decision-makings and resolutions, as well as the operation of the Company according to laws.

##### (I) The operation of the Company according to laws

After understanding the situation through supervision, the Supervisory Committee believed that the Company had followed the requirement of special campaign released by CSRC and Shenzhen Stock Exchange, to establish sound internal control system covering every section of the Company based on the actual situation of the Company, ensuring the normal business operation, as well as sound and completeness of assets of the Company. The internal control organization of the Company was complete and its operation was effective, ensuring the standard operation of the Company according to laws.

Directors of the Company attended the meetings of the Board and Shareholders' General Meetings with serious and responsible attitude, and fulfilled various resolutions based on the resolutions of Shareholders' General Meetings. As Directors were familiar with relevant laws and regulations, as well as the rights, duties and responsibility of Directors, they performed their duties carefully. During their tenure of office, Directors and Senior Executives of the Company implemented the Articles of Associations and the spirits of Shareholders' General Meetings. There was no breach of laws, regulations, and laws of association or behavior damaging the interest of the Company.

##### (II) Inspection of the Company's financial status

The Annual Financial Report 2008 of the Company was audited by BDO. Guangdong Dahua Delu CPA, LLP. and a standard unqualified Auditor's Report was issued. The report had truly reflected the actual financial status and operation achievements of the Company.

##### (III) Utilization of raised proceeds of the Company

The Company did not raise proceeds in the recent three years. The latest raised proceeds of the Company were actually invested those promised projects.

##### (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 small, middle and large shareholders were fairly treated and no loss of the Company's assets was found.

##### (V) Opinion on affiliated opinions

1. The Company involved in routine affiliated transactions with the subsidiaries of its controlling shareholders, including paying property management fee, water and electricity expenses and purchase of goods, which were all fair transactions at normal market price, thus they did not harm the interests of the Company and other shareholders of the Company.

2. In the report period, based on its actual demand of production and operation, the Company had routine affiliated transactions of packing materials for color TV with such subsidiaries indirectly controlled by the Company's large shareholders as Shanghai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Anhui Huili Packing Co., Ltd, and Shenzhen Huayou Packing Co., Ltd. The affiliated transactions had been submitted to and approved by the Board meeting, with relevant information disclosed. The affiliated companies of the Company had affiliated transactions of video wall with the controlling subsidiaries of the Company's large shareholders such as Shenzhen OCT East Co., Ltd and Chengdu Tianfu OCT Industrial Development Co., Ltd. The transaction between the Company and the aforesaid affiliated parties were carried out on the basis of equality and consultation, without damaging the interest of the Company and all shareholders.

3. In the report period, the Company was not involved in joint external investment with affiliated

parties.

#### (VI) Self-Appraisal Report on Internal Control

The Company has established and improved various internal control systems according to the relevant provisions of CSRC and Shenzhen Stock Exchange and based on its actual situation, to ensure normative and orderly operation of various activities in the Company; the current internal control of the Company is basically in line with the relevant requirements of the corporate governance structure, and the internal control system was relatively sound and feasible.

After various systems have been established, they were effectively implemented and had relatively good supervision over as well as good guidance to standard operation of the Company. There was no obvious weak section or significant defect in the internal control system of the Company. In the report period, no breach of Guidelines for Internal Control of Shenzhen Stock Exchange or internal control system of the Company occurred in the Company.

We believed that the current internal control system of the Company was in line with the requirements of securities regulatory authorities such as CSRC and Shenzhen Stock Exchange. The internal control system was sound and implemented effectively. The Self-Appraisal Report on Internal Control 2008 of the Company reflected the establishment and implementation of the Company's internal control truly and objectively.

### Section X. Significant Events

#### I. Significant lawsuits and arbitration

In 2008, 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 2008.

#### III. Particulars about securities investment

##### (I) Particulars about equity of other listed companies 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
000002	Vanke	2,311,748.07	0.00%	756,649.50	0.00	-1,357,870.46	Financial available for sale	Subscription of new stock
600891	ST CHURIN	9,000,000.00	3.84%	9,000,000.00	0.00	0	Financial available for sale	Subscription of corporate shares
Total	-	11,311,748.07	-	9,756,649.50	0.00	-1,357,870.46	-	-

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

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

##### (II) Particulars about purchase and sale of equity of other listed companies

Name of stock	Amount of shares at the period-begin	Amount of shares bought in the report period	Amount of shares sold in the report period	Amount of shares at the period-end	Amount of used capital	Investment income
Hefei Urban Construction	0	2,500	2,500	0	39,000	28,157.62
Nanyang	0	3,000	3,000	0	45,360	38,136.00
Western Mining	85,000	0	85,000	0	0	1,307,281.05
CITIC Securities	30,766	0	30,766	0	0	6,196.16
Bank of Beijing Construction Bank	82,000	0	82,000	0	0	176,800.77
China Oilfield Service	1,258,000	0	1,258,000	0	0	844,675.34
China Shenhua	53,000	0	53,000	0	0	734,812.02
China Petroleum	192,000	0	192,000	0	0	1,235,154.03
	488,000	0	488,000	0	0	423,442.22

CPIC	6,000	0	6,000	0	0	41,795.13
Sanlian Commercial Co.	111,540	0	111,540	0	0	618,581.93

#### IV. Significant affiliated transactions

(I) In 2008, the Company had some affiliated transactions with the subsidiaries of the controlling shareholder (Overseas Chinese Town Group Company), including paying property management fee, water and electricity expenses, land use fee and purchase of goods, etc, all of which were fair transactions at normal market prices. These transactions did not harm the interest of the Company or other shareholders of the Company. For details, please refer to “(4) Transactions with affiliated companies” and “(5) Current with affiliated companies” in the “Note 10 to the accounting statements” in the financial report.

(II) Routine affiliated transactions in the report period are as follows:

Unit: RMB (Yuan)

Type of affiliated transaction	Further classification according to product or labor service	Affiliated person	Total		Proportion in the same type of transaction
Purchase of raw materials	Raw materials for color TV	Anhui Huali Packing Co., Ltd	37,770,736.55	80,547,214.01	0.52%
		Shenzhen Huali Packing & Trading Co., Ltd	6,747,272.28		0.09%
		Shenzhen Huayou Packing Co., Ltd	13,355,685.20		0.18%
		Shanghai Huali Packing Co., Ltd	22,673,519.98		0.31%

Notes: Proportion in the same type of transaction refers to the proportion in raw materials for TV use.

1. The Company has published the Forecasting Public Notice on Routine Affiliated Transaction (public notice No. 2008-08) on Securities Times, Shanghai Securities News, China Securities Journal and Hong Kong Ta Kung Pao as well as the Internet website designated by CSRC <http://www.cninfo.com.cn> on Apr. 8, 2008. In the report period, the basis for pricing, transaction price, transaction amount and settlement methods of raw packaging material purchased by the Company from Shanghai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Anhui Huali Packing Co., Ltd and Shenzhen Huayou Packing Co., Ltd were basically in accordance with the forecast.

2. Business transactions between the Company and the above affiliated enterprises were carried out based on the general market operation rules and the principle of fairness and justice. The Company treated such enterprises as equally as other transaction enterprises, and there was no damage to interests of the Company and all of its shareholders.

3. Affiliated transactions of the Company with the above affiliated parties occurred in daily operation of the Company. They were carried out based on the principle of public bidding, and were necessary. The Company would continue the cooperation of fairness and mutual benefits with them, given the operation and development of the Company was stable. The aforesaid affiliated transactions were beneficial for maintaining the long-term cooperation between the Company and affiliated parties as well as promoting development of the Company's production and operation.

(III) Guarantees between the Company and the affiliated parties

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

(IV) Joint external investment between the Company and the affiliated parties

In the report period, the Company did not involve in joint external investment with affiliated parties.

#### V. Significant contracts and their fulfillment

(I) In the report period, the Company had no significant trusteeship, contract or lease of assets of other companies, nor did any other companies have trusteeship, contract or lease of 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 had no trust financing.

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

#### VI. Commitment

(I) When the Company launched share merger reform in 2006, OCT Group Corporation, a shareholder of the Company, made commitment as follows:

Name of shareholder	Particular events in commitment	Fulfillment of commitment	Note
OCT Group Corporation	(1) To promise that non-tradable shares of Konka Group held by it will not get listed or transferred within 24 months since the day it acquires the right of listing and trading in A share market. (2) At the expiration of the aforesaid period, original non-tradable shares of Konka Group traded through listing at Stock Exchange will not exceed 5% of total shares of Konka Group within 12 months and not exceed 10% within 24 months.	Up to now, there is no shares subject to moratorium listed or Transferred.	

(II) There are no other commitments disclosed on designed newspapers and website by the Company or shareholders with more than 5% shares.

#### VII. CPA firm and its remuneration

With deliberation and approval of the 2<sup>nd</sup> Extraordinary Shareholders' General Meeting 2008, the Company engaged BDO. Guandong Dahua Delu CPA, LLP. to take charge of annual auditing of the Company's financial statement 2008. So far, this firm has provided audit services for the Company for 7 consecutive years. In 2008, the financial audit fee that the Company paid to the CPA firm was RMB 730,000 for A shares domestic auditing.

VIII. Particulars about reception of visit and investigation of the Company in the report period  
In the report period, the Company provided materials, which had been disclosed, to the visitors, in accordance with provisions in Guidelines of Fair Information Disclosure for Companies Listed on the Shenzhen Stock Exchange, Administrative Methods for Information Disclosure of Konka Group Co., Ltd and Investor Relations Management System of Konka Group Co., Ltd. Besides, the Company provided objective, true, accurate and complete information for visitors, which reflected actual operation and management; meanwhile, no significant non-public information was disclosed or leaked out. In the report period, reception of visit & investigation are as follows:

Time	Place	Method	Visitor	Content of discussion and materials provided
Feb. 26, 2008	Meeting room of the Company	Field research	Guosen Securities Co., Ltd, E Fund Management Co., Ltd	Status quo of production and operation, products structure, Research & Development of new products and outlook of the Company
Mar. 3, 2008	Meeting room of the Company	Field research	Deutsche Bank	Core competitive power, development strategy, market prospect of new products and progress of relevant work
Mar. 6, 2008	Meeting room of the Company	Field research	China Jiayin Investment Securities Co., Ltd	Company profile and industry status
Mar. 12, 2008	Meeting room of the Company	Field research	China Galaxy Securities Co., Ltd	Development trend of industry and status of the Company in the industry, development strategy of the Company
Mar. 20, 2008	Meeting room of the Company	Field research	Shenyin & Wanguo Securities Co., Ltd	Relevant policies and regulations of this industry, particulars about subsidiaries and development strategy of the Company
Apr. 9, 2008	Novotal Bauhinia Hotel	Explanatory Conference on Outstanding Achievement	Institution such as China Southern Fund Management, Rongtong Fund Management and securities dealer such as CITIC Securities, Guotai Junan Securities and so on	Annual Report 2008, development strategy of the Company and outlook of the Company
Apr. 10, 2008	Meeting room of the Company	Field research	Guotai Junan Securities Co., Ltd	competitive power, prospect of new products and planning of products structure
Apr. 28, 2008	Meeting room of the Company	Field research	UBS SDIC Fund Management Co., Ltd	development strategy and particulars about internal administration of the Company
May15, 2008	Meeting room of the Company	Field research	Changjiang Securities Co., Ltd	Development strategy in the future, Status quo, development trend of color TV and mobile phone industry and development concept of the Company



Jun. 19, 2008	Meeting room of the Company	Field research	China Jiayin Investment Securities Co., Ltd	Status quo, development trend of color TV and mobile phone industry and development concept of the Company; particulars about internal administration of the Company
Jul. 15, 2008	Meeting room of the Company	Field research	Orient Securities	Development trend of the industry, the Company's status in the industry and the Company development strategy
Aug. 12, 2008	Meeting room of the Company	Field research	Guangzhou Securities	Core competitiveness and development strategy of the Company, market prospect of new products and progress of relevant work
Aug. 21, 2008	Meeting room of the Company	Field research	United Securities, Orient Securities and SYWG BNP Paribas	Status quo of production and operation, products structure, research and development of new products and the future development prospect of the Company
Sep. 10, 2008	Conference room of InterContinental Shenzhen	Field research	Dealers such as Galaxy Securities, Orient Securities, Industrial Securities etc. and organizations such as Jingshun Changcheng, Rongtong funds, Great wall fund etc.	The Company's investment in LCM LCD module project
Sep. 17, 2008	Meeting room of the Company	Field research	CCB Principal Assets, CJIS Securities	The Company's future development strategy and relevant information on internal management
Sep. 24, 2008	Meeting room of the Company	Field research	Bohai Securities	The Company's future development strategy, status quo, development trend of color TV and mobile phone industry as well as development concept of the Company
Sep. 24, 2008	Meeting room of the Company	Field research	Harvest funds	Status quo, development trend of color TV and mobile phone industry, development concept of the Company, as well as relevant information on internal management
Oct. 28, 2008	Meeting room of the Company	Telephone conference	Industrial Securities	Status quo of production and operation of the Company, particulars about product structure, research and development of new products, as well as competitiveness of LCD TVs
Oct. 28, 2008	Meeting room of the Company	Telephone conference	CITIC Securities	Market prospect of new products, core competitiveness of the Company, and development strategy of the Company
Nov. 7, 2008	Meeting room of the Company	Field research	Harvest funds	The Company's investment in LCM LCD module project, basic information about operation of the Company, and the Company's status in the industry
Nov. 11, 2008	Meeting room of the Company	Field research	China Merchants Securities	Construction of projects in High-tech Industrial Park, development trend of the industry, and the Company's status in the industry
Nov. 11, 2008	Meeting room of the Company	Field research	Nikko Asset Management	Basic information of the Company, Competitive edge of color TV and development strategy of the Company
Dec. 17, 2008	Meeting room of the Company	Field research	Northeast Securities	Development strategy of the Company and prospect of the Company's development
Dec. 25, 2008	Meeting room of the Company	Field research	Rongtong Fund Management	Development trend of color TV industry and competitiveness of the Company's products
Dec. 29, 2008	Meeting room of the Company	Field research	Yinhua Fund	Particulars about development of color TV industry and competition strategy of the Company

IX. Particulars about purchase and sale of the Company's shares by Directors, Supervisors and Senior Management Staff as well as the shareholders with more than 5% shares

In the report period, Directors, Supervisors and Senior Management Staff as well as the shareholders with more than 5% shares of the Company did no purchase or sell shares of the Company against the laws and regulations.

#### X. Other significant events

( ) In the reporting period, none of the directors, supervisors, senior management staffs and actual controllers of the Company are punished by securities regulatory authorities.

( ) With “ Forecast Public Notice on Daily Related Transactions ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 8 Apr. 2008 (public notice No. 2008-08).

( ) As for “ Suggestive Public Notice on Listing of Shares Subject to Trading Moratorium ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 14 May 2008 (public notice No. 2008-20).

( ) With regard to “ Public Notice on Implementation of Transferring Capital Reserve into Stock for the Year 2007 ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 28 May 2008 (public notice No. 2008-23).

( ) Concerning “ Report on Corporate Governance Rectification ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 19 Jul. 2008 (public notice No. 2008-28). ( ) About “ Self-examination Report on Problem concerning Capital Occupation by the Principal Shareholders and Other Related Parties ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 2 Aug. 2008.

( ) With “ Public Notice on Outward Investment ”, please refer to the public notice disclosed in China Securities Journal, Shanghai Securities News, Securities Times and Ta Kung Pao, as well as www.cninfo.com.cn on 29 Aug. 2008 (public notice No. 2008-33).

### Section XI. Financial Report

#### I. Audit Report

Auditors' Report

HDGS Zi [2009] No. 29

#### To all shareholders of Konka Group Co., Ltd.

We have audited the accompanying financial statements of Konka Group Co., Ltd. (“ The Company ”), which comprise the balance sheet and consolidated balance sheet as at 31 December 2008 and the income statement and consolidated income statement, cash flow statement and consolidated cash flow statement and Statement of Changes in Shareholder's Equity for the year then end, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation of these financial statements in accordance with the Enterprises Accounting Standards of China. This responsibility includes: (1) 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; (2) selecting and applying appropriate accounting policies; (3) 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 the Chinese Certified Public Accountants' Auditing Standards. These 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 amount 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and 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.

#### Auditing opinion

In our opinion, the financial statements have been prepared in accordance with the requirements of the Enterprises Accounting Standards promulgated by the People's Republic of China, and present

fairly, in all material respects, the financial position of Shenzhen International Enterprise Co., Ltd as at December 31, 2008, and the results of its operations and its cash flows for the year then ended.

**BDO. Guangdong Dahua Delu CPA, LLP**

**Certified Public Accountant of China CPA**

**Certified Public Accountant of China CPA**

**China · Shenzhen**

**28<sup>th</sup> April 2009**

## **II. Financial Report (Attachment)**

### **Section . Documents for Reference**

- (1) Accounting statements carried with the signatures and seals of legal representative, CFO and person in charge of accounting.
- (2) Originals of domestic and auditor ' s report carried with the seal of Certified Public Accountants, the signature and seal of certified public accountants.
- (3) Originals of all documents and manuscripts of public notices disclosed on the newspapers designated by CSRC in the report period.
- (4) Other relevant materials.

**Board of Directors of  
Konka Group Co., Ltd.  
30 April 2009**

Konka Group Co., Ltd.  
Auditors' Report  
Year 2008

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## Balance Sheet

Prepared by Konka Group Co., Ltd.

31 Dec. 2008

Unit: RMB Yuan

Items	Closing balance		Opening balance	
	Consolidation	Parent company	Consolidation	Parent company
Current assets:				
Monetary funds	2,066,252,494.08	1,475,666,531.16	1,784,793,554.02	1,408,031,605.07
Settlement fund reserve				
Dismantle fund				
Transaction financial asset			22,840,195.08	22,840,195.08
Notes receivable	2,602,862,135.40	2,490,683,124.51	2,916,377,359.85	2,795,341,615.11
Account receivable	1,326,261,316.54	1,047,632,207.37	1,040,182,919.53	1,784,148,943.42
Account paid in advance	258,992,334.73	202,116,433.21	151,396,359.00	47,409,754.29
Premium receivables				
Receivables from reinsurers				
Reinsurance contract reserve receivables				
Interest receivable	19,905,867.09	17,616,624.79	12,477,951.79	10,408,705.86
Dividend receivable				
Other account receivable	81,299,762.88	1,069,914,747.28	132,318,283.67	117,507,972.15
Financial assets purchased under agreements to resell				
Inventories	2,573,776,867.13	1,914,848,396.91	2,934,629,182.87	2,199,304,824.83
Non-current assets due within 1 year				
Other current assets				
Total current assets	8,929,350,777.85	8,218,478,065.23	8,995,015,805.81	8,384,993,615.81
Non-current assets:				
Loans and advance				
Available for sale financial assets	9,756,649.50	9,756,649.50	60,721,570.37	60,721,570.37
Held to maturity investments				
Long-term account receivable				
Long-term equity investment	21,610,338.75	1,149,511,669.87	51,645,230.53	832,856,526.10
Investing property				
Fixed asset	1,344,177,898.16	417,114,182.46	1,275,584,101.48	357,402,241.11
Project in construction	27,331,613.11	17,412,689.40	45,048,689.75	39,443,796.12
Engineering material				
Fixed asset disposal				
Bearer biological asset				
Oil assets				
Intangible assets	69,223,899.60	19,277,794.23	80,732,491.66	20,731,159.66
Development expense				
Goodwill	3,943,671.53		3,943,671.53	
Long-term expense to be apportioned	19,897,124.12	5,970,948.27	23,849,638.87	4,577,085.48
Deferred tax assets	91,993,543.01	91,053,354.87	63,408,491.10	60,533,425.93
Other non-current assets				
Total of non-current assets	1,587,934,737.78	1,710,097,288.60	1,604,933,885.29	1,376,265,804.77
Total assets	10,517,285,515.63	9,928,575,353.83	10,599,949,691.10	9,761,259,420.58

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

## Balance Sheet (Con.)

Prepared by Konka Group Co., Ltd.

31 Dec. 2008

Unit: RMB Yuan

Items	Closing balance		Opening balance	
	Consolidation	Parent company	Consolidation	Parent company
Current liabilities:				
Short-term loans	1,346,375,610.78	1,094,765,111.29	1,281,269,907.72	1,084,909,105.72
Loans from central bank				
Deposits received and hold for others				
Placements From Banks Other Financial Institutions				
Transaction financial liabilities	12,481,880.16	10,623,434.10	40,089,820.00	34,738,640.00
Notes payable	2,637,681,947.36	2,441,813,730.21	3,415,401,298.67	3,205,824,129.42
Account payable	1,571,761,341.98	1,640,897,495.08	995,897,141.52	1,058,762,163.66
Account received in advance	179,376,510.50	110,769,256.44	223,289,431.96	152,867,288.98
Financial assets sold under agreements to repurchase				
Handling charges and commission payable				
Employee's compensation payable	168,838,494.96	81,507,222.39	162,790,579.83	78,569,552.49
Tax payable	14,263,975.12	27,855,510.51	16,023,708.56	42,471,363.43
Interest payable	8,247,223.62	5,511,794.93	22,422,410.53	18,806,676.01
Dividend payable	7,108,659.46		3,336,538.97	
Other account payable	527,535,236.31	628,707,957.85	626,548,059.95	421,386,925.01
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	6,473,670,880.25	6,042,451,512.80	6,787,068,897.71	6,098,335,844.72
Non-current liabilities:				
Long-term borrowings				
Bonds payable				
Long-term payables				
Specific purpose account payables				
Deferred income	43,578,369.62	39,442,369.62	29,826,225.37	26,238,018.39
Provisions for contingent liabilities				
Deferred tax liabilities	563,067.21		3,783,805.52	3,783,805.52
Other non-current liabilities				
Total non-current liabilities	44,141,436.83	39,442,369.62	33,610,030.89	30,021,823.91
Total liabilities	6,517,812,317.08	6,081,893,882.42	6,820,678,928.60	6,128,357,668.63
Owner's equity (or shareholders' equity)				
Paid-in capital (or share capital)	1,203,972,704.00	1,203,972,704.00	601,986,352.00	601,986,352.00
Capital surplus	1,256,138,295.21	1,248,889,511.18	1,876,606,062.32	1,869,357,278.29
Less: Treasury Stock				
Reserved fund	804,896,533.82	804,896,533.82	781,670,420.36	781,670,420.36
General risk provision				
Retained earnings	500,638,125.11	588,922,722.41	273,047,084.22	379,887,701.30
Foreign exchange difference	9,397,273.34		7,799,216.25	
Total owners' equity attributable to holding company	3,775,042,931.48	3,846,681,471.41	3,541,109,135.15	3,632,901,751.95
Minority interest	224,430,267.07		238,161,627.35	
Total owner's equity	3,999,473,198.55	3,846,681,471.41	3,779,270,762.50	3,632,901,751.95
Total liabilities and owner's equity	10,517,285,515.63	9,928,575,353.83	10,599,949,691.10	9,761,259,420.58

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

## Income Statement

Prepared by Konka Group Co., Ltd.

Jan. - Dec. 2008

Unit: RMB Yuan

Items	Amount in 2008		Amount in 2007	
	Consolidation	Parent company	Consolidation	Parent company
I. Total sales	12,205,292,227.57	10,404,759,255.68	12,169,078,369.50	10,136,442,833.46
Including: Sales	12,205,292,227.57	10,404,759,255.68	12,169,078,369.50	10,136,442,833.46
Interests income				
Premium income				
Handling charges and commission income				
II. Total cost of sales	11,923,227,894.81	10,210,565,592.50	11,904,966,339.71	9,875,633,052.82
Including: Cost of sales	9,883,102,555.52	8,578,370,891.22	9,804,186,357.31	8,349,432,840.50
Interests expenses				
Service charge and commission income				
Cash surrender value				
Claim expenses-net				
Provision for insurance contract reserves-net				
Insurance policy dividend paid				
Reinsurance expense				
Business taxes and surcharges	4,170,880.39	2,014,068.88	3,166,505.49	1,552,583.44
Distribution expenses	1,520,386,793.94	1,298,039,993.30	1,592,452,280.71	1,247,295,867.22
Administrative expenses	432,537,982.69	278,393,120.10	418,146,607.17	219,553,979.30
Financial costs	1,318,507.81	-5,457,859.940	15,050,936.06	3,429,346.76
Impairment loss	81,711,174.46	59,205,378.94	71,963,652.97	54,368,435.60
Add: gain/(loss) from change in fair value ("-" means loss)	-12,481,880.16	-10,623,434.10	-17,249,624.92	-11,898,444.92
Gain/(loss) from investment ("-" means loss)	-3,708,539.71	47,416,697.46	8,642,402.90	14,823,529.04
Including: income from investment on affiliated enterprise and jointly enterprise	-690,035.55		-621,235.60	489,704.91
Foreign exchange difference ("-" means loss)				
III. Business profit ("-" means loss)	265,873,912.89	230,986,926.54	255,504,807.77	263,734,864.76
Add: non-business income	27,884,850.52	20,426,770.27	12,004,715.77	6,263,555.79
Less: non-business expense	12,912,868.89	5,765,589.53	11,059,138.99	5,893,810.41
Including: loss from non-current asset disposal	6,652,412.36	786,967.07	4,022,131.66	844,077.27
IV. Total profit ("-" means loss)	280,845,894.52	245,648,107.28	256,450,384.55	264,104,610.14
Less: Tax expense	22,521,423.18	13,386,972.71	44,526,238.06	25,989,601.39
V. Net profit ("-" means loss)	258,324,471.34	232,261,134.57	211,924,146.49	238,115,008.75
-Attributable to parent company	250,817,154.35	232,261,134.57	207,091,715.42	238,115,008.75
-Minority interest	7,507,316.99		4,832,431.07	
VI. Earnings per share				
(I) Basic earnings per share	0.2083	0.1925	0.1720	0.1978
(II) Diluted earnings per share	0.2083	0.1925	0.1720	0.1978

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

## Cash Flow Statement

Prepared by Konka Group Co., Ltd.

Jan. - Dec. 2008

Unit: RMB Yuan

Items	Amount in 2008		Amount in 2007	
	Consolidation	Parent company	Consolidation	Parent company
I. Cash flows from operating activities				
Cash received from sales of goods or rendering of services	13,416,342,914.29	11,822,441,609.73	13,386,374,956.57	11,512,110,206.85
Net increase of deposits received and held for others				
Net increase of loans from central bank				
Net increase of inter-bank loans from other financial assets				
Cash received against original insurance contract				
Net Cash received from reinsurance				
Net increase of client deposit and investment				
Net increase of disposal of tradable financial assets				
Cash received as Interests, fees and commissions received				
Net increase of inter-bank fund received				
Cash received under repurchasing, net				
Tax returned	77,849,353.60	335,272.97	78,634,125.53	27,721,677.97
Other cash received from operating activities	103,203,885.47	77,403,447.32	140,214,264.67	77,887,505.21
Sub-total of cash inflow from operating activities	13,597,396,153.36	11,900,180,330.02	13,605,223,346.77	11,617,719,390.03
Cash paid for goods and services	10,236,431,232.19	9,296,806,289.76	10,775,320,718.69	9,702,479,354.42
Net increase of loans and advances				
Net increase of deposit in central bank, banks and other financial institutions				
Cash paid for original contract claim				
Cash paid for interests, fees and commission				
Cash paid for policy dividend				
Cash paid to and for employees	850,940,738.59	476,441,125.65	756,984,289.09	401,269,729.66
Cash paid for all types of taxes	1,025,589,614.95	830,230,406.87	875,665,140.84	646,240,176.22
Other cash paid relating to operating activities	1,121,792,489.34	942,562,270.19	1,162,113,699.30	811,530,696.60
Sub-total of cash outflows	13,234,754,075.07	11,546,040,092.47	13,570,083,847.92	11,561,519,956.90
Net cash outflow in operating activities	362,642,078.29	354,140,237.55	35,139,498.85	56,199,433.13
II. Cash Flows from Investing Activities				
Cash received from return of investments	47,065,893.48	32,897,970.86	30,977,811.00	40,732,161.47
Cash received from investment income	5,460,641.00	50,832,140.42	8,773,933.59	23,722,175.72
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	40,466,824.25	40,215,771.28	4,327,896.35	514,979.70
Net cash received from disposal of subsidiaries and other operating units	24,150.00	24,150.00		
Other cash received relating to investing activities	29,198,806.33	29,032,353.91	2,056,103,685.21	2,056,103,685.21
Sub-total of cash inflows of investing activities	122,216,315.06	153,002,386.47	2,100,183,326.15	2,121,073,002.10
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	160,001,413.50	18,619,141.20	167,387,122.20	22,231,204.08
Cash paid for acquisition of investments	84,360.00	350,584,360.00	37,714,728.60	136,726,211.10
Net increase of pledge loans				
Net cash paid for acquisition of subsidiaries and other operating units				
Other cash paid relating to investing activities	20,269,150.00	22,547,102.10	2,056,005,544.03	2,056,005,544.03
Sub-total of cash outflows of investing activities	180,354,923.50	391,750,603.30	2,261,107,394.83	2,214,962,959.21
Net cash inflow from investing activities	-58,138,608.44	-238,748,216.83	-160,924,068.68	-93,889,957.11
III. Cash Flows from Financing Activities:				
Cash received from investment				
Including: Cash received from minority shareholders of subsidiaries				
Cash received from borrowings	2,449,996,862.25	2,160,291,902.78	1,320,311,139.55	1,118,024,616.55



Cash received from bonds issuing				
Cash received relating to financing activities	1,036,141,024.71	855,513,489.19		
Sub-total of cash inflows of financing activities	3,486,137,886.96	3,015,805,391.97	1,320,311,139.55	1,118,024,616.55
Cash paid for repayments of borrowings	2,375,918,008.59	2,138,083,790.03	15,000,000.00	
Cash paid for dividends, profit distribution or interest	108,561,447.16	88,329,554.34	69,482,554.53	61,625,830.95
Including: dividends or profits paid to minority shareholders by subsidiaries				
Other cash paid relating to financing activities	1,204,946,154.12	1,100,051,307.54	1,032,235,139.55	851,948,616.55
Sub-total of cash outflows of financing activities	3,689,425,609.87	3,326,464,651.91	1,116,717,694.08	913,574,447.50
Net cash inflow from financing activities	-203,287,722.91	-310,659,259.94	203,593,445.47	204,450,169.05
IV. Effect of foreign exchange rate changes	-8,747,294.35	-2,184,250.16	-3,490,286.99	2,652,570.55
V. Net decrease in cash and cash equivalents	92,468,452.59	-197,451,489.38	74,318,588.65	169,412,215.62
Add : Opening amount of cash and cash equivalents	752,558,414.47	556,082,988.52	678,239,825.82	386,670,772.90
VI. Closing balance of cash and cash equivalents	845,026,867.06	358,631,499.14	752,558,414.47	556,082,988.52

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

Consolidated Statement of Change in Shareholders' Equity  
Year 2008

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Items	Amount in 2008							Minority interest	Total of owners' equity
	Owners' equity attributable to parent company								
	Paid-in capital (share capital)	Capital reserve	Less: Treasury stock	Surplus reserve	General Risk provision	Retained earnings	Other		
I. Balance at 31 December, 2007	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
Plus: Change in accounting policies	-	-	-	-	-	-	-	-	-
Correction of errors in previous period	-	-8,293,387.77	-	-	-	1,575,451.29	-	-	-6,717,936.48
Other	-	-	-	-	-	-	-	-	-
II. Balance at 1 January, 2008	601,986,352.00	1,876,606,062.32	-	781,670,420.36	-	273,047,084.22	7,799,216.25	238,161,627.35	3,779,270,762.50
III. Increase/ decrease during the financial year ("-" for loss)	601,986,352.00	-620,467,767.11	-	23,226,113.46	-	227,591,040.89	1,598,057.09	-13,731,360.28	220,202,436.05
(I) Net profit	-	-	-	-	-	250,817,154.35	-	7,507,316.99	258,324,471.34
(II) Gain and loss recognized directly in equity	-	-18,481,415.11	-	-	-	-	1,598,057.09	(4,571,574.41)	-21,454,932.43
1. Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	0.00	0.00	0.00
2. Effects on changes in equity of invested companies under equity method	-	-	-	-	-	-	0.00	0.00	0.00
3. Effects on income tax related with items recorded into owners' equity	-	-	-	-	-	-	0.00	0.00	0.00
4. Other	-	-18,481,415.11	-	-	-	-	1,598,057.09	(4,571,574.41)	-21,454,932.43
Subtotal of (I) and (II)	-	-18,481,415.11	-	-	-	250,817,154.35	1,598,057.09	2,935,742.58	236,869,538.91
(III) Contributions and decrease of capital	-	-	-	-	-	-	0.00	-	-
1. Contributions by shareholders	-	-	-	-	-	-	-	-	-
2. Equity settled share-based payment	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-
(IV) Profit distribution	-	-	-	-	-	-	-	(16,667,102.86)	-16,667,102.86
1. Surplus reserve accrued	-	-	-	-	-	-	-	0.00	-
2. General risk provision accrued	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	(16,667,102.86)	-16,667,102.86
4. Others	-	-	-	-	-	-	-	-	-
(V) Transfer within shareholders' equity	601,986,352.00	(601,986,352.00)	-	23,226,113.46	-	-23,226,113.46	-	-	-
1. Capital reserve transferred to capital (share capital)	601,986,352.00	(601,986,352.00)	-	23,226,113.46	-	-23,226,113.46	-	-	-
2. Surplus reserve transferred to capital (share capital)	-	-	-	-	-	-	-	-	-
3. Surplus reserve offsetting losses	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
IV. Balance at 31 December, 2008	1,203,972,704.00	1,256,138,295.21	-	804,896,533.82	-	500,638,125.11	9,397,273.34	224,430,267.07	3,999,473,198.55

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

Consolidated Statement of Change in Shareholders' Equity  
Prepared by Konka Group Co., Ltd.

Year 2008

Unit: RMB Yuan

Items	Amount in 2007								
	Owners' equity attributable to parent company							Minority interest	Total of owners' equity
	Paid-in capital (share capital)	Capital reserve	Less: Treasury stock	Surplus reserve	General Risk provision	Retained earnings	Other		
I. Balance at 31 December, 2007	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
Plus: Change in accounting policies	-	-	-	6,817,121.06		(13,219,053.25)	73,699,792.18	43,917.17	67,341,777.16
Correction of errors in previous period	-	-	-	-		3,682,204.87	-	-	3,682,204.87
Other									
II. Balance at 1 January, 2008	601,986,352.00	1,859,368,726.07	-	781,670,420.36		126,609,918.56	3,104,363.30	243,652,037.96	3,616,391,818.25
III. Increase/ decrease during the financial year ("-" for loss)	-	17,237,336.25	-	-		146,437,165.66	4,694,852.95	(5,490,410.61)	162,878,944.25
(I) Net profit	-	-	-	-		207,091,715.42	-	4,832,431.07	211,924,146.49
(II) Gain and loss recognized directly in equity	-	17,237,336.25	-	-		-	4,694,852.95	-	21,932,189.20
1. Net changes in fair value of available-for-sale financial assets	-	17,237,336.25	-	-		-	-	-	17,237,336.25
2. Effects on changes in equity of invested companies under equity method	-	-	-	-		-	-	-	-
3. Effects on income tax related with items recorded into owners' equity	-	-	-	-		-	-	-	-
4. Other	-	-	-	-		-	4,694,852.95	-	4,694,852.95
Subtotal of (I) and (II)	-	17,237,336.25	-	-		207,091,715.42	4,694,852.95	4,832,431.07	233,856,335.69
(III) Contributions and decrease of capital	-	-	-	-		-	-	-	-
1. Contributions by shareholders	-	-	-	-		-	-	-	-
2. Equity settled share-based payment	-	-	-	-		-	-	-	-
3. Others	-	-	-	-		-	-	-	-
(IV) Profit distribution	-	-	-	-		(60,654,549.76)	-	(10,322,841.68)	(70,977,391.44)
1. Surplus reserve accrued	-	-	-	-		-	-	-	-
2. General risk provision accrued	-	-	-	-		-	-	-	-
3. Distribution to shareholders	-	-	-	-		(60,198,635.20)	-	(10,322,841.68)	(70,521,476.88)
4. Others	-	-	-	-		(455,914.56)	-	-	(455,914.56)
(V) Transfer within shareholders' equity	-	-	-	-		-	-	-	-
1. Capital reserve transferred to capital (share capital)	-	-	-	-		-	-	-	-
2. Surplus reserve transferred to capital (share capital)	-	-	-	-		-	-	-	-
3. Surplus reserve offsetting losses	-	-	-	-		-	-	-	-
4. Others	-	-	-	-		-	-	-	-
IV. Balance at 31 December, 2008	601,986,352.00	1,876,606,062.32	-	781,670,420.36		273,047,084.22	7,799,216.25	238,161,627.35	3,779,270,762.50

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

Statement of Change in Shareholders' Equity of Parent Company  
Year 2008

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Items	Amount in 2008								Minority interest	Total of owners' equity
	Owners' equity attributable to parent company							Other		
	Paid-in capital (share capital)	Capital reserve	Less: Treasury stock	Surplus reserve	General Risk provision	Retained earnings				
I. Balance at 31 December, 2007	601,986,352.00	1,876,302,677.10	-	781,670,420.36		443,298,627.13	-		3,73,258,070.59	
Plus: Change in accounting policies	-								-	
Correction of errors in previous period	-	-6,945,398.81	-			-63,410,925.83	-		-70,356,324.64	
Other										
II. Balance at 1 January, 2008	601,986,352.00	1,869,357,278.29	-	781,670,420.36		379,887,701.30	-		3,632,901,751.95	
III. Increase/ decrease during the financial year ("-" for loss)	601,986,352.00	(620,467,767.11)	-	23,226,113.46		209,035,021.11	-		213,779,719.46	
(I) Net profit	-	-	-	-		232,261,134.57	-		232,261,134.57	
(II) Gain and loss recognized directly in equity	-	(18,481,415.11)	-	-		-	-		-18,481,415.11	
1. Net changes in fair value of available-for-sale financial assets	-	-18,481,415.11	-	-		-	-		-18,481,415.11	
2. Effects on changes in equity of invested companies under equity method	-	-	-	-		-	-		-	
3. Effects on income tax related with items recorded into owners' equity	-	-	-	-		-	-		-	
4. Other	-	-	-	-		-	-		0.00	
Subtotal of (I) and (II)	-	(18,481,415.11)	-	-		232,261,134.57	-		213,779,719.46	
(III) Contributions and decrease of capital	-	-	-	-		-	-		-	
1. Contributions by shareholders	-	-	-	-		-	-		-	
2. Equity settled share-based payment	-	-	-	-		-	-		-	
3. Others	-	-	-	-		-	-		-	
(IV) Profit distribution	-	-	-	23,226,113.46		-23,226,113.46	-		-	
1. Surplus reserve accrued	-	-	-	23,226,113.46		-23,226,113.46	-		-	
2. General risk provision accrued	-	-	-	-		-	-		-	
3. Distribution to shareholders	-	-	-	-		-	-		-	
4. Others	-	-	-	-		-	-		-	
(V) Transfer within shareholders' equity	601,986,352.00	(601,986,352.00)	-	-		-	-		-	
1. Capital reserve transferred to capital (share capital)	601,986,352.00	(601,986,352.00)	-	-		-	-		-	
2. Surplus reserve transferred to capital (share capital)	-	-	-	-		-	-		-	
3. Surplus reserve offsetting losses	-	-	-	-		-	-		-	
4. Others	-	-	-	-		-	-		-	
IV. Balance at 31 December, 2008	1,203,972,704.00	1,248,889,511.18	-	804,896,533.82		588,922,722.41	-		3,846,681,471.41	

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

Statement of Change in Shareholders' Equity of Parent Company  
Year 2008

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Items	Amount in 2007								
	Owners' equity attributable to parent company							Minority interest	Total of owners' equity
	Paid-in capital (share capital)	Capital reserve	Less: Treasury stock	Surplus reserve	General Risk provision	Retained earnings	Other		
I. Balance at 31 December, 2007	601,986,352.00	1,865,454,242.75	-	774,853,299.30		172,739,183.41	-	3,415,033,077.46	
Plus: Change in accounting policies	-	(13,334,300.71)	-	6,817,121.06		91,396,529.16	-	84,879,349.51	
Correction of errors in previous period	-	-	-	-		(62,164,384.82)	-	(62,164,384.82)	
Other									
II. Balance at 1 January, 2008	601,986,352.00	1,852,119,942.04	-	781,670,420.36		201,971,327.75	-	3,437,748,042.15	
III. Increase/ decrease during the financial year ("-" for loss)	-	17,237,336.25	-	-		177,916,373.55	-	195,153,709.80	
(I) Net profit	-	-	-	-		238,115,008.75	-	238,115,008.75	
(II) Gain and loss recognized directly in equity	-	17,237,336.25	-	-		-	-	17,237,336.25	
1. Net changes in fair value of available-for-sale financial assets	-	17,237,336.25	-	-		-	-	17,237,336.25	
2. Effects on changes in equity of invested companies under equity method	-	-	-	-		-	-	-	
3. Effects on income tax related with items recorded into owners' equity	-	-	-	-		-	-	-	
4. Other	-	-	-	-		-	-	-	
Subtotal of (I) and (II)	-	17,237,336.25	-	-		238,115,008.75	-	255,352,345.00	
(III) Contributions and decrease of capital	-	-	-	-		-	-	-	
1. Contributions by shareholders	-	-	-	-		-	-	-	
2. Equity settled share-based payment	-	-	-	-		-	-	-	
3. Others	-	-	-	-		-	-	-	
(IV) Profit distribution	-	-	-	-		(60,198,635.20)	-	(60,198,635.20)	
1. Surplus reserve accrued	-	-	-	-		-	-	0.00	
2. General risk provision accrued	-	-	-	-		-	-	-	
3. Distribution to shareholders	-	-	-	-		(60,198,635.20)	-	-60,198,635.20	
4. Others	-	-	-	-		-	-	-	
(V) Transfer within shareholders' equity	-	-	-	-		-	-	-	
1. Capital reserve transferred to capital (share capital)	-	-	-	-		-	-	-	
2. Surplus reserve transferred to capital (share capital)	-	-	-	-		-	-	-	
3. Surplus reserve offsetting losses	-	-	-	-		-	-	-	
4. Others	-	-	-	-		-	-	-	
IV. Balance at 31 December, 2008	601,986,352.00	1,869,357,278.29	-	781,670,420.36		379,887,701.30	-	3,632,901,751.95	

Legal representative: Hou Songrong; CFO Yang Guobin; person in charge of the accounting affairs: Ruan Renzong

**Konka Group Co., Ltd.**  
**Notes to Financial Statements**  
 FY 2008

Unless otherwise specified, the currency in this note is in RMB

**Note 1. Company Profile**

Upon approval of People's Government of Shenzhen Municipality, Konka Group Co., Ltd. (hereinafter referred to as "the Company") was reorganized from the former Shenzhen Konka Electronic Co., Ltd. to an incorporated company in August 1991. Upon approval of the Special Economic Zone Branch of the People's Bank of China, the Company has issued ordinary shares (A share and B share) and gone public at Shenzhen Stock Exchange. On August 29, 1995, the Company, with its name changed into "Konka Group Co., Ltd.", obtained the QGYSZ No. 440301501121863 *Business License for Enterprise's Legal Person*, with its main business falling into electronic industry.

On November 27, 1991, upon approval of the SRYFZ [1991] No. 102 document as issued by the Special Economic Zone Branch of the People's Bank of China, Shenzhen Konka Electronic Co., Ltd., during December 8—December 31, 1991, has issued 128,869,000 ordinary shares (A share) in RMB Yuan, with a par value of RMB ¥1.00 per share, of which the original assets were translated into 98,719,000 state-owned corporate shares, 30,150,000 new shares were issued, including 26,500,000 circulating shares issued to the public and 3,650,000 staff shares issued to the staff.

On January 29, 1992, upon approval of the SRYFZ [1991] No. 102 document as issued by the Special Economic Zone Branch of the People's Bank of China, Shenzhen Konka Electronic Co., Ltd., during December 20, 1991—January 31, 1992, has issued overseas RMB 58,372,300 special shares (B), with a par value of RMB ¥1.00 per share, of which the former foreign-invested founder, Hong Kong Ganghua Electronic Group Co., Ltd. holds 48,372,300 shares translated into the foreign legal person's shares, and 10,000,000 B shares are issued additionally.

On April 10, 1993, the *Proposal on Profit Distribution and Dividend Payout 1992* was adopted at the second session of general meeting of the Company, upon approval of the SZBF [1993] No. 2 document as issued by Shenzhen Portfolio Management Office, As of April 30, 1993, the Company implemented the profit distribution plan for the year of 1992: presented all shareholders the shares based on RMB ¥0.90 in cash plus 3.5 bonus shares for every 10 shares. There was a total equity of 187,473,150 shares after shares were presented.

As of April 18, 1994, the third session of general meeting of the Company passed the *Proposal on Profit Distribution and Dividend Payout 1993*. Upon approval of the SZBF [1994] No. 115 document as issued by Shenzhen Portfolio Management Office, the Company, as of June 10, 1994, implemented the profit distribution plan for the year of 1993: presented all shareholders the shares based on RMB ¥1.10 in cash plus 5 bonus shares for every 10 shares. (Including 4.4 profit bonus shares and 0.6 equity share translated from capital reserve). There was a total equity of 281,209,724 shares after shares were presented and equities were translated from capital reserve.

As of June 2, 1994, in accordance with the regulations concerning that "staff share could go public and be transferred six month after listing", as jointly promulgated by the State Commission for Restructuring and the Economic System Securities Commission of the State Council, as agreed by Shenzhen Portfolio Management Office and Shenzhen Stock Exchange, the staff shares of the Company was listed and negotiated on June 6, 1994.

As of October 8, 1994, the *Proposal on Negotiable Bonus Share of B-Share Corporate Shareholders 1992* was adopted at the interim general meeting 1994 of the Company, upon approval of SZBF[1994] No. 224 document as issued by Shenzhen Portfolio Management Office, The bonus shares of 16,930,305 for the year of 1992 were granted to the foreign-invested corporate shares, and negotiated at B-share market on October 26, 1994.

As of February 6, 1996, the *Proposal on Shares Allotment Modes 1996* was adopted at the interim general meeting 1996 of the Company, upon approval of ZJPSZ [1996] No. 16 document and SZBF[1996] No. 6 document as issued by China National Securities Supervision and Management Committee, on July 16, 1996 and October 29, 1996, all shareholders were respectively allotted shares in proportion of 3:10 at RMB ¥6.28/A-share, and HK\$5.85/B-share. Corporate shareholders took their respective shares as bases to subscribe the allocable shares in full amount. The total equity was 365,572,641 shares after this shares allotment.

As of January 25, 1998, the *Proposal on Shares Allotment 1998* was adopted at the interim general meeting 1998 of the Company, upon agreement of ZZBZ[1998] No. 29 document as issued by Shenzhen

Portfolio Management Office, and upon approval of ZJSZ[1998] No. 64 document as issued by China National Securities Supervision and Management Committee, on July 15, 1998, A-negotiable shares were allotted in proportion of 3:10 at RMB ¥10.50/A-share; Due to the reasons attributable to continuously weakening price of B-share secondary market price (lower than share allotment price), etc., B-share negotiation and allotment plan was canceled, and the corporate shareholders of the Company waived this preemptive right. The total equity was 389,383,603 shares after this shares allotment.

As of June 30, 1999, the *Proposal on Profit Distribution and Capital Reserve Translated into Equity 1992* was adopted at the eighth session of the general meeting of the Company. On August 20, 1999, the profit distribution for the year of 1998 was carried out: all shareholders were presented cash at RMB ¥3.00 for every 10 shares, plus 2 shares for every 10 shares translated from capital reserves. The total equity was 467,260,323 shares after translated from capital reserves.

As of June 30, 1999, the *Plan on A-Share Issue for Capital Increase* was adopted at the eighth session of the general meeting of the Company, upon approval of ZJFXZ[1999] No.140 document as issued by China National Securities Supervision and Management Committee, on November 1, 1999, A-shares of 80,000,000 were additionally issued to the public at RMB ¥15.50/share. The total equity was 547,260,323 shares after this additional issue.

As of May 30, 2000, the *Plan on Profit Distribution and Dividend Payout 1999* was adopted at the ninth session of the general meeting of the Company. On July 25, 2000, the profit distribution for the year of 1999 was carried out: all shareholders were presented cash at RMB ¥4.00 for every 10 shares, plus 1 bonus shares for every 10 shares. The total equity was 601,986,352 shares after this shares allotment.

The Company convened the seventh meeting of the six session of board, approving and adopting the following resolutions: With the total equity of 601,986,352 shares for the year ended on December 31, 2007 as the base, the equities translated from capital reserves are transferred to all shareholders at RMB ¥1.00 per share translated from capital reserve. And the said resolution was adopted by the general meeting 2007 convened on May 26, 2008. The Company, in June 2008, implemented the capital reserves translated into equities and went through the formality of transfer at China Securities Depository and Clearing Corporation Limited. On December 16, 2008, upon approval of SMGZF [2008] No. 2662 document as issued by Shenzhen Bureau of Trade and Industry, the Company was agreed to increase equities, and went through the registration of changes at the administration for industry and commerce on April 10, 2009.

Approved business scope: Engage in design and production operations for TV, panel TV, radio, stereo, digital-sound playing equipment, CD player, VCD player, DVD player, displayer, refrigerator, electronic dictionary, video recorder, digital record player, air conditioner, telephone set, fax machine, bleeper, pager switching system, interphone, facilities for simultaneous interpretation, computer, electronic watch, fire-control/burglar-alarm system, module, injection mould, copier, rubber products, washing machine, ice locker, computer peripheral equipment, digital modems, new-model display device, High Definition TV (HDTV), mobile phone, set-top box, IPTV product, auto electronic products, intelligent traffic system and components and various packing materials in connection with the products mentioned above, provide the relevant technical consulting service, after-sales paid service, as well as the relevant software development, and engage in wholesales, retails, import/export and relevant supporting services (the commodities involved in quota permit management and specified special management shall be subject to the relevant national regulations).

## Note 2. Preparation Basis of Financial Statements and Declaration of Following Business Accounting Standards

On the going-concern basis, the Company performs the recognition and metering in light of actual transactions and events, according to the *Accounting Standards for Business Enterprises-Basic Standards* and the regulations of other accounting standards, and prepares the financial statements hereon. The estimates and assumptions are required to prepare the financial statements in conformity with the requirement of China accounting standards, because such estimates and assumptions will influence the disclosure of assets, liability and contingent liability on the date of financial statements, as well as the earnings and expenses during the statements period. The financial statements prepared by the Company conform to the requirements of business accounting standards, and truly and integrally reflect information about financial status, business results, cash flow, etc. of the Company.

## Note 3 Business Mergers and Consolidated Financial Statements

### 1. Wholly-owned Subsidiaries

Name of Wholly-owned Subsidiary	Registration Place	Business Nature	Registered Capital	Ending Actual Investment Amount	Net Investment Balance for Subsidiary Materially Constituted	Holding Proportion		Voting Right Proportion
						Direct	Indirect	
Subsidiary established by non-business merger. Dongguan Konka Electronic Co., Ltd.	Dongguan	TV, audio and video products, etc.	RMB200,000,000	RMB274,780,000	RMB274,780,000	100%	—	100%
Anhui Konka Electronic Co., Ltd. (hereinafter referred to as "Anhui Konka")	Anhui	Color TV	RMB140,000,000	RMB122,780,000	RMB122,780,000	78%	—	78%
Mudanjiang Konka Industry Co., Ltd.	Mudanjiang	Color television	RMB60,000,000	RMB36,000,000	RMB36,000,000	60%	—	60%
Shenzhen Konka Household Appliances Co., Ltd.	Shenzhen	Electron device	RMB8,300,000	RMB10,730,000	RMB10,730,000	51%	—	51%
Chongqing Konka Electronic Co., Ltd.	Chongqing	Color TV	RMB45,000,000	RMB27,000,000	RMB27,000,000	60%	—	60%
Shenzhen Konka Video&Communication Systems Engineering Co., Ltd (hereinafter referred to as "Konka Video&Communication")	Shenzhen	Development and sales for business TV	RMB15,000,000	RMB9,000,000	RMB9,000,000	60%	—	60%
Chongqing Konka Electronic Co., Ltd.	Chongqing	Development and sales for auto electronic products	RMB30,000,000	RMB17,100,000	RMB17,100,000	57%	—	57%
KONKA AMERICA, INC.	U.S.A	Sales of electronic products	USD1,000,000	USD1,000,000	USD1,000,000	100%	—	100%
Shenzhen Konka Telecommunications Technology Co., Ltd.	Shenzhen	Mobile communication products	RMB120,000,000	RMB120,000,000	RMB120,000,000	75%	25%	100%
Shenzhen Shushi da Electronic Co., Ltd.	Shenzhen	Film & TV products and relevant fittings	RMB42,000,000	RMB42,000,000	RMB42,000,000	75%	25%	100%
Hongkong Konka Co., Ltd.	Hongkong	Import & export of electromechanical and electronic products	HKD500,000	HKD500,000	HKD500,000	99%	1%	100%
Anhui Konka Household Appliances Co., Ltd. (Note 1)	Anhui	Production and sales of refrigerator and other electric appliances	RMB78,190,000	RMB80,870,000	RMB80,870,000	92.97%	4.48%	97.45%
Shenzhen Konka Plastic Manufacture Co., Ltd.	Shenzhen	Plastic manufacture	RMB9,500,000	RMB9,500,000	RMB9,500,000	49%	51%	100%
Chongqing Konka Electronic Co., Ltd.**	Chongqing	Electronic tuner and high frequency head	RMB15,000,000	RMB6,000,000	RMB6,000,000	---	40%	40%
Shaanxi Konka Electronic Co., Ltd.	Shaanxi	Color television	RMB69,500,000	RMB55,290,000	RMB55,290,000	45%	15%	60%
Shenzhen Konka Information Network Co., Ltd.	Shenzhen	Production and sales of digital network products	RMB30,000,000	RMB30,000,000	RMB30,000,000	75%	25%	100%
Shenzhen Electron Fittings Technology Co., Ltd. (Note 2)	Shenzhen	Technical development of ED	RMB65,000,000	RMB65,000,000	RMB65,000,000	75%	25%	100%



Name of Wholly-owned Subsidiary	Registration Place	Business Nature	Registered Capital	Ending Actual Investment Amount	Net Investment Balance for Subsidiary Materially Constituted	Holding Ratio	Voting Right Ratio
Dongguan Konka Packing Material Co., Ltd.	Dongguan	Plastic products	RMB10,000,000	RMB10,000,000	RMB10,000,000	—	100%
Dongguan Konka Tooling and Moulding Co., Ltd.	Dongguan	Module and rubber products	RMB10,000,000	RMB10,000,000	RMB10,000,000	—	100%
Konka Household Appliances Investment&Development Co., Ltd.***	Hongkong	Share control takeover	HKD500,000	HKD500,000	HKD500,000	—	100%
Konka Household Appliances International Trading Co., Ltd.***	Hongkong	International trading	HKD500,000	HKD500,000	HKD500,000	—	100%
Changshu Konka Electronic Co., Ltd.***	Changshu	Production and sales of electronic products	RMB24,650,000	RMB14,790,000	RMB14,790,000	—	60%
Boluo Konka Printed Board Co., Ltd.***	Guangdong	Production and sales of electronic products	RMB40,000,000	RMB20,400,000	RMB20,400,000	—	51%
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.***	Shenzhen	All classes of modules	RMB14,500,000	RMB7,395,000	RMB7,395,000	—	51%
Boluo Konka Precision Technology Co., Ltd. (Note 3)	Boluo	Production and sales of electronic products	RMB15,000,000	RMB1,125,000	RMB1,125,000	—	100%
Konka (Nanhai) Development Center	Nanhai	R&D of panel display technology, production development, etc.	RMB500,000	RMB500,000	RMB500,000	100%	---
Kunshan Konka Electronic Co., Ltd	Kunshan	Research, design, and production of LCM and panel TV	RMB350,000,000	RMB350,000,000	RMB350,000,000	100%	---

\* In November 2008, the Company invested RMB¥500,000 in setting up the Konka (Nanhai) Development Center, with a proportion of subscribed capital of 100%.

On September 2008, the Company invested RMB¥350,000,000 in setting up Kunshan Konka Electronic Co., Ltd., engaging in the research, design and production of LCM, panel TV and relevant components.

\*\* : Since the Company has the actual right of control over such companies, they have been incorporated into the consolidated range of the financial statements.

\*\*\* : Such companies are controlled by the Company directly or indirectly, and ultimately incorporated into the consolidated range of the financial statements of the Company.

## 2. Information about Affiliated Company

Name of Company	Registration Place	Legal Representative	Registered Capital	Actual Investment Amount	Holding Proportion	Main Business
Shenzhen Dekon Electronics Co., LTD	Shenzhen	Qiu Weimin	RMB10,000,000	RMB3,000,000	30%	Production and sales of electronic products
Shenzhen Konka Energy Technology Co., Ltd	Shenzhen	Dong Yaping	RMB20,000,000	RMB3,000,000	30%	Operation of new mobile energy products, etc.
Chongqing Jinkang Plastic Product Co., Ltd.	Chongqing	Wang Xiayong	RMB15,000,000	RMB3,750,000	15%	Manufacturing and processing of module products
Shenzhen Julong	Shenzhen	Yu Zhonghou	RMB10,000,000	RMB2,000,000	20%	R&D, manufacture

OptoElectronics Co., Ltd						and sales of panel optical display device, etc.
Shanlian Information Technology Project Co., Ltd	Beijing	Huo Zhiqiang	RMB52,000,000	RMB5,000,000	9.61525%	Technical development, transfer, consultation, service, etc.
Shenzhen Zhongcailian Technology Co., Ltd *	Shenzhen	Fan Wenjian	RMB10,000,000	RMB1,000,000	10%	Electronic technology development, economic information consultation

## 3. Information about Minority Interests:

Name of Subsidiary	Minority Interests
Mudanjiang Konka Industry Co., Ltd.	32,637,277.89
Shaanxi Konka Electronic Co., Ltd.	42,719,491.34
Anhui Konka Electronic Co., Ltd.	49,802,894.51
Shenzhen Konka Household Appliances Co., Ltd.	-6,918,857.18
Chongqing Konka Electronic Co., Ltd.	16,926,438.95
Boluo Konka Printed Board Co., Ltd.	23,535,275.84
Chongqing Konka Automotive Electronic Co., Ltd.	-3,546,962.00
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.	29,459,054.44
Anhui Konka Household Appliances Co., Ltd.	3,728,094.59
Shenzhen Konka Video & Communication Engineering Co., Ltd	4,709,119.6400
Changshu Konka Electronic Co., Ltd.	13,413,128.4300
Shaanxi Qingjia Electronic Co., Ltd.	17,965,310.62
Total	224,430,267.07

Note 4 Preparation Methods of Significant Accounting Policies, Accounting Estimate and Consolidated Financial Statements

(1) The Company shall implement the *Accounting Standards for Business Enterprises* and the relevant regulations of the Ministry of Finance.

(2) Fiscal year:

The fiscal year of the Company shall run from January 1 to December 31 of each calendar year.

(3) Functional currency:

The company chooses RMB as its functional currency.

(4) Book-keeping basis and valuation principle:

The Company shall adopt the accrual system as the base of bookkeeping basis, and use the real cost as the pricing basis in general except the pricing principle especially stated in the notes. The assets shall enter into the account book on the actual cost basis at the time of acquisition. In case of subsequent assets depreciation, the corresponding assets depreciation preparation shall be withdrawn.

(5) Accounting method of foreign currency operation and foreign currency translation method of financial statements:

When initial recognition is made for foreign transaction, the amount in foreign currency shall be translated into the amount in recording currency at the spot exchange rate on the date when transaction occurs. On the balance sheet date, the monetary items in foreign currency shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange caused by the difference between the spot exchange rate on the balance sheet and that initially recognized or that on previous balance sheet date shall be included in the current profits and losses. The non-monetary items measured on the historical cost basis shall be translated at the spot exchange rate on the date when transaction occurs, remaining its amount in recording currency unchanged.

(6) Criteria for fixing cash and cash equivalents:

The cash of the Company shall refer to cash in treasury, deposit and cash equivalents available for payment at any time; cash equivalents shall refer to the short-term and strong-liquidity investment, easily convertible to known amounts of cash, and subject to an insignificant risk of change in value; the cash equivalents of the Company include the investment that falls due or is convertible within 3 months or less.

(7) Tradable financial assets:

Tradable financial assets shall be classified as the financial assets for transaction and the financial assets measured via fair value as specified, with alteration included in the current profits and losses.

Tradable financial assets shall be taken as the amount initially recognized based on the fair value at the time of acquisition, and the transaction costs concerned are included in the current profits and losses when incurred.

On the balance sheet date, the tradable financial assets are subsequently measured at its fair value, the contingent transaction costs available to dispose the financial assets will not be deducted, and the change in fair values of tradable assets shall be included in the current profits and losses.

(8) Receivables and bad debt reserves calculating

Receivables shall refer to accounts receivables and accounts receivable other. The Company initially confirms the accounts receivables based on the fair values when assets shall be obtained. With the method of actual interest rate, the receivables shall be subsequently measured based on the amortized cost.

The Company shall calculate the contingent bad debt losses using the allowance method.

The Company shall perform depreciation test for the account receivable with significant single and insignificant of single amount. The depreciation test shall be separately performed for the significant account receivable of single amount to determine the impairment loss and withdraw bad debt reserves based on the difference between the cash value and carrying amount of future cash flows.

As regards the insignificant account receivables of single amount and the significant account receivables of single amount that depreciation does not incur after separate test, the bad debt reserves shall be withdrawn in the following proportions:

Age	Withdrawal Proportion
Within one year (incl. one year)	2%
One to two years (incl. two years)	5%
Two to three years (incl. three years)	20%
Above three years	50%

The Company shall implement the criteria to determine bad debts: where the accounts can not be recovered after the use of bankruptcy assets or legacies for satisfaction due to cancellation, bankruptcy or death of the debtor; where the distinct characteristics shows the accounts can not be recovered due to the failure of the debtor to fulfill the obligations of debt service when overdue. The accounts receivable that unable to be recovered as shown by the well-established evidence shall be determined as the bad debt losses to offset the bad debt reserves that have been withdrawn.

(9) Inventories:

The inventories of the Company shall be classified as four kinds: raw materials, products in process, finished products, low-value consumables.

The Company adopts the perpetual inventory for the inventory system, the inventories shall be priced at the actual cost when being purchased and warehoused, and priced with the weighted average method when being delivered; the low-value consumables shall be priced with the one-off amortization when

being claimed. The packing materials shall be included in production cost in one shot when being claimed.

In the end of year, when the costs are predicated to be unrecoverable due to inventory damage, all or partial obsolescence, or sales prices lower than costs, etc. based on the wall-to-wall inventory, the inventory falling price reserves are withdrawn and determined based on the difference between the cost of an single inventory item and its net realizable value at the time of withdrawal.

(10) Long-term equity investment:

As regards the business merger under the same control, it shall, on the date of merger, treat the share of the carrying amount of the owner's equity of the merged enterprise 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 carrying amount of the debts borne by the merging party shall offset against the share premium of capital reserve. If the capital reserve is insufficient, the retained earnings shall be adjusted. The relevant expenses directly arising from business merger shall be included in the current profits and losses.

As regards the long-term equity investment formed by the business merger under different control, the merging cost shall be the fair value of paid assets, incurred or borne liabilities and issued equity securities to obtain the right of control over acquiree. The relevant expenses directly arising from business merger shall be included in the current profits and losses.

The Company is able to implement the controlled long-term equity investment in invested units, and the long-term equity investment that has no common control or significant influence on invested entity, and has no offer in the active market, and its fair value cannot be reliably measured shall be calculated on the cost basis.

The long-term equity investment that the Company has common or significant influence on invested entity shall be calculated with equity method. The Company shall confirm the net losses of the invested enterprise until the carrying amount 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 is obligated to bear extra losses.

If the initial investment cost of long-term equity investment is more than the share of the fair value of the invested entity's identifiable net assets for the investment the Company is entitled to, the initial cost of the long-term equity investment may not be adjusted; otherwise, the difference shall be included in the current profits and losses, and the cost of long-term equity investment shall be adjusted in the meantime.

The Company shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the share of the net profits and losses of the invested entity the Company is entitled to after it adjusts the net profits of the invested entity.

At the end of period, the long-term investments are checked item by item. If the invested entity's recoverable amount is lower than the carrying amount of investment arising from continuous market price drop or deteriorated operation status of the invested entity and other reasons, the depreciation preparation can be individual withdrawn based on the difference between recoverable amount and carrying amount. The recoverable amount shall be determined in light 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, whichever is greater. Once recognized, the assets impairment loss must not be carried out during the accounting period.

(11) Held-to-maturity investment:

The held-to-maturity investment shall be initially measured based on the fair value at the time of acquisition, and the transaction expenses concerned shall be included in the initially recognized amount. The subsequent measurement shall be performed with the effective interest method at amortized cost.

At end of period, the current value of current value shall be discounted and calculated based on the effective interest rate of financial assets. If the current value of current value is less than the carrying amount of financial assets shall be deducted to the current value of current value (excluding the expected credit loss that hasn't occurred yet), the deducted amount shall be recognized as assets impairment loss and included in the current profits and losses. When the held-to-maturity investment value has been recovered as shown by objective evidences, and the held-to-maturity investment is objectively associated with the events after such loss is recognized, the previously recognized impairment loss will be carried back and included in current profits and losses.

(12) Available-for-sale financial assets:

The Company shall initially measure the financial assets on offer at its fair value at the time of

acquisition, and the transaction expenses concerned shall be included in the amount initially recognized.

As regards the available-for-sale financial assets that have offer in active market and whose fair value can be measured continuously and reliably, subsequent measurement can be made with fair value; as regards the equity instrument investment that have no offer in active market and whose fair value cannot be reliably measured, and the derivative financial assets that are associated with the said equity instrument and must be settled by delivery of the said equity instrument, the subsequent measurement can be made on cost basis.

The gains or losses formed by adjustment in fair value of available-for-sale financial assets, other than the exchange difference between impairment loss and monetary financial assets in foreign currency, shall be directly included in the owner's equity, and be transferred out and included in the current profits and losses when the recognition for financial assets is terminated.

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 difference 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 included in the profits and losses of the current period. Once being recognized, the impairment losses will not be transferred out during the accounting period.

Where available-for-sale financial assets are impaired, 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 included in the profits and losses of the current period. As regards the available-for-sale 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 carried back and be included in the profits and losses of the current period. The impairment-related losses incurred to available-for-sale equity instrument investment shall not be carried back through profits and losses.

(13) Fixed assets and accumulated depreciation:

a. The Company will confirm the assets held for commodity production, rendering of service, lease or operation management, with useful lives in excess of one fiscal year as the fixed assets.

b. Fixed assets shall be initially measured on cost basis. Disposal expenses shall be expected for the fixed assets to be disposed which is expected to generate relatively great expenses, and the current value thereof shall be included in the cost of fixed assets. Where the payment of purchase price for fixed assets is delayed beyond the normal credit conditions, which is of financing nature materially, the cost of fixed assets shall be determined on the basis of 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 current profits and losses, unless it shall be capitalized in accordance with regulations.

c. Depreciation of fixed assets shall be calculated with the straight-line method, and the salvage value (10% of original value) shall be deducted based on the original value of various fixed assets and estimated useful lives, with classified depreciation rate as follows:

Assets Classifications	Useful Lives	Annual Depreciation
Building construction	40 years	2.25%
Machinery equipment	10 years	9%
Electronic equipment	5 years	18%
Transportation means	5 years	18%
Other equipment	5 years	18%

At the end of period, the useful lives and net salvage rate shall be inspected item by item. In case of discrepancy with original estimate, the adjustment shall be made. Where the recoverable amounts

of fixed assets are caused to be lower than the carrying amount arising from continuous market price drop, lag in technology, or obsolescence, damage and long-term idling of equipment, etc., the recoverable amount shall be expected based on the single asset or asset group, and the depreciation reserves shall be withdrawn based on the difference between the recoverable amount and carrying amount. Once recognized, the impairment losses shall not be carried back in the following accounting period. Where the fixed assets are under disposal status, and fail to generate economic benefit upon use or disposal, the withdrawal of depreciation shall be suspended, and net salvage value shall be adjusted simultaneously.

(14) Construction work in progress:

The engineering cost of construction work in progress shall be calculated and reflected based on the direct building and installing cost, interest expenditure of borrowings and exchange profit and loss incurred for construction work. The interest borne by the relevant construction works have been capitalized in the current year. When the fixed assets purchased and built reach the expected working condition, the construction work in progress can be transformed into the fixed assets.

At the end of period, construction work in progress shall be inspected in a comprehensive way. Depreciation reserves shall be withdrawn and included in the current profits and losses based on the difference between the recoverable amount of the said construction work and the carrying amount thereof. Once recognized, the assets depreciation shall not be carried back in the subsequent accounting periods.

(15) Borrowings and borrowing costs

The borrowings shall enter into the account on the cost basis as the time of initial acquisition, and shall be measured on the basis of amortized cost with the effective interest rate after acquisition. The borrowing costs shall be allowed to be capitalized when satisfying the conditions that assets disbursement has incurred, borrowing costs has incurred, and acquisition and construction as necessary to enable the assets to reach the expected serviceable condition has started. Apart from this, the borrowings costs shall be recognized as the costs of the current period.

As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a 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 borrowings 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. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing. Till the end of period, product of the weighted average of accumulative disbursement of acquisition and construction of assets eligible for capitalization and capitalization rate shall not exceed the actual interest incurred.

(16) Intangible assets and R&D costs:

The intangible assets shall enter into the account based on the actual paid amount or recognized value. Where the payment of purchase price for fixed assets is delayed beyond the normal credit conditions, which is of financing nature materially, the cost of intangible assets shall be determined on the basis of 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, unless it shall be capitalized in accordance with regulations.

As regards intangible asset with limited useful lives, the amount of its cost minus expected salvage value shall be amortized with the straight-line method within the expected useful lives.

The useful lives of intangible assets shall be judged as per the following procedures:

- a. As regards the intangible asset derived from contractual right or other legal rights, its useful lives shall not exceed the period of contractual right or other legal rights.
- b. Where, as evidence shown, an enterprise does not have to pay a large amount of costs for renewal when the contractual right or other legal rights expire, the renewal period shall be included in the useful lives. Where the useful lives is not stipulated in the contract or laws, the Company shall take all factors as a whole to determine the period during which the intangible asset can bring economic benefits to the enterprise.

Where the Company still fails to reasonably determine the period during which the intangible asset can bring economic benefits to the enterprise according to the procedures mentioned above, the tangible asset shall be taken as the intangible asset with uncertain useful lives. The intangible assets with

the uncertain useful lives shall not be amortized.

Prior to commercial production or utilization, the expenditure available to produce the new or materially improved materials, devices, products, etc. by means of a certain plan or design to which research findings or other knowledge shall be taken as the expenditure at the development stage. Other expenditures shall be determined as expenses, except the development-stage expenditures satisfying the following conditions confirmed as intangible assets:

- a. Fulfill the intangible asset to enable it to be used or sold, with feasibility in technology;
- b. Have the intention of fulfilling the intangible asset for use or sale;
- 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; and
- e. The expenditures for development of this intangible asset can be measured reliably.

The development-stage expenditure shall be included in the current expense when incurred.

At the end of period, the intangible assets shall be inspected item by time. For the intangible asset that has been replaced by other new technologies to bring economic benefits to the enterprise, thereby resulting in more adverse influence, the intangible asset that can not be recovered arising from the market price slump within the remaining amortization period, the recoverable amount shall be expected on a single basis, and the depreciation reserves shall be withdrawn based on the difference between the intangible asset and the accounting value. Once recognized, the assets depreciation loss shall not be carried back in the subsequent accounting periods.

#### (17) Goodwill

At the time of business merger under different control, the difference between the paid combined costs and fair value of identifiable net assets acquired from the acquiree during business merger shall be recognized as goodwill.

The Company, at the end of period, will prorate goodwill to the relevant asset groups for depreciation test. The depreciation reserve withdrawn shall be included in the current profits and losses. Once withdrawn, the depreciation reserves shall not be carried back in the subsequent accounting periods.

#### (18) Long-term deferred expenses

The long-term deferred expenses shall be amortized using the straight-line method, with amortization period for long-term deferred expenses determined subject to the benefit period.

#### (19) Financial liabilities

The Company divides financial liabilities into: the financial liabilities measured by fair value with changes included in the current profits and losses, and other financial liabilities.

The financial liabilities measured by fair value with changes included in the current profits and losses shall cover the tradable financial liabilities and the financial liabilities measured by fair value, with changes included in the current profits and losses as specified. As regards the financial liabilities with the active market, the fair value shall be determined based on the quoted price in the active market; as regards the financial liabilities without the active market, the Company shall adopt the fair value using estimation technology.

#### (20) Income recognition:

Income from commodities sales: The significant risks and rewards of ownership of the commodities have been transferred to the buyer by the enterprise; the enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold commodities; The relevant amount of revenue can be measured in a reliable way; The relevant economic benefits may flow into the enterprise; and The relevant costs incurred or to be incurred can be measured in a reliable way.

The Company shall ascertain the revenue incurred by selling commodities 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 commodities 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, at the end of period (year), an enterprise can, 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. The Company shall ascertain the schedule of completion under the transaction concerning the providing of labor services employing the measurement of the work completed (The proportion of the labor services provided against the total labor services to be provided; and the proportion of the costs incurred against the estimated total costs).

#### (21) Government grants:

No government grants 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.

Where a government grant is a monetary asset, it shall be measured in the light of the received or receivable amount. Where a government grant 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 government subsidies for the Company consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

The government subsidies pertinent to assets mean the government assets that are obtained by the enterprise used for purchase or construction, or forming the long-term assets by other ways. The government subsidies pertinent to assets 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 income refer to all the government subsidies except those 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 be included in the current profits and losses during the period when the relevant expenses are recognized; or
- 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.

Where it is necessary to refund any government grant 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; and
- b. If there is no deferred income concerned, it shall be directly included in the current profits and losses.

#### (22) Employee Compensation:

During each accounting period, the enterprise shall recognize the compensation payable as liabilities, which shall be respectively recorded as the product or service costs, current expenses or costs of fixed assets or intangible assets subject to the beneficiaries. According to the relevant regulations, the Company shall, based on a certain proportion of the monthly wages, withdraw insurance premium and accumulation fund, and pay the same to the authority of labor and social security on a monthly basis. The expenditures concerned shall be recorded into the current costs or expenses.

#### (23) Recognition of estimated liabilities

The Company shall recognize the obligation that simultaneously meets the following conditions and relates to the contingent events as the liabilities: 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; the amount of the obligation can be measured in a reliable way.

Where an executory contract turns to be a loss contract, the obligations generated from the loss contract which meets the aforesaid conditions shall be recognized as estimated liabilities.

Where the other obligations undertaken by the Company (e.g. excess loss, restructuring obligations, discard expenses, etc.) meet the aforesaid conditions shall be recognized as estimated liabilities.



## (24) Income tax:

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 merger;
  - 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 merger; and
- 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' right.

The income taxes of the current period and deferred income tax of The Company shall be treated as income tax expenses or incomes, and shall be recorded into the current profits and losses, excluding the income taxes incurred under the following circumstances:

- a. The business merger; and
- 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 Statement:

Where the Company can exercise control over all subsidiaries, they shall be incorporated into the consolidated range.

Where the accounting policies adopted by the subsidiaries are in conflict with those of the parent company, the adjustment shall be made in accordance with the accounting policies of the parent company for consolidation.

As regards the subsidiaries to be acquired upon business merger under the same control, the revenues, expenses, profits and cash flows of the subsidiaries from the beginning of the current merging period to the end of report period shall be included in the consolidated profit statement and the consolidated cash flow statement.

As regards the subsidiaries to be acquired upon business merger under different control, the revenues, expenses, profits and cash flows of the subsidiaries from the merging date to the end of report period shall be included in the consolidated profit statement and the consolidated cash flow statement.

Where the current loss borne by the minority shareholders of the subsidiaries exceeds the shares enjoyed by the minority shareholders in the owner's equity of the subsidiaries, the balances thereof shall be respectively treated in the following circumstances:

- a. Where the articles of associations or agreement stipulate that the minority shareholders are obligated to undertake and are able to make up for the loss, the said balance shall be used

to offset the minority equity;

- b. Where the articles of associations or agreement do not stipulate that the minority shareholders are obligated to undertake the loss, the said balance shall be used to offset the owner's equity of the parent company. Before the profits of the subsidiaries in the subsequent periods have offset the loss undertaken by the owner's equity and belonging to the minority shareholders of the parent company, they shall attribute to the owner's equity of the parent company.

(26) Earnings per share :

Basic earnings per share

The Company shall calculate the basic earnings per share by dividing the net profits of the current period, which are attributable 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 issued to the public shall be calculated according to the following formulas:

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 the Company has any diluted potential ordinary shares, it shall respectively adjust the net profits of the current period, which are attributable to the shareholder of ordinary shares, and the weighted average number of ordinary shares issued to the public, and then calculates the diluted earnings per share on the adjusted results. To calculate the diluted earnings per share, the Company shall, according to the following items, adjust the net profits of the current period which are attributable to the shareholders of ordinary shares, and take the influence of the relevant income tax into consideration:

- a. The interests of the diluted potential ordinary shares which have been recognized as expenses in the current period;
- b. The gains or expenses to be brought about or to be incurred from the translation 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 dilution shall be taken into consideration when an enterprise promises that the price for the repurchase of its shares provided in the contract is higher than the average market price of the current period.

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, an enterprise shall recalculate the earnings per share in each presentation period 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 report segments based on the business segments or regional segments. The business segment means the dividable component available to provide a single or a group of products or labor services. This component has undertaken the risks and compensations different from those of other components. The regional segment means the dividable component available to provide the products or labor service within a given economic environment. This component has undertaken the risks and compensations different from those of other components that provide products and labor services within the other economic environments.

Where most incomes of business segment or regional segment belong to foreign transactions and satisfy one of the following conditions, the incomes shall be recognized as those of report segment.

- a. Segment income accounts for 10% or more of the total incomes.
- b. The absolute amount of segment profits (losses) accounts for 10% or more of absolute amounts of total segment profit amount or total segment loss amount, whichever is greater.
- c. The segment asset of this segment accounts for 10% or more of the total amount of all segment assets.

The Company shall determine the major report form or secondary report form based on the different risks and compensations to disclose the segment information.

Note 5 Significant Accounting Error Corrections at Early Stages

1. In July 2008, Shenzhen Financial Supervision Office of Ministry of Finance inspected the accounting information quality of the Company for the year of 2007, and issued the CZSJ [2008] No. 31 *Administrative Penalty Decision* based on the conclusions. In light of the examination conclusion and treatment decision, the Company has made correction on the accounting errors for the year of 2007 as presented in the conclusions, and conducted accounting treatment for the significant accounting errors by means of Retrospective Restatement when preparing the comparative statements for the year of 2008. The detailed information and influences concerning significant accounting errors are as follows:

1) With a view to avoiding the risk of fluctuation in exchange, the Company went through the formalities of pledging fixed deposit to secure the NDF portfolio business of US dollars loan at the bank in the year of 2007. In consideration of not-well understanding about the new standards, the Company carried out the recognition and measurement against the said business in accordance with the *Accounting Standard for Business Enterprises No. 24-Hedging* in the year of 2007. According to the conclusions, the said event does not conform to the regulations as specified in Article 16 of *Accounting Standard for Business Enterprises No. 24-Hedging*, Article 2 of Application Guidelines, and the (Fifth) Paragraph of Article 26 of *Accounting Law of the People's Republic of China*. As adjusted by the Company, the business in the current year has been recognized and measured in accordance with the *Accounting Standard for Business Enterprises No. 22-Recognition and Measurement of Financial Instrument* and the restatements have been made for the financial statements for the year of 2007 by means of Retrospective Restatement. Influenced by the said incorrect understanding on the new accounting standard, by the year ended on December 31, 2007, the monetary funds are increased by RMB ¥1,032,235,139.55, the interests receivable are increased by RMB ¥12,477,951.79, the arbitrated items are reduced by RMB ¥1,222,806.47, the arbitrage instruments are reduced by RMB ¥8,293,387.77, the short-term loans are increased by RMB ¥1,259,269,907.72, the tradable financial liabilities are increased by RMB ¥40,089,820.00, the interests payable are increased by RMB ¥22,356,752.51, the capital reserves are reduced by RMB ¥8,293,387.77, the financial costs are reduced by RMB ¥25,801,224.64, the earnings from changes in fair value are reduced by RMB ¥-17,249,624.92. The aforementioned events have exerted its influence on the net profits for the year of 2007, amounting to RMB ¥8,551,599.72 and the undistributed profits, amounting to RMB ¥8,551,599.72.

2) In the year of 2007, the Company made the retroactive adjustment in the long-term equity investment costs for the subsidiaries in accordance with the *Accounting Standards for Enterprises*. As shown in the conclusions, the initial investment costs of Dongguan Konka Electronic Co., Ltd. were overcounted by RMB ¥12,982,156.25, and the initial investment cost of Shenzhen Konka Household Appliances Co., Ltd. were undercounted by RMB ¥1,074,221.97, which has caused the parent company to overcount the beginning retained earnings by RMB ¥11,907,934.28. Under the influence of retroactive investment,

when preparing the financial statements for the year of 2008, the Company has adjusted the comparative data of the parent company for the year of 2007, reduced the long-term investment by RMB ¥ 11,907,934.28 and increased the undistributed by RMB ¥ 11,907,934.28.

3) In the end of 2007, the subsidiaries of the Company-Shenzhen Konka Information Network Co., Ltd. and Shenzhen Konka Household Appliances Co., Ltd. had negative net assets, which caused the Company to undercount the assets depreciation reserves by RMB ¥ 33,232,484.69. According to the conclusions, the Company fails to withdraw the assets depreciation reserves in accordance with the regulations as specified in the *Accounting Standard for Business Enterprises No. 8--Assets Depreciation*. Affected by it, in preparing the financial statements for the year of 2008, the Company has adjusted for the comparative data of the parent company for the year of 2007, increased the long-term equity investment depreciation reserves by RMB ¥ 33,232,484.69 and reduced the undistributed profits by RMB ¥ 33,232,484.69.

2. In the year of 2007, the Company, in accordance with the *Accounting Standards for Enterprises*, made the retroactive adjustment on the long-term equity investment for the subsidiaries. Against the fact that the investment costs for Chongqing Qingjia Electronic Co., Ltd. are overcounted by RMB ¥ 3,000,000.00, and the investment costs for KONKA AMERICA, INC. Konka (Pacific) Electronic Co., Ltd. are overcounted by RMB ¥ 17,706,170.72, the Company, when preparing the financial statements for the year of 2008, has made the adjustment for the comparative data of the parent company for the year of 2007, reduced the long-term equity investment by RMB ¥ 20,706,170.72 and increased the undistributed profits by RMB ¥ 20,706,170.72.

3. Influenced by the timing difference of final settlement of business income tax, for the Company, the difference between the income tax payable after the final settlement of business income tax and the carrying amount of current income tax was RMB ¥ -3,682,204.87 in the year of 2006, and the difference between the income tax payable after the final settlement of business income tax and the carrying amount of current income tax was RMB ¥ 10,658,353.30 for the year of 2007. In order to make the final settlement of business income tax payable identical with the carrying amount of income tax, the Company has made the retroactive adjustment for the financial statements for the year of 2007 to increase the tax payable-business income tax expenses by RMB ¥ 6,976,148.43, and increase the income tax expenses for the year of 2007 by RMB 10,658,353.30. The aforementioned events has influenced the net profit amounting to RMB ¥ 10,658,353.30, the tax payable amounting to RMB ¥ 6,976,148.43, the income tax expenses amounting to RMB ¥ 10,658,353.30, and the undistributed profit amounting to RMB ¥ 6,976,148.43 for the year of 2007.

4. In accordance with the regulations as specified in the *Business Standard for Enterprises No. 38-Initial Implementation of Accounting Standards for Enterprises*, the land tenancy that has been recorded in construction work in progress and fixed assets prior to the initial implementation date, eligible for the standard of intangible assets shall be recognized as the intangible assets, and shall be reclassified on the initial implementation date. The segments ascribing to the land tenancy shall be separated from the accounting values, be taken as the recognized costs of land tenancy, and be treated subject to the regulations of intangible assets standards. According to the above regulations, the Company has made adjustment for the land tenancy calculated subject to the fixed assets, and made restatement for the financial statements for the year of 2007. Under influence of the said reclassification, the intangible assets have been increased by RMB ¥ 16,070,982.37, and the fixed assets have been reduced by RMB ¥ 16,070,982.37.

The influences of aforesaid adjustment on the Comparative Financial Statements 2007 of the parent company of the Company are as follows

Items	Adjusted	Unadjusted	Adjustment
Monetary fund	1,408,031,605.07	556,082,988.52	851,948,616.55
Tradable Financial Assets	22,840,195.08	---	22,840,195.08
Notes receivable	2,795,341,615.11	2,531,404,015.11	263,937,600.00
Interest receivable	10,408,705.86	---	10,408,705.86
Arbitrage project	---	1,268,883.47	(1,268,883.47)
Arbitrage tool	---	6,945,398.81	(6,945,398.81)
Long-term equity investment	758,072,537.19	823,919,126.88	(65,846,589.69)
Short-term loans	1,084,909,105.72	---	1,084,909,105.72
Transaction financial liabilities	34,738,640.00	---	34,738,640.00

Tax payable	42,471,363.43	35,495,215.00	6,976,148.43
Interest payable	18,806,676.01	---	18,806,676.01
Capital surplus	1,869,357,278.29	1,876,302,677.10	(6,945,398.81)
Financial expenses	3,429,346.76	24,739,603.97	(21,310,257.21)
Sound value flexible loss and profit	(11,898,444.92)	---	(11,898,444.92)
Income tax expense	25,989,601.39	15,331,248.09	10,658,353.30
Net profit	238,115,008.75	239,361,549.76	(1,246,541.01)
Undistributed profits	379,887,701.30	443,298,627.13	(63,410,925.83)

The influences of the above adjustment on the Consolidated Financial Statements of the Company for the year of 2007 are as follows:

Report Item	Adjusted	Unadjusted	Adjustment
Monetary fund	1,784,793,554.02	752,558,414.47	1,032,235,139.55
Tradeable Financial Assets	22,840,195.08	---	22,840,195.08
Notes receivable	2,916,377,359.85	2,652,439,759.85	263,937,600.00
Interest receivable	12,477,951.79	---	12,477,951.79
Arbitrage project	---	1,222,806.47	(1,222,806.47)
Arbitrage tool	---	8,293,387.77	(8,293,387.77)
Fixed assets	1,275,584,101.48	1,291,655,083.85	(16,070,982.37)
Intangible assets	80,732,491.66	47,773,502.60	32,958,989.06
Short-term loans	1,281,269,907.72	22,000,000.00	1,259,269,907.72
Transaction financial liabilities	40,089,820.00	---	40,089,820.00
Tax payable	16,023,708.56	9,047,560.13	6,976,148.43
Interest payable	22,422,410.53	65,658.02	22,356,752.51
Capital surplus	1,876,606,062.32	1,884,899,450.09	(8,293,387.77)
Financial expenses	15,050,936.06	40,852,160.70	(25,801,224.64)
Sound value flexible loss and profit	(17,249,624.92)	---	(17,249,624.92)
Income tax expense	44,526,238.06	33,867,884.76	10,658,353.30
Net profit	211,924,146.49	214,030,900.07	(2,106,753.58)
Undistributed profits	273,047,084.22	271,471,632.93	1,575,451.29

Note 6. Tax

(1) The main tax categories and tax rates applicable to the company are as follows:

Tax Item	Tax Base	Tax Rate
Value-added tax	Income from commodity sales	17%
Business tax	Income from general labor service and income from immovable property	5%
Urban maintenance and construction tax	Paid VAT and business tax	Subject to the tax regulations of the place where each tax unit is located
Educational Surtax	Paid VAT and business tax	Subject to the tax regulations of the place where each tax unit is located
Corporate income tax	Income tax payable	In the year of 2008, 18% for the companies incorporated in Shenzhen; 25% for the companies incorporated in other places; 17.5% for the companies incorporated in Hong Kong.

(2) Tax preference and approved document

\*According to the *Interim Measures for the Administration of Collection of Business Income Tax for Trans-regional Business Operations*, where a resident enterprise sets up a business institution or establishment without the qualification of legal person across the regions within the territory of China, this resident enterprise shall be a consolidated taxpayer enterprise, and shall be governed by the administrative measures for enterprise income tax, namely "uniform calculation,

level-by-level administration, pre-payment in place, consolidated settlement, and transfer to treasury". These measures shall be implemented as from the date of January 1, 2008.

In accordance with the measures mentioned above, the sales branches of the Company in all parts of the country shall, as from the date of January 1, 2008, prepay the business income tax, and the Company shall make the uniform settlement in the yearend.

On December 16, 2008, the wholly-owned subsidiary of the Company-Shenzhen Konka Telecommunications Technology Co., Ltd. obtained the Certificate of High-Tech Enterprise jointly issued by Shenzhen Bureau of Science Technology & Information, Shenzhen Financial Bureau, Shenzhen Municipal State Taxation Bureau, and Shenzhen Municipal Local Taxation Bureau, valid for three years. In light of the relevant tax regulations, Shenzhen Konka Telecommunications Technology Co., Ltd. would be entitled to the relevant preferential policies concerning the hi-tech enterprise for three years in succession, and be levied the business income tax at the preferential tariff of 15%. On April 21, 2009, the reduction and exemption that Shenzhen Konka Telecommunications Technology Co., Ltd. is levied the business income at the reduced rate of 15% has been kept on records by Nanshan Local Taxation, Shenzhen.

Note 7. Items Notes to Major Financial Statements (the data mentioned below shall be referred to as consolidated data unless otherwise specified)

Note 1. Monetary Funds

Category	Currency	Original Currency Amount	Translated Exchange Rate	Ending	Beginning
Cash	RMB	10,028.46	1.00	10,028.46	9,687.06
	HKD	366.67	0.88	323.29	180.64
	USD	6.53	6.83	44.60	289.40
	EUR	---	9.66	---	92.52
Sub-total				10,396.35	10,249.62
Bank deposit	RMB	730,184,096.80	1.00	730,184,096.80	353,554,252.93
	HKD	18,782,416.22	0.88	16,580,634.12	10,470,145.70
	USD	12,919,282.50	6.83	88,294,678.57	377,765,401.64
	GBP	1.32	9.86	13.01	19.16
	CAD	310,491.74	5.60	1,740,032.23	8,208,567.32
	JPY	6,572,519.00	0.08	497,062.47	1,896,299.49
	EUR	74,163.27	9.66	716,353.76	653,478.61
Subtotal				838,012,870.96	752,548,164.85
Other monetary fund	RMB	1,228,229,226.77	1.00	1,228,229,226.77	1,032,235,139.55
Subtotal				1,228,229,226.77	1,032,235,139.55
Total				2,066,252,494.08	1,784,793,554.02

\* As compared with the beginning balance of monetary funds, the ending balance of the monetary funds is increased by RMB ¥281,458,940.06, up 15.77%, mainly attributable to increase in sales amount; the sale refunds of available-for-sale financial assets in the current period increase in bill receivable discounted; increase in the current borrowings.

\*\*The ending balances of other monetary funds amounting to RMB ¥1,221,225,627.02 shall be pledged to secure NDF US dollars loan, and RMB ¥7,003,599.75 shall be taken as the guarantee fund of bank's acceptance bill.

\*\*\*\*\*The cash as listed in the Statements of Cash Flow shall include: December 31, 2008

Item	Amount
Monetary fund	2,066,252,494.08
Less: Restricted hypothecated deposit	1,221,225,627.02

Cash balance for the year ended on December 31, 2008	845,026,867.06
Add : Cash balance for the year of December 31, 2007	752,558,414.47
Net increase cash equivalents	92,468,452.59

## Note 2 Notes Receivable

Category	Ending	Beginning
Letter of credit	---	9,019,114.31
Banker ' s acceptance bill	2,600,112,135.40	2,870,853,069.49
Commercial Acceptance Bill	2,750,000.00	36,505,176.05
Total	2,602,862,135.40	2,916,377,359.85

\*The bill balance in the ending bills receivable in pledge shall be RMB ¥1,476,011,710.60, of which RMB ¥1,475,422,249.65 shall be pledged to secure the line of credit of Bank of China.

\*\*As compared with beginning balance of bills receivable, the ending balance in bills receivable is reduced by RMB ¥313,515,224.45, down 10.75%, mainly attributable to increase in current funds to satisfy the needs of day-to-day operations for cash. The bill receivable discounted is increased in the current period.

## Note 3 Accounts Receivable

(1) The consolidated data of accounts receivable is listed as follows:

a. The risk-based portfolio analysis is made on the ending balance of accounts receivable as follows:

Category	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amounts significant	438,800,687.41	28.76	8,776,013.75	167,558,979.26	13.70	3,351,179.59
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	169,741,255.65	11.13	159,610,940.00	162,298,959.60	13.27	157,842,894.18
III Other insignificant	916,499,935.74	60.11	30,393,608.51	893,133,049.27	73.03	21,613,994.83
Total	1,525,041,878.80	100	198,780,562.26	1,222,990,988.13	100	182,808,068.60
Total amount of top 5	409,470,498.40	26.85	8,189,409.97	167,558,979.26	13.70	3,351,179.59
Account receivable amount occupied by affiliated parties	19,859,002.24	1.30	396,374.24	3,437,512.00	0.28	---

\* Recognition basis of accounts receivable with significant individual amount: the account receivable with ending balance greater than RMB ¥20,000,000.

\*\* The recognition basis of the account receivables with insignificant single amount but with a greater risk after portfolio on the credit risk basis: the account receivable with the age of three or more.

\*\*\* In the ending balance of account receivable, there is no account that the Company owes to the shareholders who hold the shares of 5% or more ;

\*\*\*\* As compared with the beginning balance of accounts receivable, the ending balance is increased by RMB ¥302,050,890.67, up 24.70%, mainly attributable to increase in customer payment for goods;

\*\*\*\*\*Due to litigation, bankruptcy and other reasons, it is hard to collect the payment from some customers, thereby the Company has withdrawn the special bad debt reserves based on 100% of account receivable.

\*\*\*\*\* As regards accounts receivable, the information about top 5 is as follows:

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Nanjing Purchasing Center, Suning Appliance Co., Ltd.	134,170,374.67	2%	Age within one year
Beijing Pangushi Investment Co.,	103,357,300.00	2%	Age within one year

Ltd.

Gansu Gome Logistics Co., Ltd.	84,635,754.26	2%	Age within one year
Shanghai Darunfa Co., Ltd.	45,511,967.36	2%	Age within one year
Nanning Gome Logistics Co., Ltd.	41,795,102.11	2%	Age within one year
<b>Total</b>	<b>409,470,498.40</b>		

b. The ending balance of account receivable is analyzed on the age basis:

Age	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
Within one year	1,310,854,747.33	85.96	29,894,646.94	1,010,854,314.47	82.65	20,217,086.29
From one year or more to two years or less	17,648,012.57	1.16	2,843,936.34	34,796,364.56	2.85	1,739,818.23
From two years or more to three years or less	26,797,863.25	1.75	6,431,038.98	15,041,349.50	1.23	3,008,269.90
Three years or more	169,741,255.65	11.13	159,610,940.00	162,298,959.60	13.27	157,842,894.18
<b>Total</b>	<b>1,525,041,878.80</b>	<b>100</b>	<b>198,780,562.26</b>	<b>1,222,990,988.13</b>	<b>100</b>	<b>182,808,068.60</b>

(2) Accounts receivables of companies are listed as follows:

a. The ending balance of accounts receivable is analyzed based on the risk portfolio:

Category	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amount significant	481,797,364.65	39.41	6,235,264.51	910,826,741.61	46.76	1,521,085.71
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	163,149,481.88	13.35	152,427,748.12	154,702,785.84	7.94	146,417,594.37
III. Others insignificant	577,364,766.21	47.24	16,016,392.74	882,524,301.31	45.30	15,966,205.26
<b>Total</b>	<b>1,222,311,612.74</b>	<b>100</b>	<b>174,679,405.37</b>	<b>1,948,053,828.76</b>	<b>100</b>	<b>163,904,885.34</b>
Total amount of top 5	436,699,982.50	35.73	6,122,263.97	834,772,456.07	42.85	---
Account receivable amount occupied by affiliated parties	191,264,046.41	15.65	396,374.24	1,080,685,275.82	55.48	---

\*\*\*\*\* As regards accounts receivable, the information about top 5 is as follows:

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Hongkong Konka Co.Ltd.	130,586,784.10	---	Associated Transfers
Suning Appliance Co.Ltd.	134,170,374.67	2%	Age within one year
Beijing Pangushi Investment Co.Ltd.	41,795,102.11	2%	Age within one year
Gansu Gome Logistics Co., Ltd.	84,635,754.26	2%	Age within one year



Shanghai Darunfa Co., Ltd.	45,511,967.36	2%	Age within one year
Total	436,699,982.50		

b. The ending balance of account receivable is analyzed on the age basis:

Age	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
Within one Year	1,031,908,073.16	84.42	17,233,996.34	1,751,825,578.22	89.93	13,562,806.05
From one year or more to two years or less	2,887,670.86	0.24	144,383.54	27,284,796.70	1.40	1,076,351.32
From two years or more to three years or less	24,366,386.84	1.99	4,873,277.37	14,240,668.00	0.73	2,848,133.60
Three years or more	163,149,481.88	13.35	152,427,748.12	154,702,785.84	7.94	146,417,594.37
Total	1,222,311,612.74	100	174,679,405.37	1,948,053,828.76	100	163,904,885.34

#### Note 4 Advance Payment

Age	Ending		Beginning	
	Amount	Proportion to Total Amount	Amount	Proportion to Total Amount
	RMB	%	RMB	%
Within one year	241,568,633.96	93.27	133,028,794.54	87.87
From one year or more to two years or less	545,713.77	0.21	12,054,951.47	7.96
From two years or more to three years or less	11,879,806.39	4.59	3,500,091.02	2.31
Three years or more	4,998,180.61	1.93	2,812,521.97	1.86
Total	258,992,334.73	100	151,396,359.00	100

As compared with the previous period, the advance payment in the current period is increased by RMB ¥107,595,975.73, up 71.07%, mainly attributable to the bigger increase in project funds prepaid by the subsidiaries.

#### Note 5 Other Accounts Receivable

(1) The consolidated data of other accounts receivables is listed as follows:

a. The ending balance of other accounts receivable is analyzed on the portfolio risk:

Category	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amount significant	---	---	---	82,259,363.87	55.74	---
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	18,140,475.47	19.47	9,367,264.16	32,849,354.23	22.26	13,017,086.73
III. Others insignificant	75,034,212.62	80.53	2,507,661.05	32,456,195.57	22.00	2,229,543.27
Total	93,174,688.09	100	11,874,925.21	147,564,913.67	100	15,246,630.00
Total amount of top 5	23,959,812.64	25.71	360,037.79	91,845,257.80	62.24	191,717.88
Account receivable amount occupied	3,388,543.73	3.64	1,359,305.46	47,273,217.94	32.04	---

by affiliated parties

\*\*\*\*\*As regards other accounts receivable, information about top 5 is as follows: :

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Shenzhen Chiyuan Industrial Co., Ltd.	8,762,955.44	2%	Age within one year
Shenzhen Shangyongtong Investment Development Co., Ltd.	5,957,923.38	---	Recoverable, bad debt reserve not withdrawn
Galaxy International Plaza	3,734,391.00	2%	Age within one year
Kongzhan Electron Co., Ltd.	2,834,777.82	2%	Age within one year
Sanqing Real Estate Co., Ltd	2,669,765.00	2%	Age within one year
Total	23,959,812.64		

As regards the accounts receivable with the significant single amount, the portfolio is recognized based on the account receivable with the ending balance greater than RMB ¥10,000,000.

As regards the account receivable that has the insignificant single amount but has a greater risk after portfolio, the portfolio is recognized based on the account receivable with the age of three years or more.

1. In the other accounts receivable, there is no account that the Company owes to the shareholders who hold the shares of 5% or more .

b. The ending balance of other accounts receivable is analyzed on the age basis.

Age	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
Within one year	67,899,080.81	72.87	1,410,568.36	81,349,412.89	55.13	1,626,988.26
From one year or more to two years or less	2,199,749.19	2.36	110,016.16	6,214,026.17	4.21	310,701.31
From two years or more to three years or less	4,935,382.62	5.30	987,076.53	1,459,268.51	0.99	291,853.70
Three years or more	18,140,475.47	19.47	9,367,264.16	58,542,206.10	39.67	13,017,086.73
Total	93,174,688.09	100.00	11,874,925.21	147,564,913.67	100.00	15,246,630.00

(2) As regards other accounts receivable, information of companies are listed as follows:

a. The ending balance of other accounts receivable is analyzed on the risk portfolio basis:

Category	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amount significant	982,718,174.28	90.94	---	82,259,363.87	62.65	---
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	20,926,212.94	1.94	8,888,078.42	31,797,590.31	24.22	12,074,001.20
III. Others insignificant	76,962,545.98	7.12	2,004,107.50	17,239,429.56	13.13	1,714,410.39
Total	1,080,806,933.20	100	10,892,185.92	131,296,383.74	100	13,788,411.59
Total amount of top 5	799,080,346.45	73.93	---	91,845,257.80	69.95	---

Account receivable amount occupied by affiliated parties	1,011,800,981.34	93.62	1,359,305.46	4,973,217.94	3.79	---
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Information about the accounts receivable with significant single amount is as follows:

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Video & Communication Systems Engineering Co., Ltd	372,132,173.00	---	Associated party
Shenzhen Konka Telecommunications Technology Co., Ltd.	110,426,697.56	---	Associated party
Dongguan Konka Electronic Co., Ltd.	144,284,365.82	---	Associated party
Dongguan Konka Moulding Co., Ltd.	124,314,490.07	---	Associated party
Shenzhen Konka Household Appliances Co., Ltd.	47,922,620.00	---	Associated party
Total	799,080,346.45		

b. The ending balance of other accounts receivable is analyzed on the age basis:

Age	Ending			Beginning		
	Amount	Proportion to Total Amount	Bad Debt Reserve	Amount	Proportion to Total Amount	Bad Debt Reserve
	RMB	%	RMB	RMB	%	RMB
Within one year	295,400,583.13	27.34	1,137,215.39	69,837,608.64	53.19	1,396,752.17
From one year or more to two years or less	187,434,930.02	17.34	43,072.15	3,173,389.14	2.41	158,669.46
From two years or more to three years or less	294,862,327.54	27.28	823,819.94	794,943.78	0.61	158,988.76
Three years or more	303,109,092.51	28.04	8,888,078.44	57,490,442.18	43.79	12,074,001.20
Total	1,080,806,933.20	100.00	10,892,185.92	131,296,383.74	100.00	13,788,411.59

#### Note 6 Inventory and Inventory Falling Price Reserves

(1) Details are listed as below:

Category	Ending		Beginning	
	Book Balance	Carrying Value	Book Balance	Carrying Value
Goods on hand	1,834,413,311.73	1,552,673,168.57	1,984,947,069.08	1,740,796,577.43
Raw materials	940,850,881.06	869,479,520.77	1,087,324,103.02	1,043,546,307.15
Turnover materials	10,641,253.45	10,450,515.63	5,090,415.95	5,090,415.95
Goods in transit	2,667,697.02	2,667,697.02	---	---
Goods in process	143,669,397.22	138,505,965.14	149,702,989.50	145,195,882.34
Goods in process				
Total	2,932,242,540.48	2,573,776,867.13	3,227,064,577.55	2,934,629,182.87

(2) Inventory falling price reserves

Inventory Falling Price	Beginning	Current Increase in Current Period	Current Decrease in Current Period	Ending
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Reserves			Carry-back	Amount transferred out due to other reasons	Total	
			amount because of picking up of assets value			
Goods on hand	244,150,491.65	37,720,433.95	---	130,782.44	130,782.44	281,740,143.16
Raw materials	43,777,795.87	27,691,518.00	---	97,953.58	97,953.58	71,371,360.29
Turnover materials	---	190,737.82	---	---	---	190,737.82
Goods in process	4,507,107.16	656,324.92	---	---	---	5,163,432.08
Total	292,435,394.68	66,259,014.69	---	228,736.02	228,736.02	358,465,673.35

## Note 9 Available-for-sale Financial Assets

Item	Ending	Beginning
1. Available-for-sale bonds	---	---
2. Available-for-sale equity instrument	---	---
3. Stock investment	9,756,649.50	60,721,570.37
Total	9,756,649.50	60,721,570.37

\* In the end of period, the Company has held \*ST Qiulin share and Vanke share, and the measurement change in ending fair value has been recorded in the capital reserves.

\* As compared with the beginning balance, the ending balance is reduced by RMB ¥50,964,920.87, down 83.93%, mainly attributable to the current sale of available-for-sale financial assets in the current period.

## Note 10 Long-term Equity Investments

(1) Details about long-term equity investment are listed as below:

Item	Ending			Beginning		
	Book Balance	Depreciation Reserve	Carrying Value	Book Balance	Depreciation Reserve	Carrying Value
Long-term equity investment						
Including: investment for affiliated companies	23,010,338.75	1,400,000.00	21,610,338.75	23,700,374.30	1,400,000.00	22,300,374.30
Other equity investment	---	---	---	27,969,778.02	2,796,977.80	25,172,800.22
Other long-term investment	---	---	---	4,172,056.01	---	4,172,056.01
Total	23,010,338.75	1,400,000.00	21,610,338.75	55,842,208.33	4,196,977.80	51,645,230.53

## a. Investment for affiliated companies

1. Equity investment calculated using equity method Equity investment calculated using equity method

Name of Invested Entity	Proportion	Initial Investment Cost	Beginning Balance	Increase (decrease) Investment	Increased/decreased Amount of Current Equity	Accumulative Increased/decreased Amount of Equity	Ending Balance
Shenzhen Konka Energy Technology Co., Ltd	30%	5,983,965.19	3,663,052.53	---	(13,324.45)	(2,334,237.11)	3,649,728.08
Shenzhen Dekon Electronics Co., Ltd	30%	3,000,000.00	7,137,424.83	---	---	4,137,424.83	7,137,424.83
Chongqing Jingkang Plastic Product Co., Ltd.	31.25%	3,750,000.00	3,014,896.94	---	(676,711.10)	(1,411,814.16)	2,338,185.84
Shenzhen Julong Optoelectronics Co., Ltd	20%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00

Total	14,733,965.19	15,815,374.30	---	(690,035.55)	391,373.56	15,125,338.75
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## II. Equity investment calculated at cost basis

Name of Invested Entity	Proportion in Invested Entity	Initial Investment Cost	Beginning Balance	Current Increase	Current Decrease	Ending Balance
Shenzhen Make-plan 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 Association of Enterprises with Foreign Investment	---	100,000.00	100,000.00	---	---	100,000.00
Shanlian Information Technology Project Co., Ltd	9.61525%	5,000,000.00	5,000,000.00	---	---	5,000,000.00
Shenzhen Zhongcailian Technology Co., Ltd *	10%	1,000,000.00	1,000,000.00	---	---	1,000,000.00
Total		7,885,000.00	7,885,000.00	---	---	7,885,000.00

### b. Other equity investment

Name of Invested Entity	Proportion	Initial Investment Cost	Beginning Balance	Increased (reduced) Investment	Increase/decrease Amount of Equity	Accumulative Increased/decreased Amount of Equity	Ending Balance
*Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd.	50%	27,969,778.02	27,969,778.02	27,969,778.02	---	---	---

\* In the year of 2006, the Company transferred its equity of Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd. at the price of RMB ¥28,000,000 to Aohong Holding Co., Ltd. and Shenzhen Aohua Investment Management Co., Ltd. In the current period, the formalities concerning the transfer and received the transfer payment Company has been handled.

### c. Information about the change in depreciation reserve

Name of Invested Entity	Beginning	Current Increase	Current Write-off	Ending
Feihong Electronics Co., Ltd.	1,300,000.00	---	---	1,300,000.00
Shenzhen Association of Enterprises with Foreign Investment	100,000.00	---	---	100,000.00
Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd.	2,796,977.80	---	2,796,977.80	---
Total	4,196,977.80	---	2,796,977.80	1,400,000.00

### d. Other long-term investment

Invested Entity	Beginning	Increase in Current Year	Decrease in Current Year	Ending Balance
Jingyuan Building	4,172,056.01	---	4,172,056.01	---
Sub-total	4,172,056.01	---	4,172,056.01	---

\*Basis

(2) As regards long-term investment company, the details are listed as below:

Item	Ending			Beginning		
	Book Balance	Depreciation Reserve	Carrying Value	Book Balance	Depreciation Reserve	Carrying Value
Long-term equity investment						
Including:						
Investment for subsidiaries	1,174,259,154.56	33,232,484.69	1,141,026,669.87	828,259,154.56	33,232,484.69	795,026,669.87
investment for affiliated companies	9,885,000.00	1,400,000.00	8,485,000.00	9,885,000.00	1,400,000.00	8,485,000.00
Other equity investment	---	---	---	27,969,778.02	2,796,977.80	25,172,800.22
Other long-term investment	---	---	---	4,172,056.01	---	4,172,056.01
<b>Total</b>	<b>1,184,144,154.56</b>	<b>34,632,484.69</b>	<b>1,149,511,669.87</b>	<b>870,285,988.59</b>	<b>37,429,462.49</b>	<b>832,856,526.10</b>

a. Investment for subsidiaries

Name of Invested Entity	Proportion in Invested Entity	Initial Investment Cost	Beginning Balance	Current Increase	Current Decrease	Ending Balance
Dongguan Konka Electronic Co., Ltd.	100%	274,783,988.91	274,783,988.91	---	---	274,783,988.91
Hong Kong Konka Co., Ltd.	100%	781,828.61	781,828.61	---	---	781,828.61
Shenzhen Konka Household Appliances Co., Ltd.	51%	10,732,484.69	10,732,484.69	---	---	10,732,484.69
Shenzhen Shushida Electronic Co., Ltd.	75%	31,500,000.00	31,500,000.00	---	---	31,500,000.00
Shenzhen Konka Telecommunications Technology Co., Ltd.	75%	90,000,000.00	90,000,000.00	---	---	90,000,000.00
Anhui Konka Electronic Co., Ltd.	78%	122,780,937.98	122,780,937.98	---	---	122,780,937.98
Chongqing Qingjia Electronic Co., Ltd.	30%	4,500,000.00	4,500,000.00	---	4,500,000.00	---
Mudanjiang Konka Industry Co., Ltd.	60%	36,000,000.00	36,000,000.00	---	---	36,000,000.00
Chongqi Konka Electronic Co., Ltd.	60%	27,000,000.00	27,000,000.00	---	---	27,000,000.00
Shenzhen Konka Plastic Manufacture Co., Ltd.	49%	4,655,000.00	4,655,000.00	---	---	4,655,000.00
Shaanxi Konka Electronic Co., Ltd.	45%	44,869,809.80	44,869,809.80	---	---	44,869,809.80
Shenzhen Konka Video & Communication Engineering Co., Ltd.	60%	9,000,000.00	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 Automotive Electronic 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 Household Appliances Co., Ltd.	92.97%	74,981,122.07	74,981,122.07	---	---	74,981,122.07
Shenzhen Electron Fittings Technology Co., Ltd.	75%	48,750,000.00	48,750,000.00	---	---	48,750,000.00
Konka (Europe) Electronic Co., Ltd.	100%	261,482.50	261,482.50	---	---	261,482.50
Konka (Nanhai) Development Center	100%	500,000.00	---	500,000.00	---	500,000.00
Kunshan Konka Electronic Co., Ltd.	100%	350,000,000.00	---	350,000,000.00	---	350,000,000.00

Total	1,178,759,154.56	828,259,154.56	350,500,000.00	4,500,000.00	1,174,259,154.56
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## b. Investment for affiliated enterprises

## I. Equity investment calculated using equity method

Name of Invested Entity	Proportion	Initial Investment Cost	Beginning Balance	Increased (reduced) Investment	Increased/decreased Amount of Current Equity	Accumulative Increased/decreased Amount of Equity	Ending Balance
Shenzhen Julong Optoelectronics Co., Ltd	20%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00

## II. Equity investment calculated at cost basis.

Name of Invested Entity	Proportion in Invested Entity	Initial Investment Cost	Beginning Balance	Current Increase	Current Decrease	Ending Balance
Shenzhen Make-plan 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 Association of Enterprises with Foreign Investment.	---	100,000.00	100,000.00	---	---	100,000.00
Shanlian Information Technology Project Co., Ltd	9.62%	5,000,000.00	5,000,000.00	---	---	5,000,000.00
Shenzhen Zhongcailian Technology Co., Ltd *	10%	1,000,000.00	1,000,000.00	---	---	1,000,000.00
Total		7,885,000.00	7,885,000.00	---	---	7,885,000.00

## b. Other equity investment

Name of Invested Entity	Proportion	Initial Investment Cost	Beginning Balance	Increased (reduced) Investment	Increase/decrease Amount of Equity	Accumulative Increased/decreased Amount of Equity	Ending Balance
Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd.	50%	27,969,778.02	27,969,778.02	27,969,778.02	---	---	---

## c. Information about the change in depreciation reserve

Name of Invested Entity	Beginning	Current Increase	Current Write-off	Ending
Feihong Electronics Co., Ltd.	1,300,000.00	---	---	1,300,000.00
Shenzhen Association of Enterprises with Foreign Investment.	100,000.00	---	---	100,000.00
Guangzhou Huadou Longfeng Jianzhi Real Estate Co., Ltd.	2,796,977.80	---	2,796,977.80	---
Shenzhen Konka Information Network Co., Ltd.	10,732,484.69	---	---	10,732,484.69
Shenzhen Konka Household Appliances Co., Ltd.	22,500,000.00	---	---	22,500,000.00
Total	37,429,462.49	---	2,796,977.80	34,632,484.69

## d. Other long-term investment

Invested Entity	Beginning	Current Increase	Current Decrease	Ending Balance
Jingyuan Building	4,172,056.01	---	4,172,056.01	---
Sub-total	4,172,056.01	---	4,172,056.01	---

## Note 11. Fixed Assets and Accumulated Depreciation

Original Value of Fixed Assets	Beginning Balance	Current Increase	Current Decrease	Ending Balance
House and Building	938,947,860.93	141,940,016.97	2,111,845.34	1,078,776,032.56
Machinery equipment	1,078,272,406.59	33,720,243.74	41,140,902.86	1,070,851,747.47
Electronic equipment	304,810,059.70	18,827,689.83	20,735,962.49	302,901,787.04
Transportation equipment	64,460,959.39	5,878,261.52	9,371,627.97	60,967,592.94
Other equipment	186,392,537.48	10,130,714.80	7,034,195.94	189,489,056.35
<b>Total</b>	<b>2,572,883,824.09</b>	<b>210,496,926.86</b>	<b>80,394,534.60</b>	<b>2,702,986,216.35</b>

Accumulated Depreciation	Beginning Balance	Current Increase	Current Decrease	Ending Balance
House and Building	212,432,506.78	25,338,388.04	157,281.71	237,613,613.11
Machinery equipment	677,595,303.24	60,786,603.70	39,706,960.45	698,674,946.49
Electronic equipment	221,262,736.64	22,338,676.34	11,747,209.00	231,854,203.97
Transportation equipment	41,968,649.61	6,326,778.39	8,209,204.73	40,086,223.28
Other equipment	135,754,492.25	12,840,206.35	6,301,401.35	142,293,297.25
<b>Total</b>	<b>1,289,013,688.52</b>	<b>127,630,652.82</b>	<b>66,122,057.24</b>	<b>1,350,522,284.10</b>

Depreciation Reserve	Beginning Balance	Current Increase	Current Decrease	Ending Balance
House and Building	1,247,805.91	---	---	1,247,805.91
Machinery equipment	4,270,167.58	---	---	4,270,167.58
Electronic equipment	554,364.05	---	---	554,364.05
Transportation equipment	863,868.59	---	---	863,868.59
Other equipment	1,349,827.96	---	---	1,349,827.96
<b>Total</b>	<b>8,286,034.09</b>	<b>---</b>	<b>---</b>	<b>8,286,034.09</b>

Carrying Value	Beginning Balance	Ending Balance
House and Building	725,267,548.24	839,914,613.54
Machinery equipment	396,406,935.77	367,906,633.40
Electronic equipment	82,992,959.01	70,493,219.02
Transportation equipment	21,628,441.19	20,017,501.07
Other equipment	49,288,217.27	45,845,931.13
<b>Total</b>	<b>1,275,584,101.48</b>	<b>1,344,177,898.16</b>

\*Construction work in progress amounting to RMB ¥67,922,627.54 is transferred to the increased amount of fixed assets in the current period.

\*\*The original value amounting to RMB ¥283,352,726.15 and the net value amounting to RMB ¥230,306,230.14 in the ending amount of fixed assets has been mortgaged to secure the bank loan or been pledged to secure the credit line of the Company.

Note 12. Construction Work in Progress



Name of Project	Budget Amount	Beginning Balance	Current Increase Amount	Current Amount Transferred to Fixed Assets	Current Amount of Other Decreases	Ending Amounting	Source
HDMI Cable		11,092,094.57	---	9,603,594.57	---	1,488,500.00	Self-raised
Presale flat panel maintenance cable	5,289,400	5,659,337.52	47,754.00	5,410,538.49	---	296,553.03	Self-raised
HDMI cable workshop project	17,697,600	23,467,627.73	21,691,393.00	42,538,700.85	---	2,620,319.88	Self-raised
Guankang LCM15-32 "module test wire"	567,000,000	178,190.00	15,070,550.83	---	---	15,247,772.83	Self-raised
Purification project for Guankang LCM test wire		4,633,855.93	9,930,363.17	7,703,413.63	192,800.00	6,668,005.47	Self-raised
Purchase of SMT equipment as an agent	16,790,000	17,584.00	2,998,251.90	2,666,380.00	---	349,455.90	Self-raised
消防水池 Fire reservoir		---	659,406.00	---	---	659,406.00	Self-raised
Appointed Personnel Dormitory Building		---	1,600.00	---	---	1,600.00	Self-raised
Total		45,048,689.75	50,399,318.90	67,922,627.54	193,768.00	27,331,613.11	

## Note 13 Intangible Assets

Item	Beginning Balance	Current Increase	Current Decrease	Ending Balance
I. Total original price	116,645,957.26	948,490.51	5,185,738.51	112,408,709.26
1. Land tenancy	76,408,883.13	---	5,185,738.51	71,223,144.62
2. Foreign trademark registration expenses	2,782,039.61	255,260.00	---	3,037,299.61
3. Patent and know-how	31,229,035.46	479,508.28	---	31,708,543.74
4. Others	6,225,999.06	213,722.23	---	6,439,721.29
II. Accumulated amortization amount	33,012,382.99	7,854,943.33	583,599.27	40,283,727.05
1. Land tenancy	10,769,908.90	1,884,631.58	583,599.27	12,070,941.21
2. Foreign trademark registration expenses	2,173,727.48	200,976.92	---	2,374,704.40
3. Patent and know-how	17,458,801.89	4,522,340.32	---	21,981,142.21
4. Other	2,609,944.72	1,246,994.51	---	3,856,939.23
III. Accumulated total amount of intangible assets depreciation reserve	2,901,082.61	---	---	2,901,082.61
1. Land tenancy	---	---	---	---
2. Foreign trademark registration expenses	---	---	---	---
3. Patent and know-how	2,901,082.61	---	---	2,901,082.61
4. Other	---	---	---	---
IV. Total carrying value of intangible assets	80,732,491.66			69,223,899.60
1. Land tenancy	65,638,974.23			59,152,203.41

2. Foreign trademark registration expenses	608,312.13	662,595.21
3. Patent and know-how	10,869,150.96	6,826,318.92
4. Other	3,616,054.34	2,582,782.06

\*\* Of the ending amount of intangible assets, RMB ¥11,340,692.89 has been mortgaged to secure the bank loan.

## Note 14. Goodwill

Item	Goodwill Source	Beginning Value	Carrying	Current Increase	Current Decrease	Ending Carrying Value
Acquisition of equity of subsidiaries		3,943,671.53		---	---	3,943,671.53
Total		3,943,671.53		---	---	3,943,671.53

## Note 15. Long-term Deferred Expenses

Category	Beginning Balance	Current Increase	Current Amortization	Ending Balance
Decoration	6,780,000.07	4,511,340.32	3,078,548.03	8,212,792.36
Shope	2,275,320.73	470,730.00	1,877,818.21	868,232.52
Software license	2,369,963.72	57,200.00	642,157.40	1,785,006.32
Other	4,851,328.51	5,049,117.98	7,915,383.08	1,985,063.41
Development platform expenses	6,890,267.24	817,475.30	2,168,612.47	5,539,130.07
Module expenses	682,758.60	98,324.34	179,972.11	601,110.83
Model machine	0.00	1,743,543.70	837,755.09	905,788.61
Total	23,849,638.87	12,747,731.64	16,326,636.59	19,897,124.12

## Note 16. Assets from Deferred Income Tax

Item	Ending	Beginning
● Bad debt reserve for accounts receivable	35,245,682.20	20,867,189.56
2. Bad debt reserve for other accounts receivable	2,186,070.69	---
3. Inventory falling price reserves	53,809,700.41	41,200,967.67
4. Tradable financial assets	311,019.71	---
5. Long-term equity investment	280,000.00	1,340,333.87
6. Others	161,070.00	---
Total	91,993,543.01	63,408,491.10

## Note 17. Assets Depreciation Reserve

Item	Beginning Balance	Current Withdrawn Amount	Current Decrease		Ending Balance
			Carryback	Write-off	
1. Bad debt reserve	198,054,698.60	15,452,159.77	2,851,370.90	---	210,655,487.47
2. Inventory falling price reserves	292,435,394.68	66,259,014.69	---	228,736.02	358,465,673.35
3. Depreciation Reserve long-term equity	4,196,977.80	---	---	2,796,977.80	1,400,000.00

investment reduction reserve					
4. Fixed assets depreciation reserves	8,286,034.09	---	---	---	8,286,034.09
5. Intangible assets depreciation reserve	2,901,082.61	---	---	---	2,901,082.61
Total	505,874,187.78	81,711,174.46	2,851,370.90	3,025,713.82	581,708,277.52

## Note 18. Short-term Loan

Type	Ending	Beginning
Credit loan	---	---
Mortgage loan*	11,500,000.00	22,000,000.00
Secured loan	1,197,352,457.29	1,259,269,907.72
Mortgaged loan	137,523,153.49	---
Total	1,346,375,610.78	1,281,269,907.72

## Note 19. Bills Payable

Category	Amount	Amount Due Within One Year
Letter of credit		
Banker's acceptance bill	2,637,681,947.36	2,637,681,947.36
Commercial Acceptance Bill		
Total	2,637,681,947.36	2,637,681,947.36

There is no account that the Company owes to the shareholders who hold the shares of 5% or more

## Note 20 Accounts Payable

Age	Ending		Beginning	
	Amount	Proportion to Total Amount	Amount	Proportion to Total Amount
	RMB	%	RMB	%
Within one year	1,514,983,692.13	96.39	792,746,958.59	79.60
From one year or more to two years or less	1,957,755.70	0.12	119,745,116.60	12.02
From two years or more to three years or less	14,876,183.29	0.95	34,429,950.43	3.46
Three years or more	39,943,710.86	2.54	48,975,115.90	4.92
Total	1,571,761,341.98	100.00	995,897,141.52	100.00

There is no account that the company owes to the shareholders who hold 5% or more of voting right.

## Note 21. Advance Receipts

In the ending balance amounting to RMB ¥179,376,510.50, there is no account that the Company owes to the shareholders (holding 5% or more).

As compared with the beginning balance of advance receipts, the ending balance of advance receipts is reduced by RMB ¥43,912,921.46, down 19.67%, mainly attributable to reduce in advance receipts arising from the current-year delivery settlement of beginning accounts receivable.

## Note 22. Staff Remuneration Payables

Items	Beginning Balance	Current Amount Incurred	Current Payment	Ending Balance
I. Wages, bonuses, allowances and subsidies	125,691,597.19	739,778,507.37	734,572,081.37	130,898,023.19

II. Welfare expenses for staffs	8,835,387.21	50,251,906.68	50,662,677.69	8,424,616.20
III. Social insurances	16,860,679.74	106,801,377.13	106,715,675.10	16,946,381.77
IV. Housing accumulation fund	1,176,999.39	4,954,332.73	4,660,103.90	1,471,228.22
. Staff education expenses and labor union expenses	7,986,144.26	10,519,871.98	11,864,951.89	6,641,064.35
. Non-monetary welfares	---	---	---	---
.Compensations for the cancellation of the labor relationship	292,800.00	12,277,761.54	11,355,353.74	1,215,207.80
.Others	1,946,972.04	13,948,023.73	12,653,022.34	3,241,973.43
Including: share-based payment settled in cash	---	---	---	---
<b>Total</b>	<b>162,790,579.83</b>	<b>938,531,781.16</b>	<b>932,483,866.03</b>	<b>168,838,494.96</b>

- The ending balance of staff welfare expenses shall be the staff welfare and bonus funds withdrawn by the foreign-invested enterprises based on 5% of after-tax profits.

#### Note 23. Tax Payable

Tax	Ending	Beginning
Value added tax payable	(4,626,297.30)	(21,074,351.68)
Sales tax	587,222.55	4,188,251.14
City maintenance and construction tax	314,342.02	188,474.56
Corporate income tax	16,615,583.47	27,593,756.63
Individual income tax	521,258.50	4,833,428.17
Educational Surtax	151,855.59	40,234.03
Other categories of tax	700,010.29	253,915.71
<b>Total</b>	<b>14,263,975.12</b>	<b>16,023,708.56</b>

#### Note 24. Other Accounts Payable

Age	Ending		Beginning	
	Amount	Proportion in Total Amount	Amount	Proportion in Total Amount
	RMB	%	RMB	%
Within one year	484,899,369.33	91.92	535,095,938.80	85.40
From one year or more to two years or less	16,383,775.50	3.11	62,847,219.43	10.03
From two years or more to three years or less	6,771,149.02	1.28	14,192,128.27	2.27
Three years or more	19,480,942.46	3.69	14,412,773.45	2.30
<b>Total</b>	<b>527,535,236.31</b>	<b>100.00%</b>	<b>626,548,059.95</b>	<b>100.00</b>

#### Note 25. Deferred Incomes

Category	Ending Balance	Beginning Balance
Government' grant for pure flat color TV R&D project	2,932,899.19	3,292,899.19
Government' grant for LCD TV hi-tech industrialization demonstration project	581,583.33	997,000.00

Aid funds for key project of "Konka Logistics Information System" enterprise informatization	689,200.00	400,000.00
The fifth batch of industrial technical research and development	1,000,000.00	---
Foundation for scientific and technological innovation	36,000.00	88,206.98
Government's grant for industrialization project of conditional-access-separation digital television receiver	7,150,000.00	9,000,000.00
Government's grant for industrialization project of LCOS digital projector and LCOS projector	478,333.33	700,000.00
Special technical transformation funds for treasury bond	4,826,300.00	6,451,300.00
Financial funds of financial bureau for technical innovation project- electrojet control system	3,000,000.00	3,000,000.00
Project funds for supply chain management information system	1,500,000.00	1,500,000.00
IPv6 HDTV payment of infrastructure office of financial bureau	3,050,720.44	2,396,819.20
HDTV production line construction	1,600,000.00	2,000,000.00
Industrialization project of auto motor fuel electrojet control system	883,333.33	---
Industry funds for flat plate display 2008	7,000,000.00	---
Digital TV patent pool- technical service platform for digital audio/video generality R&D and industrialization for digital products to support network	1,000,000.00	---
	2,000,000.00	---
Innovative capability project of technical center	3,850,000.00	---
Research funds	1,000,000.00	---
IPv6-based multi-mode hand-hold and on-vehicle multimedia terminal	1,000,000.00	---
<b>Total</b>	<b>43,578,369.62</b>	<b>29,826,225.37</b>

## Note 26. Deferred Income Tax Liabilities

Item	Ending	Beginning
Change in fair value of available-for-sale financial assets	---	3,783,805.52
Others	563,067.21	---
<b>Total</b>	<b>563,067.21</b>	<b>3,783,805.52</b>

## Note 27. Equities

Item	Beginning	Current Increase (Decrease)					Ending	
		Rationed Shares Amount	Presented Shares Amount	Capital Reserves Transferred to Shares	Additio n al Issue	Others		
I. Uncirculated shares							I. Circulating shares with limited sales conditions	
1. Founder's shares	52,392,592.00	---	---	99,190,970.00	---	46,798,378.00	145,989,348.00	198,381,940.00

Including: shares held by the state	52,392,592.00	---	---	99,190,970.00	46,798,378.00	145,989,348.00	198,381,940.00
2. Non-founder 's shares	66,509,953.00	---	---	2,475.00	(66,506,194.00)	(66,503,719.00)	6,234.00
Including: shares held by domestic corporation	43,546,563.00	---	---	---	(43,546,563.00)	(43,546,563.00)	---
Shares held by foreign corporation	22,960,915.00	---	---	---	(22,960,915.00)	(22,960,915.00)	---
Shares held by domestic natural person	2,475.00	---	---	2,475.00	1,284.00	3,759.00	6,234.00
Uncirculated shares total	118,902,545.00	---	---	99,193,445.00	(19,707,816.00)	79,485,629.00	198,388,174.00
II. Circulated shares							II. Circulated without limited sales conditions
1. RMB ordinary shares listed within the territory	280,245,905.00	---	---	299,955,005.00	19,707,816.00	319,662,821.00	599,908,726.00
2. Foreign-capital shares within the territory	202,837,902.00	---	---	202,837,902.00	---	202,837,902.00	405,675,804.00
Circulated shares total	483,083,807.00	---	---	502,792,907.00	19,707,816.00	522,500,723.00	1,005,584,530.00
III. Total shares	601,986,352.00	---	---	601,986,352.00	---	601,986,352.00	1,203,972,704.00

\*The beginning equities have been verified by FYBZ [2000] No. B020 Capital Verification Report as made by Shenzhen Zhongtian Certified Public Accounts Co., Ltd.

\*\*The Company convened the seventh meeting of the six session of board, approving and adopting the following resolutions: With the total equity of 601,986,352 shares for the year ended on December 31, 2007 as the base, the equities translated from capital reserves are transferred to all shareholders at RMB¥1.00 per share translated from capital reserve. And the said resolution was adopted by the general meeting 2007 convened on May 26, 2008. The Company, in June 2008, implemented the capital reserves translated into equities and went through the formality of transfer at China Securities Depository and Clearing Corporation Limited. On December 16, 2008, upon approval of SMGZF[2008] No. 2662 document as issued by Shenzhen Bureau of Trade and Industry, the Company was agreed to increase equities, after which the increased equity has been verified and recognized by HDYZ[2009] No. 28 Capital Verification Report as made by Guandong Dahuadalu Certified Public Accountants Co., Ltd., and the formality for registration of changes were gone through at the administration for industry and commerce on April 10, 2009.

#### Note 28. Capital Reserves

Item	Beginning	Current Increase	Current Decrease	Ending
Capital stock premium	1,812,471,052.00	---	601,986,352.00	1,210,484,700.00
Other capital reserve	64,135,010.32	---	18,481,415.11	45,653,595.21
Total	1,876,606,062.32	---	620,467,767.11	1,256,138,295.21

\* For the main reasons of decrease in the capital reserves of the Company, please see Note 27.

#### Note 29. Surplus Reserves

Item	Beginning	Current Increase	Current Decrease	Ending
Legal surplus	527,608,154.79	23,173,319.38	---	550,781,474.17
Free surplus reserves	254,062,265.57	---	---	254,062,265.57
Total	781,670,420.36	23,173,319.38	---	804,843,739.74

#### Note 30. Retained Earnings

Item	Current	Previous
Beginning undistributed profit	273,047,084.22	126,609,918.56
Add: net profits ascribed to the shareholders of parent company	250,817,154.35	207,091,715.42
Add: Withdrawal of statutory surplus reserve	23,226,113.46	---
Withdrawal of staff welfares and bonus funds	---	455,914.56
Cash dividends	---	60,198,635.20
Ending undistributed profits	500,638,125.11	273,047,084.22

## Note 31. Business Incomes and Costs

(1) The details about business incomes and are listed as follows:

Item	Current		Previous	
	Business Incomes	Business Costs	Business Incomes	Business Costs
1. Main business incomes	12,053,777,961.07	9,784,857,255.39	12,064,636,273.80	9,743,937,332.52
2. Other business incomes	151,514,266.50	98,245,300.13	104,442,095.70	60,249,024.79
Total	12,205,292,227.57	9,883,102,555.52	12,169,078,369.50	9,804,186,357.31

(2) The proportion of total sales revenues of top 5 customers of the Company in the total sales revenues are listed as below:

	Current	Previous
Total amount of sales revenue top 5	1,207,196,090.63	2,271,344,890.88
Proportion in sales revenues	10.02%	18.83%

(3) Segment table of main business:

Business Item Categories	Current		Previous	
	Main business incomes	Main business costs Main business income cost	Main business incomes	Main business costs Main business cost
Color TV business	9,086,606,394.25	7,366,438,167.83	9,613,960,868.34	7,646,229,399.76
Cell phone business	1,261,919,603.31	1,107,801,233.12	1,602,803,486.87	1,303,005,276.31
Other businesses	1,705,251,963.51	1,310,617,854.44	847,871,918.59	794,702,656.45
Total	12,053,777,961.07	9,784,857,255.39	12,064,636,273.80	9,743,937,332.52

(4) Regional segments table of main business:

Regions	Current		Previous	
	Main business incomes	Main business costs	Main business incomes	Main business costs
Domestic sales	12,258,985,776.13	10,118,807,103.77	10,778,767,660.44	8,549,810,201.24
Overseas sales	3,048,590,309.79	2,941,045,798.35	2,286,824,485.76	2,195,083,003.68
Subtotal	15,307,576,085.92	13,059,852,902.12	13,065,592,146.20	10,744,893,204.92

Mutual offsetting among segments of the Company in all regions	(3,253,798,124.85)	(3,274,995,646.73)	(1,000,955,872.40)	(1,000,955,872.40)
Total	12,053,777,961.07	9,784,857,255.39	12,064,636,273.80	9,743,937,332.52

As compared with that in the previous period, the main business incomes in the current period is reduced by RMB ¥10,858,312.73, down 0.09%, mainly attributable to the decrease in color TV export sales revenues

(5) Other business items :

Other Business Categories	Current			Previous		
	Other business incomes	Other business costs	Profit	Other business incomes	Other business costs	Profits
Material transfer	104,134,014.70	81,282,718.83	22,851,295.87	75,472,203.90	52,215,072.65	23,257,131.25
Incomes from wastes sales	13,613,608.81	2,874,285.30	10,739,323.51	18,912,872.51	2,508,297.41	16,404,575.10
Others	33,766,642.99	14,088,296.00	19,678,346.99	10,057,019.29	5,525,654.73	4,531,364.56
Total	151,514,266.50	98,245,300.13	53,268,966.37	104,442,095.70	60,249,024.79	44,193,070.91

The details about business incomes and costs are

listed as follows:

(1) Business incomes and costs are listed as follows :

Item	Current		Previous	
	Business incomes	Business costs	Business incomes	Business costs
1. Main business incomes	10,078,496,651.42	8,282,408,864.09	9,844,288,505.64	8,096,289,046.63
2. Other business incomes	326,262,604.26	295,962,027.13	292,154,327.82	253,143,793.87
Total	10,404,759,255.68	8,578,370,891.22	10,136,442,833.46	8,349,432,840.50

(2) The proportion of total sales revenues of top 5 customers of the Company in the total sales revenues are listed as below:

	Current	Previous
Total amount of sales revenue top 5	1,764,765,774.51	2,271,344,890.88
Proportion in sales revenues	17.51%	23.07%

(3) Segment table of main business :

Item Categories of Main Business	Current		Previous	
	Main business incomes	Main business costs	Main business incomes	Main business costs
Color TV business	9,030,330,575.15	7,373,083,725.43	9,844,288,505.64	8,096,289,046.63
Cell phone business	---	---	---	---
Other businesses	1,048,166,076.27	909,325,138.66	---	---
Total	10,078,496,651.42	8,282,408,864.09	9,844,288,505.64	8,096,289,046.63

(4) Regional segments table of main business:

Regions	Current	Previous
---------	---------	----------



	Main business incomes	Main business costs	Main business incomes	Main business costs
Domestic sales	9,397,419,981.42	7,582,920,658.16	8,843,332,633.24	7,085,618,160.42
Overseas sales	681,076,670.00	699,488,205.93	1,000,955,872.40	1,010,670,886.21
Total	10,078,496,651.42	8,282,408,864.09	9,844,288,505.64	8,096,289,046.63

## (5) Other Business items :

Other Business Categories	Current			Previous		
	Other business incomes	Other business costs	Profit	Other business incomes	Other business costs	利润
Material transfer	297,363,797.75	294,198,107.72	3,165,690.03	272,769,139.53	252,664,309.01	20,104,830.52
Incomes from wastes sales	9,735,324.48	---	9,735,324.48	11,515,265.26	22,852.08	11,492,413.18
Others	19,163,482.03	1,763,919.41	17,399,562.62	7,869,923.03	456,632.78	7,413,290.25
Total	326,262,604.26	295,962,027.13	30,300,577.13	292,154,327.82	253,143,793.87	39,010,533.95

## Note 32. Financial Costs

Item	Current	Previous
Interest expenditure	100,413,819.57	47,613,499.17
Less: interest income	53,130,967.13	17,124,933.56
Exchange loss	62,681,018.26	10,420,796.26
Less: exchange earnings	134,898,737.45	43,536,425.63
Others	26,253,374.56	17,677,999.82
Total	1,318,507.81	15,050,936.06

As compared with that in the previous period, the financial expenses in the current period is reduced by RMB ¥ 39,533,652.89, down 195.07%, mainly attributable to the increase in discount interest caused by the increase in current interest, and the increase in exchange loss influenced by RMB appreciation.

## Note 33. Assets Depreciation Loss

Items	Current	Previous
I. Bad debt loss	15,452,159.77	37,733,336.79
II. Loss on inventory evaluation	66,259,014.69	34,230,316.18
Total	81,711,174.46	71,963,652.97

## Note 34. Earnings on Investment Category

Category	Current	Previous
Earnings from equity investment	5,430,444.17	8,773,933.59
Net increase/decrease amount of owner's equity of invested companies adjusted in the yearend	(690,035.55)	(621,235.60)
Transfer earnings of equity investment	2,795,299.78	489,704.91
NDF close out earnings	(11,244,248.11)	---
Others	---	---

Total	(3,708,539.71)	8,642,402.90
Details about investment earnings are listed as below:		
Category	Current	Previous
Earnings from equity investment	5,430,444.17	8,773,933.59
Net increased/decreased amount of owner's equity of invested company adjusted in the yearend	---	---
Investment earnings obtained by subsidiaries	42,321,199.15	5,559,890.54
NDF close out earnings	(8,384,596.11)	---
Transfer earnings of equity investment	8,049,650.25	489,704.91
<b>Total</b>	<b>47,416,697.46</b>	<b>14,823,529.04</b>

## Note 35. Non-business Revenues and Expenditures

## 1. Non-business Revenues

Item	Current	Previous
1. Total gains on non-current assets disposal	6,316,997.35	1,282,944.23
Including: gains on fixed assets disposal	4,035,136.59	1,282,944.23
Gains on intangible assets disposal	2,281,860.76	---
Government's grants	9,944,243.96	3,157,255.00
Fixed assets inventory surplus	434,697.41	1,000.00
Net incomes from penalty	3,660,523.07	2,930,031.36
Accounts payable carried over due to inability to make payment	3,502,833.13	906,840.74
Others	4,025,555.60	3,726,644.44
<b>Total</b>	<b>27,884,850.52</b>	<b>12,004,715.77</b>

As compared with that in the previous period, the non-business income in the current period is increased by RMB ¥ 15,880,134.75, up 132.28%, mainly attributable to the bigger increase in government's grants and penalty incomes.

\* Details about grants incomes are listed as below:

Items	Year of 2008
Government grant for pure flat color TV R&D project	360,000.00
	415,416.66
Government grant for industrialization project of conditional-access-separation digital television receiver	1,850,000.00
Government's grant for industrialization project of LCOS digital projector and LCOS projector	221,666.67
Special technical transformation funds for treasury bond	1,625,000.00
IPV6 HDTV payment of infrastructure office of financial bureau	2,346,098.77
Industrialization project of auto motor fuel electroject control system	116,666.67
专项奖励 Special bonus	100,000.00
Project grant for tackle of hard-nut problems in science and technology and industrialization	108,000.00

project of Jiangbei Commission for Science and Technology	
Technological R&D funds 2008 of Chongqing Financial Bureau for industrialization	200,000.00
Settlement funds of Chongqing Financial Bureau for product development of electromechanical and hi-tech export during and prior to 2006	400,000.00
Aid funds of Jiangbei Commission for Science and Technology for independent innovation	5,000.00
Aid funds for technical reform of foreign trade export 2008	19,600.00
Aid funds of Chongqing Financial Bureau for technical reform and development project	1,300.00
Incentive funds of enterprises	24,002.19
Shaanxi electronic development funds	400,000.00
Grants for science and technology	450,000.00
Grants based on 50% of tenure tax actually paid	1,204,493.00
Total	9,944,243.96

## 2. Non-business Expenditures

Item	Current	Previous
1. Total non-current disposal losses	6,652,412.36	4,022,131.66
Including: fixed assets disposal losses	6,652,412.36	4,022,131.66
Intangible assets disposal losses	---	---
Fixed assets inventory shortages		3,980.00
Donation expenditures	4,065,370.15	1,098,515.76
Fine expenditures	1,048,636.70	1,094,129.73
Penalties	300,000.00	
Abnormal losses		369,907.62
Dismissal subsidies		2,740,763.40
Others	846,449.68	1,729,710.82
Total	12,912,868.89	11,059,138.99

As compared with the previous period, the non-business expenditure in the current period is increased by RMB ¥ 1,853,729.90, up 16.76%, mainly attributable to bigger increase in expenditures for non-current assets disposal and donations.

### Note 36. Income taxes

#### (1) Components of income tax expenses

Item	Current	Previous
Current income tax expenses	50,795,455.38	40,592,952.00
Deferred income expenses	(28,274,032.20)	3,933,286.06
Refund of income tax	22,521,423.18	44,526,238.06
Total	50,795,455.38	40,592,952.00

## Note 37. Other Cashes Relating to Operating Activities

Item	Current	Previous
Other received cashs relating to operating activities		
Temporarily received maintenance funds	1,400,417.24	2,076,930.98
Interest incomes from bank deposit	6,938,047.93	5,823,279.06
Advance and deposit	9,625,302.10	11,431,853.86
Incomes from fine and penalty	791,107.19	1,298,465.01
Repayment for personal loan	9,523,712.99	3,969,774.39
Grants incomes	19,726,028.35	5,540,000.00
Throw-away incomes	2,599,747.45	12,708,357.96
Financial assets inflow	52,599,522.22	97,365,603.41
US dollars translated into HK dollars	103,203,885.47	140,214,264.67
Collection of NDF earnings expires in 2009	1,400,417.24	2,076,930.98
Others	6,938,047.93	5,823,279.06
Subtotal	<u>9,625,302.10</u>	<u>11,431,853.86</u>
Other paid cashs relating to operating activities		
Cashes paid for management expenses	181,667,280.04	162,863,280.22
Cashes paid for business expenses	743,208,043.76	733,309,001.23
Expenditures of deposit, guaranty funds and maintenance funds	29,559,396.80	14,197,437.33
Staff reserve funds	28,399,977.58	18,730,554.07
Reimbursed expenses	4,065,370.15	---
Penalty expenditures	78,733,071.35	48,394,706.96
Interests	300,000.00	448,220.19
Donation expenditures	26,253,374.56	23,460,434.77
Others	29,605,975.10	160,710,064.53
Subtotal	<u>1,121,792,489.34</u>	<u>1,162,113,699.30</u>

## Note 39. Cash and Cash Equivalent

Items	Current	Previous
I. Cash	845,026,867.06	752,558,414.47
Including: Cash in treasury	10,396.35	10,249.62
Bank deposits available for payment at any time	845,016,470.71	752,548,164.85
Other monetary funds available for payment at any time	---	---
Deposits in a central bank available for payment	---	---
Deposits in other banks	---	---
Inter-bank offered account	---	---
II. Cash equivalents	---	---
Including: Bond investment due within three months	---	---
III. Ending balance of cash and cash equivalent	845,026,867.06	752,558,414.47

## Note 7. Government Grants

Category of Government 's Grants	Amount to be Deferred
I. Government 's grant relating to assets	
Government 's grant for pure flat color TV R&D project	2,932,899.19
Government 's grant for LCD TV Hi-tech industrialization demonstration project	581,583.33
Aid funds for key project of "Konka Logistics Information System" enterprise informatization	689,200.00
Funds for tackle of hard-nut problems in science and technology	36,000.00
Government 's grant for industrialization project of conditional-access-separation digital television receiver	7,150,000.00
Government 's grant for industrialization project of LCOS digital projector and LCOS projector	478,333.33
Special technical transformation funds for treasury bond	4,826,300.00
Financial funds of financial bureau for technical innovation project- electrojet control system	3,000,000.00
Project funds for supply chain management information system	1,500,000.00
IPV6 HDTV payment of infrastructure office of financial bureau	3,050,720.44
HDTV production line construction	1,600,000.00
Industrialization project of auto motor fuel electrojet control system	883,333.33
The fifth batch of industrial technical research and development	1,000,000.00
Industry funds for flat plate display 2008	7,000,000.00
Digital TV patent pool - technical service platform for digital audio/video generality	1,000,000.00
R&D and industrialization for digital products to support network	2,000,000.00
Innovative capability project of technical center	3,850,000.00
Research funds	1,000,000.00
IPV6-based multi-mode hand-held and on-vehicle multimedia terminal	1,000,000.00
<b>Total</b>	<b>43,578,369.62</b>

## Note 9. Supplementary of Cash Flow Statements

Supplementary	Current	Previous
1. Reconciliation of net profit to cash flows from operating activities:		301,215,498.85
Net profits	258,324,471.34	211,924,146.49
Add: assets depreciation reserves	81,711,174.46	71,963,652.97
Depreciation of fixed assets, depletion of oil gas assets and depreciation of productive biological assets	102,179,511.43	131,962,802.82

Amortization of intangible assets	7,612,625.27	6,421,028.65
Amortization of long-term deferred expenses	8,858,922.85	7,152,601.57
Disposal of fixed assets, intangible assets and other long term assets	2,326,767.51	2,739,187.43
Losses on retirement of fixed assets	1,946,047.69	---
Losses on fair value change	12,481,880.16	17,249,624.92
Financial costs	20,351,662.68	(22,310,937.65)
Investment losses	3,708,539.71	(8,642,402.90)
Decrease in deferred income tax assets	(28,274,032.20)	3,933,286.06
Increase in deferred income tax liabilities	---	---
Decrease of inventory	294,822,037.07	585,811,827.49
Decrease of operating receivables	(62,914,815.42)	(24,234,671.15)
Increase of operation payable	(340,492,714.26)	(948,830,647.85)
Others	---	---
	362,642,078.29	35,139,498.85
2. Significant investment and financing activities not concerned with receipts and disbursements	9	
Liabilities transferred to capitals		---
Convertible bonds due within one year		---
Fixed assets under financing lease		---
3. Net change in cash and cash equivalents		
Ending cash balance	845,026,867.06	752,558,414.47
Less : Beginning cash balance	752,558,414.47	678,239,825.82
Add : Ending balance of cash equivalents	---	---
Less : Beginning balance of cash equivalents	---	---
Net increment of cash and cash equivalents	92,468,452.59	74,318,588.65

#### Note 10. Affiliated Party Relationships and Transactions Thereamong

(1) Information about the parent company of the Company is as follows

Name of Parent Company and Organization Code	Registration Place	Nature of the Business	Registered Capital	Holding Proportion	Voting Right Proportion
Overseas Chinese Town Group Company (190346175)	Shenzhen, Guangdong	Ownership by the entire people	2,000,000,000.00	16.68%	16.68%

(2) For information about the subsidiary companies, affiliated enterprises and joint ventures of the Company, please see Note 3.

(3) Information about the other affiliated parties of the Company is as follows:

Name of Company and Organization Code	Relations with the Company
Shenzhen Overseas Chinese Town Real Estate Co., Ltd.	Subsidiary company of the first major shareholder
Shenzhen Overseas Chinese Town Realty Management Co., Ltd.	Subsidiary company of the first major shareholder
Shenzhen Special Economic Zone Overseas Chinese Town Hydropower Company	Subsidiary company of the first major shareholder
Shanghai Huali Packaging Co., Ltd.	Subsidiary company of the first major shareholder
Shenzhen Huali Packing & Trading Co., Ltd.	Subsidiary company of the first major shareholder
Anhui Huali Packaging Co., Ltd.	Subsidiary company of the first major shareholder
Shanghai Overseas Chinese Town Investment Development Co., Ltd.	Subsidiary company of the first major shareholder
Chengdou Tianfu Overseas Chinese Town Industry Co., Ltd.	Subsidiary company of the first major shareholder
Shenzhen East Overseas Chinese Town Co., Ltd.	Subsidiary company of the first major shareholder
Shenzhen Huayou Packaging Co., Ltd.	“Grandson company” of the first major shareholder
Shenzhen Konka Energy Technology Co., Ltd.	Affiliated company
Shenzhen Dekon Electronics Co., Ltd.	Affiliated company
Guangzhou City Huadou Longfeng Jizhi Real Estate Co., Ltd.	Affiliated company

#### (4) Transactions among affiliated companies

Name of Company	Item	Current			Previous		
		Amount	Proportion in Total Parallel Transactions	Pricing Policy	Amount	Proportion in Total Parallel Transactions	Pricing Policy
Shenzhen Dekon Electronics Co., Ltd.	Procurement of goods	44,871,754.44	0.62%	---	65,221,019.22	1.16%	Market price
Shanghai Huali Packaging Co., Ltd.	Procurement of goods	22,673,519.98	0.31%	Market price	13,031,734.94	0.23%	Market price
Shenzhen Huali Packing & Trading Co., Ltd.	Procurement of goods	6,747,272.28	0.09%	Market price	19,086,428.68	0.34%	Market price
Anhui Huali Packaging Co., Ltd.	Procurement of goods	37,770,736.55	0.52%	Market price	36,115,610.26	0.64%	Market price
Shenzhen Huayou Packaging Co., Ltd.	Procurement of goods	13,355,685.20	0.18%	Market price	---	---	---
Overseas Chinese Town Group Company	Royalty payment	437,152.20	100%	---	334,983.80	100%	---
Overseas Chinese Town Group Company	Assigning or assigned equity	---	---	---	2,160,000.00	20%	Evaluated price
Shanghai Overseas Chinese Town Investment Development Co., Ltd.	Assigning or assigned equity	---	---	---	4,320,000.00	40%	Evaluated price
Chengdou Tianfu Overseas Chinese Town Industry Co., Ltd.	Assigning or assigned equity	---	---	---	4,320,000.00	40%	Evaluated price
Shenzhen East Overseas Chinese Town Co., Ltd.	Purchase of real estate	---	---	---	42,300,000.00	100%	Market price
Shenzhen East Overseas Chinese Town Co., Ltd.	Sales of goods	5,294,188.03	0.04%	Market price	---	---	---
Chengdou Tianfu Overseas Chinese Town Industry Co., Ltd.	Sales of goods	17,487,179.49	0.14%	Market price	---	---	---
Beijing Century Overseas Chinese Town Industry Co., Ltd.	Sales of goods	1,068,376.07	0.01%	Market price	---	---	---

#### (5) Current accounts among affiliated companies

Current Items	Name of Affiliated Company	Economic Contents	Ending	Beginning
Account receivable	Shenzhen East Overseas Chinese Town Co., Ltd.	Payments for goods	6,269,712.00	2,307,512.00
	Chengdou Tianfu Overseas Chinese Town Industry Co., Ltd.	Payments for goods	12,674,000.00	---
	Beijing Century Overseas Chinese Town Industry Co., Ltd.	Payments for goods	875,000.00	---
	Shenzhen Konka Energy Technology Co., Ltd	Current accounts	40,290.24	1,130,000.00
Subtotal			<u>19,859,002.24</u>	<u>3,437,512.00</u>
Accounts receivable-others	Shenzhen Overseas Chinese Town Real Estate Co., Ltd.	Deposit	1,303,396.86	1,288,948.86
	Shenzhen Overseas Chinese Town Realty Management Co., Ltd.	Deposit	77,402.65	77,402.65
	Shenzhen Special Economic Zone Overseas Chinese Town Hydropower Company	Prepayment for water/electricity rate	2,007,744.22	3,655,396.35
	Guangzhou City Huadou Longfeng Jianzhi Real Estate Co., Ltd.	Current accounts	---	31,900.00
	East Overseas Chinese Town Co., Ltd.	House purchase funds	---	42,300,000.00
Subtotal			<u>3,388,543.73</u>	<u>47,353,647.86</u>
Accounts payable	Shenzhen Dekon Electronics Co., Ltd	Payments for goods	3,311,410.85	9,106,408.21
	Shanghai Huali Packaging Co., Ltd.	Payments for goods	1,644,331.44	1,239,864.95
	Shenzhen Huali Packing & Trading Co., Ltd	Payments for goods	1,646,697.78	3,532,700.55
	Shenzhen Huayou Packaging Co., Ltd.	Payments for goods	2,608,821.88	---
Subtotal			<u>9,211,261.95</u>	<u>13,878,973.71</u>

#### Note 11. Unadjusted Events in Events after the Balance Sheet Date

As of March 27, 2009, the Indemnification Agreement for Old Ankang Factory Demolition and Investment was made by and between the Administration of Chuzhou Economic and Technical Development (hereinafter referred to as Party A) and the subsidiary of the Company-Anhui Konka (hereinafter referred to as Party B). As stipulated in the Agreement, the Party B's factory of 54,620.4 m<sup>2</sup> located in No. 42 Langya Ancient Path is required to be demolished, Party A shall grant Party B RMB ¥80,000,000 as economic compensation for demolished land, buildings, equipment, technical innovation, etc. The demolished work commenced on April 1, 2009, and all compensations shall be paid prior to June 30, 2010. As at the report date, the demolition work has been carried out under the agreement and the compensation payment amounting to RMB ¥10,000,000 has been received.

#### Note 12. Other Significant Events

1. As of November 25, 2007, the *Ceiling Amount of Mortgage Contract* numbered 2007 CZYDIZ No. 066, was entered into by the holding subsidiary of the Company-Anhui Konka and Chuzhou Branch of Bank of China. As stipulated, the land tenancy (CGY (2006) No. 00451 Land Certificate and CGY(2007) No. 00476 Land Certificate) of the Company's land of 93,946m<sup>2</sup> located in the east side of Nanqiao South Road,



Chuzhou Development Zone, at original carrying value of RMB ¥6,530,000 and net carrying value of RMB ¥5,221,600; and the Company's house property right (Chu 2000 Zi No. 01194 Property Right Certificate, Chu 2002 Zi No. 02068 Property Right Certificate, Chu 2007 Zi No. 00357 Property Right Certificate) of the old factory, buildings A, B, D, E, substation, and warehouse F located in the east side of Nanqiao South Road, Chuzhou Development Zone, at original carrying value of RMB ¥59,170,000 and net carrying value of RMB ¥46,385,800 shall be jointly mortgaged and evaluated as RMB ¥38,050,000 to secure the loan amounting to RMB ¥38,000,000 including the principal of RMB ¥22,000,000 extended by Chuzhou Branch, Bank of China to Anhui Konka valid from November 20, 2007 to November 20, 2010, and the principal prior to November 9, 2007.

2. As of July 8, 2007, Konka Group Co., Ltd. and Shenzhen Branch of China Construction Bank entered into the *Comprehensive Financing Line Contract* numbered "Loan 2008 No. Zong 0228007R", stipulating that the loan amount valid from July 10, 2008 to July 9, 2009 shall not exceed the total amount of RMB ¥300,000,000.

As of September 5, 2008, the *Comprehensive Credit Contract* numbered "SFHQCZZ No. 20080301001" was made by the Company and Shenzhen Overseas Chinese Town Subbranch of Shenzhen Development Bank, stipulating that the loan amount valid from 2008 to 2009 shall not exceed the total line of RMB ¥500,000,000.

As of July 28, 2008, Konka Group Co., Ltd., Shenzhen Konka Communication Technology Co., Ltd. and Shenzhen Branch of Bank of China entered into the *Credit Line Agreement* numbered "2008 ZZYEX No. 000160", stipulating that the loan amount valid from July 28, 2008 to July 31, 2010 shall not exceed the comprehensive credit line of RMB ¥3,500,000,000. According to the Agreement, Konka Group Co., Ltd. shall be the accredited party, and Shenzhen Konka Communication Technology Co., Ltd. shall be the authorized withdrawer. As of July 28, 2008, the *Ceiling Amount Pledge Contract* numbered ZZYSDE No. 000018, 000019, 0060 and 000021 was made by the Company, the holding subsidiary-Dongquan Konka Electronic Co., Ltd., Shenzhen Konka Communication Technology Co., Ltd. and Shenzhen Branch of Bank of China. As stipulated, the bank's acceptance bill of not less than RMB ¥1,000,000,000, the margin account with A/C No. 82100364308401001, the packing materials workshop of Dongquan Konka Electronic Co., Ltd. with the assessed value of RMB ¥10,435,200.00, No. 2 workshop of Dongquan Konka Electronic Co., Ltd. with the assessed value of RMB ¥33,455,200.00, the Phase II workshop of Dongquan Konka Electronic Co., Ltd. with the assessed value of RMB ¥187,061,600.00, and the margin account of Shenzhen Konka Communication Technology Co., Ltd. with A/C No. 820100666008401001 shall be pledged by Dongquan Konka Electronic Co., Ltd. and Shenzhen Konka Communication Technology Co., Ltd. to secure all liabilities incurred under the *Credit Line Agreement*.

As of August 29, 2008, the *Comprehensive Credit Extension Contract* numbered "JYC4 C433302008000000300" was made by and between Konka Group Co., Ltd. and Shenzhen Overseas Chinese Branch of Bank of Communications, stipulating that the credit extension valid from August 7, 2008 to August 7, 2009 shall have a total credit line of RMB ¥200,000,000 (The loan line of RMB liquid fund shall be RMB ¥15,000,000 only, and the line of bank's acceptance bill amounting to RMB ¥100,000,000 only shall be opened, the import letter of credit amounting to RMB ¥200,000,000 only shall be opened.)

3. As of December 19, 2007, the *Design, Manufacture and Erection Contract for the Beijing Pangu Large-scale Outdoors Full-Color LED Display Screen* (Turn-key Project) (hereinafter referred to as the "Contract Agreement") was made by and between the subsidiary of Company-Shenzhen Konka Video & Communication Systems Engineering Co., Ltd., (hereinafter referred to as Shenzhen Konka Video & Communication) and Beijing Pangu Investment Co., Ltd. (hereinafter referred to as the "Pangu Company"), stipulating that the total project period shall be 120 days, the contracted budget price of total engineering payment shall be RMB ¥103,357,500. The project implemented by Shenzhen Konka Video & Communication shall cover all design, material procurement, manufacture, installation and debugging. Meanwhile, both parties have entered into the *Supplementary Agreement* concerning the payment time and payment mode. As agreed, Beijing Pangu, prior to March 30, 2009, shall pay the total construction cost amounting to RMB ¥103,357,500 in a lump sum to Shenzhen Konka Video & Communication. With six apartments of 3,707.70m<sup>2</sup> at unit price of RMB 27,874.14 Yuan /m<sup>2</sup> and a total price of RMB 103,357,500 of "Beijing Mogan 7 Star Plaza" in pledge, Pangu Company and Konka Video & Communication entered into the *Advance Sale for Beijing Commercial Building* (hereinafter referred to as the "Advance Sale Contract") numbered [Y581462], [Y581455], [Y581458], [Y581459], [Y581460] and [Y581461], and the receipt with equivalent purchase price shall be issued. Such receipt shall not be deemed as the corresponding payment for apartment that has been actually paid by Konka Video & Communication. Only when Konka Video & Communication has completed the turn-key project and delivered it to Pangu Company

for use can Konka Video & Communication be deemed to have fulfilled all payment obligations under the *Advance Sale Contract*. As at the audit report date, Konka Video & Communication has not completed the project as stipulated in the Contract Agreement nor received the accounts receivable under the Contract Agreement.

#### Note 13. Non-recurring Gains and Losses

Character and content	Amount in 2008	Amount in 2007
1. Profit and loss from disposal of non-current assets		
(1) Income from disposal of long-term assets		
Of which: Income from disposal of fixed assets	4,035,136.59	1,282,944.23
Income from disposal of intangible assets	2,281,860.76	---
Income from equity transfer	2,795,299.78	489,704.91
Subtotal	9,112,297.13	1,772,649.14
(2) Loss on disposal of long-term assets		
Of which: Loss on disposal of fixed assets	6,652,412.36	4,022,131.66
Loss on disposal of intangible assets	---	---
Loss on equity transfer	---	---
Subtotal	6,652,412.36	4,022,131.66
Net profit and loss from disposal of non-current assets	2,459,884.77	(2,249,482.52)
2. Governmental grants counted into the current profit and loss	9,944,243.96	3,157,255.00
3. Profit and loss from change in fair value arising from transaction financial assets	(12,481,880.16)	(17,249,624.92)
4. Investment income from sale of financial assets available for sale	5,430,444.17	8,773,933.59
5. Income from sale of transaction financial assets (NDF delivery)	(11,244,248.11)	---
6. Other non-operating income and expenses besides the above items		
(1) Non-operating income	11,623,609.21	7,564,516.54
(2) Less: Non-operating expense	6,260,456.53	7,037,007.23
Net non-operating income and expense	5,363,152.68	527,509.31
Total of extraordinary gain and loss before deducting income tax	(528,402.69)	(7,040,409.54)
Less: amount influenced by income tax	3,486,638.48	1,444,247.98
Total of extraordinary gain and loss after deducting income tax	(4,015,041.17)	(8,484,657.52)
Less: amount influenced by minority interest	106,117.96	2,257,323.87
Total of extraordinary gain and loss after deducting income tax	(4,121,159.13)	(10,741,981.39)

#### Note 14. Net Assets Income Ratio

Profits during Report Period	Net Assets Income Ratio			
	All-round Dilution		Weighted Average	
	Current	Previous	Current	Previous
Net profits ascribed to ordinary shareholders of the Company	6.64%	5.85%	6.84%	6.00%
Net profits ascribed to ordinary shareholders of the Company after deduction of non-recurring profits and losses	6.75%	6.15%	6.95%	6.31%

## Note 15. Earnings per Share

Profits during Report Period	Earnings Per Share			
	Basic earnings per share		Diluted earnings per share	
	Current	Previous	Current	Previous
Net profits ascribed to ordinary shareholders of the Company	0.2083	0.1720	0.2083	0.1720
Net profits ascribed to ordinary shareholders of the Company after deduction of non-recurring profits and losses	0.2117	0.1809	0.2117	0.1809

Items	Year of 2007	Year of 2006
Calculation of basic earnings per share and diluted earnings per share		
(I) Numerators		
Net profit after tax	250,817,154.35	207,091,715.42
Adjustment: influences of dividend on preferred stock and other instruments	---	---
<b>Profits and losses ascribed to ordinary shareholders of the parent company in the calculation of earnings per share</b>	<b>250,817,154.35</b>	<b>207,091,715.42</b>
Adjustment:		
Dividend and interest related to potential diluted ordinary shares	---	---
Change in earnings or expenses due to translation of potential diluted ordinary shares	---	---
<b>Profits and losses ascribed to ordinary shareholders of the parent company in the calculation of earnings per share</b>	<b>250,817,154.35</b>	<b>207,091,715.42</b>
(II) Denominators		
<b>Weighted average of ordinary shares issued in the current period in the calculation of basic earnings per share</b>	<b>1,203,972,704.00</b>	<b>1,203,972,704.00</b>
Add: Weighted average at the time of all potential diluted ordinary shares translated into ordinary shares	---	---

<b>Weighted average of ordinary shares issued in the current period in the calculation of earnings per share</b>	1,203,972,704.00	1,203,972,704.00
(III) Earnings per share		
Basic earnings per share		
Net profits ascribed to ordinary shareholders of the Company	0.2083	0.1720
Net profits ascribed to ordinary shareholders of the Company after deduction of non-recurring profits and losses	0.2117	0.1809
Diluted earnings per share		
Net profits ascribed to ordinary shareholders of the Company	0.2083	0.1720
Net profits ascribed to ordinary shareholders of the Company after deduction of non-recurring profits and losses	0.2117	0.1809

#### Note 20. Approval for Financial Statements

As of April 28, 2009, the Financial Statements of the Company were approved by the board of the Company.