

KONKA GROUP CO., LTD.
INTERIM REPORT 2009

KONKA GROUP CO., LTD.

CHAIRMAN OF THE BOARD: HOU SONG RONG

AUGUST 2009

KONKA GROUP CO., LTD

INTERIM REPORT 2009

Important Notice

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

This Interim Report has been examined and approved by the 26th meeting of the 6th Board of Directors of the Company.

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

After careful examination, the 12th meeting of the 6th Supervisory Committee believes that the Interim Report 2009 and its Summary have faithfully, accurately and completely reflected the financial status, business achievement, corporate administration and business development of the Company in the interim of 2009.

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

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

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

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I. Company Profile

(I) Basic information of the Company

1. Legal Name of the Company in Chinese: 康佳集团股份有限公司
Abbreviation in Chinese: 康佳集团
Legal Name of the Company in English: KONKA GROUP CO., LTD.
Abbreviation in English: KONKA GROUP
2. Legal Representative: Chairman of the Board, Mr. Hou Songrong
3. Secretary of Board of Directors: Mr. Xiao Qing
Securities Affairs Representative: Mr. Wu Yongjun
Contact Address: Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen, P.R.C.
Tel.: 0755-26608866
Fax: 0755-26601139
E-mail: szkonka@konka.com
4. Registered (Office) Address: Overseas Chinese Town, Nanshan District, Shenzhen
Post Code: 518053
Internet Website: <http://www.konka.com>
E-mail: szkonka@konka.com
5. Newspaper Designated for Disclosing the Information of the Company: Securities Times and etc.
Internet Website Designated by CSRC for Publishing the Interim Report:
<http://www.cninfo.com.cn>
The Place Where the Interim Report is Prepared and Placed: Secretariat of the Board of Directors of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock: Shen Konka A, Shen Konka B
Stock Code: 000016, 200016
7. Date of the Initial Registration: 1 Oct. 1980
Place of the Initial Registration: Shenzhen City
8. Registration Code of Enterprise Business License: 440301501121863
9. Registration Code of Tax: 440301618815578

(II) Main financial data and indices

1. Main accounting data and financial indices (Unit: RMB Yuan)

Items	At the end of report period	At the end of last year	Increase/decrease (%)
Total assets	10,867,555,753.76	10,517,285,515.63	3.33
Owners' equity (or shareholders' equity)	3,796,117,681.77	3,775,042,931.48	0.56
Share capital	1,203,972,704.00	1,203,972,704.00	0.00
Net profit attributable to shareholders of listed company per share	3.153	3.135	0.57
Items	In the report period (Jan.-Jun.)	The same period of last year	Increase/decrease (%)
Operating revenue	5,172,000,028.20	5,620,525,986.16	-7.98
Operating profit	83,178,884.78	101,806,096.01	-18.30
Total profit	87,602,573.02	100,838,348.99	-13.13
Net profit attributable to shareholders of listed company	80,302,015.01	80,555,227.21	-0.31
Net profit attributable to shareholders of listed company after deducting non-recurring gain and loss	75,004,503.91	77,683,147.56	-3.45
Basic earnings per share	0.0667	0.0669	-0.30
Diluted earnings per share	0.0667	0.0669	-0.30
Return on equity	2.12%	2.24%	-0.12
Net cash arising from operating activities	99,694,380.71	-42,686,785.79	333.55
Net cash per share arising from operating activities	0.0828	-0.0355	333.55

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

Items	Amount	Note (if applicable)
Profit and loss from disposal of non-current assets	-182,581.60	-
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	999,155.00	-

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	2,178,002.85	-
Other non-operating income and expenses besides the above items	3,607,114.84	-
Amount affected by income tax	-806,507.67	-
Amount affected by minority interest	-497,672.32	-
Total	5,297,511.10	-

II. Changes in Share Capital and Shares Held by Principal Shareholders

(I) Changes in share capital

1. During the report period, total shares of the Company remained unchanged.

2. During the report period, structure of shares of the Company changed as follows:

	Before the change		Increase/decrease in this time (+, -)					After the change	
	Amount	Proportion (%)	Issuance of new shares	Bonus shares	Capitalization of public reserves	Others	Subtotal	Amount	Proportion (%)
I. Shares subject to trading moratorium	198,388,174	16.48%	-	-	-	-1,284	-1,284	198,386,890	16.48%
1. Shares held by the state	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned corporation	198,381,940	16.48%	-	-	-	-	-	198,381,940	16.48%
3. Shares held by other domestic investors	6,234	0.00%	-	-	-	-1,284	-1,284	4,950	0.00%
Including:									
Shares held by domestic corporation	0	0.00%	-	-	-	-	-	0	0.00%
Shares held by domestic natural person (senior executives)	6,234	0.00%	-	-	-	-1,284	-1,284	4,950	0.00%
4. Shares held by foreign investors	0	0.00%	-	-	-	-	-	0	0.00%
Including:									
Shares held by foreign corporation	0	0.00%	-	-	-	-	-	0	0.00%
Shares held by foreign natural person	-	-	-	-	-	-	-	-	-
II. Shares not subject to trading moratorium	1,005,584,530	83.52%	-	-	-	1,284	1,284	1,005,585,814	83.52%
1. RMB ordinary shares	599,908,726	49.83%	-	-	-	1,284	1,284	599,910,010	49.83%
2. Domestically listed foreign shares	405,675,804	33.69%	-	-	-	-	-	405,675,804	33.69%
3. Foreign shares listed in overseas	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total shares	1,203,972,704	100	-	-	-	0	0	1,203,972,704	100

(II) Time to list and trade for shares subject to moratorium

Time	Number of shares can be listed newly after expiration of moratorium	Balance of shares subject to trading moratorium	Balance of shares not subject to trading moratorium	Remark
30 Mar. 2009	120,397,270	77,984,670	1,125,988,034	
30 Mar. 2010	77,984,670	0	1,203,972,704	

Note: 1. In accordance with commitments made by OCT Group Corporation and THOMSON INVESTMENTS GROUP LIMITED (original shareholders with non-tradable shares of the Company) when implemented share merger reform, the shares subject to trading moratorium can be listed for trading or transferred since 30 Mar 2008. However, by the disclosing date of this report period, OCT Group Corporation holding shares subject to trading moratorium had never applied to Shenzhen Stock Exchange for release of shares subject to trading moratorium.

2. Shares subject to trading moratorium in the table excluded shares subject to trading moratorium held by senior executives.

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

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

Unit: Share

No.	Name of shareholders subject to moratorium	Number of shares held subject to moratorium	Number of shares subject to trading moratorium applied actually	Time to be listed and traded	Newly increased shares to be listed and traded	Moratorium
1	Overseas Chinese Town Group Company	198,381,940	198,381,940	30 Mar. 2009 30 Mar. 2010	120,397,270 77,984,670	Notes

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

2. In accordance with commitments made by OCT Group Corporation (original non-tradable shareholders of the Company) when implemented share merger reform, the shares subject to trading moratorium can be listed for trading or transferred since 30 Mar. 2008. However, by the disclosing date of this report period, OCT Group Corporation holding shares subject to trading moratorium had never applied to Shenzhen Stock Exchange for release of shares subject to trading moratorium.

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

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

Unit: Share

Total number of shareholders		122,141				
Particulars about shares held by top ten shareholders						
Name of shareholder	Nature of shareholder	Proportion of share held (%)	Total shares held	Shares held subject to trading moratorium	Shares pledged or frozen	
Overseas Chinese Town Group Company	State-owned corporation	17.48	210,457,260	198,381,940	0	
GAOLING FUND,L.P.	Foreign corporation	4.89	58,930,179	0	Unknown	
GUOTAIJUNANSECURITIES (HONGKONG) LIMITED	Foreign corporation	1.38	16,662,923	0	Unknown	
HOLY TIME GROUP LIMITED	Foreign corporation	1.28	15,400,472	0	Unknown	
NOMURA SECURITIES CO.LTD	Foreign corporation	1.12	13,500,000	0	Unknown	
CCB - Fortune SGAM Income Growth Hybrid Fund	Domestic non-state-owned corporation	0.97	11,700,000	0	Unknown	
NAM NGAI	Foreign natural person	0.83	10,000,100	0	Unknown	
GAOLING YALI FUND,L.P.	Foreign corporation	0.75	9,005,161	0	Unknown	
China Everbright Bank-Everbright Pramerica Quantified Core Fund	Domestic non-state-owned corporation	0.74	8,961,275	0	Unknown	
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	Foreign corporation	0.63	7,604,985	0	Unknown	
Particulars about shares held by the top ten shareholders not subject to moratorium						
Name of shareholder	Numbers of shares not subject to moratorium held		Type of shares			
GAOLING FUND,L.P.	58,930,179		Domestically listed foreign shares			
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	16,662,923		Domestically listed foreign shares			
HOLY TIME GROUP LIMITED	15,400,472		Domestically listed foreign shares			
NOMURA SECURITIES CO.LTD	13,500,000		Domestically listed foreign shares			
CCB - Fortune SGAM Income Growth Hybrid Fund	11,700,000		Renminbi ordinary shares			
NAM NGAI	10,000,100		Domestically listed foreign shares			
GAOLING YALI FUND,L.P.	9,005,161		Domestically listed foreign shares			
China Everbright Bank-Everbright Pramerica Quantified Core Fund	8,961,275		Renminbi ordinary shares			
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	7,604,985		Domestically listed foreign shares			
Tibet Autonomous Region Investment Co., Ltd	6,970,684		Renminbi ordinary shares			
Explanation on associated relationship among the top ten shareholders or acting-in-concert	Overseas Chinese Town Group Corporation, the first principal shareholder, neither has any related relationship with other shareholders, nor has joined in any consistent actions; GAO-LING FUND, L.P. and GLHH FUND II, L.P. existed associated relationship and belonged to acting-in-concert. The Company is not aware whether the other shareholders have joined in any consistent action or have related relationships among them.					

(V) Particulars about shareholders holding over 5% shares

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

(VI) Particulars about controlling shareholder and actual controller

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

III. Particulars about Directors, Supervisors and Senior Executives

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

1. Shares held by directors, supervisors and senior executives of the Company remained unchanged in the report period.
2. In the report period, directors, supervisors and senior executives of the Company neither hold stock option of the Company nor be authorized restricted shares.

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

1. In the report period, members of the Board of Directors and the Supervisory Committee of the Company remained unchanged.

2. In the report period, the Company changed 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 proposed 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. Report of the Board of Directors

(I) Overall operation in the report period

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

In the report period, facing strike from international financial crisis, the Company fully made use of chance brought by rapid demand for flat panel television, insisted on operating strategy with value, emphasized on improvement of competitive power and pushing reduction of cost, quickly replied to the market and realized stable development and healthy operation.

In the report period, the Company realized sales income amounting to 5,172million, with a decrease of 7.98% year-on-year; net profit amounting to 80.30 million, with a decrease of 0.31% year-on-year; and realized earnings per share amounting to 0.0667.

1. Although influenced by lack goods of LCD and LCD Module, sales revenue in the second quarter of 2009 was equal to that of the same period in last year.

Since the 4th quarter of 2008, domestic LCD television manufactures lacked stock of LCD and LCD Module, which greatly influenced sales revenue and profitability of domestic LCD television manufacturer in the first half year. Sales revenue in the first quarter of 2009 decreased 15.14% over the same period of last year due to lack of LCD and LCD Module.

In the second quarter of 2009, lack of LCD and LCD Module was relieved, and the Company overcame difficulties of big price rise of LCD and lack of main specification, enhanced measures such as cooperation with upper, panel update, launch of new products and expanding customization of projects, etc., which caused rapid increase of sales of flat panel television. Sales revenue in the second quarter of 2009 was equal to that of the same period in last year.

Influenced by lack of LCD and LCD Module, sales revenue of the Company decreased 7.98% compared with the same period of last year.

2. Proportion of Sales of products with high gross profit raised by a large margin, therefore, net profit in the second quarter of 2009 increased by 19.65% compared with the second quarter of 2008.

Net profit attributable to owners of parent company in the first quarter of 2009 decreased by 14.52% compared with the same period of last year due to continual lack of LCD and LCD Module.

However, in the report period, the Company sequentially persisted and deepened operation with value strategy, based on the three projects of masterpiece, quality and innovation, implemented different operation strategy, which promoted

profit capacity of the Company; meanwhile, the Company optimized resource allocation, mainly produced and sold high-end products with high gross ratio, then proportion of sales of products with high gross ratio rose up, so that profitability of the Company promoted greatly. In the second quarter of 2009, net profit increased by 19.65% year-on-year under the condition that sales revenue was equal to the same period of last year.

In the report period, although influenced by lack of LCD and LCD Module, net profit attributable to owners of parent company was basically equal to that of the same period of last year.

3. The Company promoted operating efficiency, accelerated turnover of accounts receivable, and accounts receivable decreased by 21.76% year-on-year.

Accounts receivable decreased by 21.76% year-on-year, mainly because the Company promoted operating efficiency, accelerated turnover of accounts receivable, and payments receivable for goods in arrears from domestic principal customer has been received.

(II) Analysis on financial indices of the Company

Unit: RMB'0000 Yuan

Items	Jan.– Jun. 2008	Jan.–Jun. 2007	Increase/decrease year-on-year (%)
Operating income	517,200.00	562,052.60	-7.98
Operating cost	419,172.07	458,070.31	-8.49
Administrative expense	21,420.67	21,226.97	0.91
Operating expense	67,056.39	72,172.26	-7.09
Financial expense	1,618.24	1,782.67	-9.22
Operating profit	8,317.89	10,180.61	-18.30
Net profit	8,030.20	8,055.52	-0.31
Net cash flow from operating activities	9,969.44	-4,268.68	333.55
Items	At the end of report period	At the end of last year	Increase/decrease (%)
Total assets	1,086,755.58	1,051,728.55	3.33
Shareholders' equity	400,971.63	399,947.32	0.26
Account receivable	103,760.44	132,626.13	-21.76
Fixed assets	130,952.62	134,417.79	-2.58
Remained profit	52,074.15	50,063.81	4.02

Explanation and analysis on major items changed:

1. Accountants receivable at the period-end decreased by 21.76% over the period-begin, mainly because the Company promoted operating efficiency, accelerated turnover of account receivables, and payments receivable for goods in arrears from domestic principal customer has been received.

2. Net cash flow from operating activities increased 333.55% year-on-year, mainly because the Company increased discount of bills receivable in current period in order to increase liquid capital and meet demand of cash for daily operation.

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

1. Main operations classified according to industries and products

Unit: RMB'0000 Yuan

Industries	Products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Comparison with that of the same period of last year		
					Increase/decrease of income (%)	Increase/decrease of cost (%)	Increase/decrease of gross profit ratio (%)
Manufacturing of multi-media	Color television	373,073.32	304,965.90	18.26	-7.96	-6.89	-0.94
Manufacturing of communication	Mobile phone	70,648.35	62,842.10	11.05	34.54	30.14	3.01
Others		66,993.15	47,762.71	28.71	-28.97	-37.03	9.12

Note: related transaction on selling products and providing labor service by the Company to controlling shareholders and subsidiaries amounted to RMB 8,273,500 in the report period.

2. Main operations classified according to regions

Unit: RMB'0000 Yuan

Region	Operating income	Increase/decrease year-on-year (%)
Domestic	437,051.91	-12.57
Overseas	98,198.66	14.00
Offsetting each other among segments in each area	-24,535.76	-27.49
Total	510,714.81	-7.51

(IV) Operation of shareholding companies whose earnings influenced over 10% of the net profit of the Company
No shareholding company with earnings influencing over 10% of the net profit of the Company existed in the report period.

(V) Major problems and difficulties met in operation

1. Since 2009, total sales volume of color-television in domestic market decreased. According to Allwin data, retail volume of domestic color-television market decreased 26% year-on-year and retail decreased 28%.

2. Since the fourth quarter of 2008, supply of LED panel was lack, which greatly influenced product sales of the Company.

3. Price of panel rose continuously, which weakened profitability of the Company.

4. Influenced by disadvantage factors of financial crisis, export of the Company confronted mounting pressure.

(VI) Business development plan in the half second year of 2009

1. Deepen push value operation and create diversity advantages

Masterpiece project: In respect of flat-panel television, the Company will focus on development new products like 240Hz, back light LCD and network television, etc.; in respect of color television, the Company will launch super low ended products, reduce model, improve efficiency of single products, keep sales scale and ensure profit; In respect of mobile phone, the Company will explore operating of masterpieces and ensure success rate of pattern of masterpieces; In respect of white electrical products, the Company will insist on core of “energy saving products”, optimize distribution and promote levels.

In respect of innovation project: firstly, the Company will enhance design innovation of ID; secondly, the Company will strengthen exploitation and application of diverse functions, such as digital television, wireless high definition video transmission, network television and LED back light, etc. thirdly, the Company will ensure key and innovated products launched in market as scheduled.

In respect of quality project: the Company will promote connotation of quality management in quality of products, service and cost; the Company will also encourage staffs to promote quality; then the Company will promote quality with principle of “determined account, determined counting measure and determined rules”.

2. Perfect super low ended production lines

In the second half year of 2009, the Company will continue to strengthen and perfect high and low ended production lines, promote competitive power and advantages in rural market by design innovation with low cost, enlarging reuse rate of module after selection, pushing replacement of component and application of new technology.

3. Enlarge exploitation of rural market

In the second half year of 2009, the Company will manufacture products according to demand of rural market and development of policy of pushing household electrical appliance to the rural market and exchange of new products with used ones, especially products qualified with policy of pushing household electrical appliance to the rural market. The Company will fully utilize advantage chance in development of policy of pushing household electrical appliance to the rural market, shape complete promotion sales system. Meanwhile, the Company will enhance reconstruction of stores in counties, ensure advantage position of brand in progress of large-margin increase of flat panel market and promote competitive power and brand position of the Company in rural market.

4. Acceleration project and benefit from speed

Lack of panel resource caused uncertainty of supply chain, and exploitation of rural market caused risk enlarging and mobile phone is a market that never stops cheapening. Speed is the key factor to win the market. Therefore, the Company will accelerate project, especially focus on turnover of inventories and accounts receivable.

5. To make every endeavor to reduce cost and expenses

It is the key measures that reduction of cost and expenses for the Company to promote competitive power and confront crisis. In the second half year of 2009, the Company will continue to execute annual target of reduction of cost and expenses issued at the year-begin, formulated scheme of encourage and punishment and pus quickly and orderly. Meanwhile, the Company will continue to collect reasonable advice on reduction cost and expenses, encourage staff to take part in the activity, and realize the goal with new thinking method of innovation.

6. Accelerate construction of key projects

Project of Kunshan Konka: the Company will do well in quarter construction, prepare in cultivation of staff, establishment of system procedure and technical reserves, and ensure to put into production and operation successfully at the year-end.

Konka Digital Development & Research Centre Building project: the Company will strictly implement requirements of safety, quality, cost and all requirements of control in the progress of construction, and struggle for completing as scheduled.

2. Risks met in the second half year of 2009 and countermeasures

(1) Operating risk in the second half year of 2009

Firstly, price of LCD rose continuously and relationship between supply and demand is uncertainty, which brought mounting pressure to sales of products.

Secondly, part high ended products and foreign brand will join in the policy because maximum price of household electrical appliance pushed to rural market rose up.

(2) Countermeasure

A. The Company will deepen strategy of value operation, execute diversity strategy, actively adjust products structure and stably enlarge market scale to weak pressure from rise of cost.

B. The Company will focus on improvement of market advantage and profitability when promote sales revenue and realize profit index.

C. The Company will actively take part in activities of pushing household electrical appliance to the rural market and exchange of new products with used ones to enlarge sales scale and promote products structure.

D. the Company will promote enthusiasm of staffs in branch and operating department and improve sales ability of branch and operating department.

E. The Company will promote veracity of sales plan, and hold whole relationship between supply and demand more exactly.

(VII) Investment of the Company

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

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

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

(VIII) Fair value measurement

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

As for the financial assets available for sale, the Company initially measured in accordance with fair value obtained, relevant transaction charge listed in initial confirmed amount, gains or losses from change of fair value directly listed in owners' equity, which transferred into current gains and losses when the financial assets was confirmed. Fair value was market value of financial assets available for sale.

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

V. Significant Events

(I) corporate governance

In the report period, the Company operated in strict accordance with the Company Law, Securities Law and relevant regulations and laws set by CSRC and Shenzhen Stock Exchange. Based on the relevant regulations newly issued, the Company amended its Articles of Association and formulated the Specific Rules for Engaging CPA Firm. At the same time, it continued to perfect its corporate governance structure, standardize the operation and better the information disclosure. And all the resolutions made by the Shareholders' General Meeting and the Board of Directors were faithfully executed. The actual corporate governance of the Company was in line with regulatory documents issued by CSRC on the corporate governance of listed companies.

() Particulars about profit distribution, capitalization and share issuance

Examined and approved at the 2008 Annual Shareholders' General Meeting, the Company's profit distribution plan for the year 2008 was detailed as follows:

1. 10% of the net profit in the year 2008, i.e. RMB 23,226,113.46, was withdrawn as statutory surplus reserves;
2. The remaining net profit of 2008 after withdrawing the statutory surplus reserves was kept as the retained profit for the year, which, together with the retained profit for the year 2007, became the sources of profit distribution for the year of 2008.

Plan of profit distribution: based on the total shares of 1,203,972,704 shares at the end of 2008, a cash dividend of RMB 0.5 (tax included) was distributed for every 10 shares to all the shareholders. And a total dividend of RMB 60,198,635.2 was distributed, with the rest of the retained profit carried forward for distribution in the future years.

The said profit distribution plan had been implemented, with the date of record and the ex-dividend date for A shares respectively on 9 Jul. 2009 and 10 Jul. 2009, and the last trading date, the ex-dividend date and the date of record for B shares respectively on 9 Jul. 2009, 10 Jul. 2009 and 14 Jul. 2009.

() Significant lawsuits and arbitrations

In the report period, the Company was not involved in any significant lawsuits or arbitrations.

() Other significant events, as well as analysis and explanation on their influence and relevant solutions

1. Equity of other listed companies held by the Company

Unit: RMB

Stock code	Short form of stock	Initial investment amount	Proportion in the equity of the said company	Book value at period-end	Gains and losses in report period	Changes in owners' equity in report period	Accounting entry	Source of stock

000002	Vanke	2,311,748.07	0.00%	1,495,702.50	5,865.50	739,053.00	Financial assets available for sale	Subscription of new stock
600891	ST CHURIN	9,000,000.00	3.84%	9,000,000.00	0.00	0	Financial assets available for sale	Subscription of corporate shares
Total	-	11,311,748.07	-	10,495,702.50	5,865.50	739,053.00	-	-

Notes: 1. The equities of other listed companies held by the Company as shown in the table above were those included in the accounting items of long-term equity investment and financial assets available for sale.

2. The gains and losses in the report period in the table above referred to the effect of an investment on the consolidated net profit of the Company in the report period.

3. In the report period, the Company held no equities of financial enterprises such as commercial banks, securities banks, insurance companies, trust companies and futures companies, as well as companies to be listed.

() Significant asset acquisition, sale and reorganization

1. In the report period, the Company did not conduct any significant asset acquisition, sale or reorganization.

2. In the report period, there existed no transferring of property rights or creditor's rights and liabilities, for the Company did not conduct any significant asset acquisition, sale or reorganization.

() Significant related transactions

1. Related transactions with controlling shareholder and its subsidiaries

During the first half of 2009, there existed some related transactions between the Company and its controlling shareholder—Overseas Chinese Town Group Company—and its subsidiaries, mainly involving the Company's paying property management fee, water and power fee, land use fee to and purchasing goods from the latter. All the involved transactions were conducted fairly based on normal market prices, with no harm done to the Company and the other shareholders of the Company. For more details, please refer to "(4) Transactions with related companies" and "(5) Contacts with related companies" in the "Note" to the accounting statements of the financial report.

2. Implementation of related transactions arising from routine operation (Unit: RMB)

Type of related transactions	Further classification according to product or labor service	Related parties	Total implemented amount in the first half of 2009		Proportion in the same kind of transactions
Purchase of raw materials	Cardboard boxes for color TV	Shanghai Huali Packaging Co., Ltd	2,882,256.22	22,235,962.57	0.10%
		Shenzhen Huali Packing & Trading Co., Ltd	2,679,312.32		0.09%
		Anhui Huali Package Co., Ltd.	8,407,392.45		0.28%
		Shenzhen Huayou Package Co., Ltd.	8,267,001.58		0.27%

Notes: The proportion in the same kind of transactions in the table above referred to that in the purchase of raw materials for color TVs.

(1) The Public Notice on Estimate of Routine Related Transactions (Public Notice No.: 2009-05) was disclosed by the Company dated 30 Apr. 2009 on Securities Times, Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and the internet website <http://www.cninfo.com.cn> designated by CSRC. In the report period, the actual pricing principles, transaction prices, transaction amounts and settlement modes of the Company's packaging material purchase from Shanghai Huali Packaging Co., Ltd., Shenzhen Huali Packing & Trading Co., Ltd., Anhui Huali Package Co., Ltd. and Shenzhen Huayou Package Co., Ltd. were basically the same with the estimates.

(2) The business transactions between the Company and the said related parties were all conducted based on the general business rules and the fair and just principles. And the related parties were treated the same way as other companies with business relationship, which thus did no harm to the interests of the Company and all its shareholders.

(3) The related transactions between the Company and the said related parties were necessary for the Company's routine operation, which were all conducted on the principle of purchasing through public bidding. In order to ensure its stable business development, the Company would continue to cooperate with the said related parties in a fair and mutually beneficial way. The relevant related transactions were considered helpful both for the long-term cooperation between the Company and the said related parties, and the business development of the Company.

3. Guarantees between the Company and its related parties

In the report period, there existed no guarantees between the Company and its related parties.

4. Joint investments in external parties by the Company and its related parties

In the report period, there existed no joint investments in external parties by the Company and its related parties.

5. In the report period, the Company did not conduct any other significant related transactions.

() Significant contracts and their implementation

1. In the report period, the Company did not hold in trust, contract or lease assets of other companies, or vice versa.

2. In the report period, the Company did not entrust others with financial affairs.

() Commitments made by shareholders

1. When the Company conducted the share merger reform in 2006, its shareholder—Overseas Chinese Town Group Company—made the following commitments:

Name of shareholder	Special commitments	Implementation	Remarks
Overseas Chinese Town Group Company	(1) No trading or transferring of the non-tradable shares of Konka Group held by OCT Group would be conducted within 24 months since the date when those shares became tradable in the A-share market. (2) After the expiration of the aforesaid commitment, the originally non-tradable shares of Konka Group sold by OCT Group through listing at the stock exchange would not exceed 5% of Konka Group's total shares within 12 months, and not exceed 10% within 24 months.	Up until now, no shares subject to trading moratorium have been traded or transferred.	

2. The Company or shareholders holding over 5% of the Company's shares did not disclose any other commitments on the designated newspapers and website in the report period.

() Field researches, interviews and visits received by the Company in report period

In the report period, the Company received phone calls and visits from investors in an enthusiastic manner and gave detailed answers to the questions raised. In strict compliance with the Guidelines of Shenzhen Stock Exchange on Fair Information Disclosure of Listed Companies, the Administrative Rules of Konka Group Co., Ltd. for Information Disclosure and the Administrative Rules of Konka Group Co., Ltd. for Relationship with Investors, the Company provided disclosed information for visitors, and introduced to them the actual production and operation status of the Company in a objective, factual, accurate and complete way, with no leak of the undisclosed important information. And the phone calls and visits received by the Company in the report period were detailed as follows:

Reception time	Reception place	Reception way	Visitor	Main discussion and materials provided by the Company
21 Jan. 2009	Meeting room of the Company	Field research	Citic Securities and Changsheng and Changsheng Fund Management	Development trends in color-TV industry, competitiveness of LCD TVs and the Company's position in color-TV industry
5 Feb. 2009	Meeting room of the Company	Field research	PingAn Securities	Development strategies of the Company's color-TV business, the Company's new LCD TV products and status of the LCD TV industry
18 Feb. 2009	Meeting room of the Company	Field research	CCB International Asset Management	Current status and development trends of color-TV industry, and development strategies of the Company's LCD TV business
19 Feb. 2009	Meeting room of the Company	Field research	SYWG BNP Paribas, Boshi Fund Management, Fullgoal Fund Management, Yinhua Fund Management, CCB Principal Asset Management, etc.	Competitiveness and development trends of the Company's color-TV products, market possibility of new products and progress of new product promotion
20 Feb. 2009	Meeting room of the Company	Field research	China Securities	Particulars about investment in LCD module project, basic information of the Company's color-TV and cell-phone businesses
23 Feb. 2009	Meeting room of the Company	Field research	SINOLINK Securities	Construction progress of Konka R&D Building and development trends of color-TV industry
25 Feb. 2009	Jining Branch	Field research	Shenyin Wanguo Securities, Tianhong Asset Management, Fortune SGAM Fund Management, Harfor Fund Management, Power Pacific Co., Ltd., etc.	Particulars about sales of household appliances in the countryside
5 Mar. 2009	Meeting room of the Company	Field research	Penghua Fund Management, United Securities, CJIS and Yingda Securities	The Company's investments in 2009, progress of LCD module project and the competition strategies of color-TV
5 Mar. 2009	Meeting room of the Company	Field research	Guoxin Securities, Rongtong Fund Management, ABC-CA	Development trends in color-TV industry, expense reduction of the Company and

			Fund Management and China Merchants Fund Management	particulars about the Company's investments in 2009
16 Mar. 2009	Meeting room of the Company	By telephone	Citic Securities	Development trends in color-TV industry and market competitiveness of the Company's color-TV products
2 Apr. 2009	Meeting room of the Company	Field research	Morgan Stanley	Core competitiveness and development strategies of the Company, and market possibility of new products and progress of new product promotion
30 Apr. 2009	Meeting room of the Company	By telephone	Shenyin Wanguo, SINOLINK Securities, etc.	Basic information of the Company's main businesses and the Company's position in the industry
6 May 2009	Meeting room of the Company	Field research	CJIS, First-Trust Fund Management, Da Cheng Fund Management and Lion Fund Management	Development trends in the industry, the Company's position in the industry and development strategies of the Company
11 May 2009	Meeting room of the Company	Field research	BNP Paribas Securities, and JP Morgan Securities	Particulars about bids won in the Project of "Promoting Household Appliances in Rural Area", product sales in rural area, and development trends in industries of the Company's main products
13 May 2009	Meeting room of the Company	Field research	Fortis Haitong Investment Management	Particulars about the Company's 2008 Annual Report, development strategies of the Company and product sales in rural area
13 May 2009	Meeting room of the Company	Field research	Congrong Investment Management	Product competitiveness of the Company and its planning on new products
15 May 2009	Meeting room of the Company	Field research	HSBC Jintrust Fund Management	Development trends and internal management of the Company, and particulars about investments in LCD module project
2 Jun. 2009	Meeting room of the Company	Field research	Zhongjin Company, CCB Principal Asset Management, ABC-CA Fund Management and Fortune Trust	Development strategies of the Company, and market conditions of color-TV industry, cell-phone industry and white electricity
10 Jun. 2009	Meeting room of the Company	Field research	SINOLINK Securities, Fortune Securities, China Securities and Hong Yuan Securities	Business development, development strategies and internal management of the Company,
15 Jun. 2009	Meeting room of the Company	Field research	Guotai Junan Securities	Competitiveness and development strategies of the Company's color-TV, cell-phone and white electricity products, and market possibility of new products
25 Jun. 2009	Meeting room of the Company	Field research	Guotai Junan Securities	Particulars about investment in LCD module project, and basic information of the Company's color-TV and cell-phone businesses

() Other significant events

In the report period, the Company, its Board of Directors and directors received no investigations, administrative punishment or criticism by circular from CSRC, as well as no punishment from other administrative authorities or open criticism from the stock exchange.

() Index for information disclosed

1. Public Notice on Estimate of Routine Related Transactions; Public Notice No.: 2009-05; Disclosure Date: 30 Apr. 2009.
2. Public Notice on Retroactive Accounting Adjustment; Public Notice No.: 2009-06; Disclosure Date: 30 Apr. 2009.
3. Public Notice on Resolutions Made at 2008 Annual Shareholders' General Meeting; Public Notice No.: 2009-11; Disclosure Date: 30 Jun. 2009.

All the said public notices were disclosed on Securities Times, Shanghai Securities News, China Securities Journal, Hong Kong Ta Kung Pao and www.cninfo.com.cn.

() Explanation on capital flows and guarantees between the Company and its related parties

1. Capital flows between the Company and its related parties by 30 Jun. 2009 (Unit: RMB'0000)

Name of related party	Relationship with the Company	Accounting entry	Beginning balance	Debit	Credit	Closing balance	Occupation way	Repayment way	Whether or not an irregular capital occupation prohibited by Document No.56

Shenzhen OCT East Co., Ltd.	Subsidiary of the principal shareholder	Accounts receivable	626.97	702.70	664.84	664.83		Cash	No
Chengdu Tianfu OCT Industry Development Co., Ltd.	Subsidiary of the principal shareholder	Accounts receivable	1,267.40	287.31	1,403.75	150.96		Cash	No
Century OCT (Beijing) Co., Ltd.	Subsidiary of the principal shareholder	Accounts receivable	87.50	-	81.25	6.25		Cash	No
Shenzhen Konka Energy Technology Co., Ltd.	Affiliated company	Accounts receivable	4.03	-	4.03	-		Cash	No
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary of the principal shareholder	Other receivables	130.34	-	7.07	123.27		Cash	No
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the principal shareholder	Other receivables	7.74	-	-	7.74		Cash	No
Shenzhen OCT Water and Power Company	Subsidiary of the principal shareholder	Other receivables	200.77	432.99	374.60	259.16		Cash	No
Shanghai Huali Packaging Co., Ltd.	Subsidiary of the principal shareholder	Accounts payable	164.43	501.65	337.22	-		Cash	No
Shenzhen Huali Packing & Trading Co., Ltd.	Subsidiary of the principal shareholder	Accounts payable	164.67	303.76	313.48	174.39		Cash	No
Shenzhen Huayou Package Co., Ltd.	Sub-subsidiary of the principal shareholder	Accounts payable	260.88	1,213.70	1,168.01	215.19		Cash	No
Shanghai OCT Investment & Development Co., Ltd.	Subsidiary of the principal shareholder	Accounts received in advance	-	-	881.06	881.06		Cash	No

2. Particulars about guarantees

In the report period, the Company provided no guarantees for its holding subsidiaries or any other external parties.

3. Special explanation and independent opinion of independent directors on the Company's provision of external guarantees and executing the Circular of CSRC on Certain Issues Regarding Regulating Capital Flows between Listed Companies and Related Parties and Regarding Provisional of External Guarantees by Listed Companies (ZJF [2003] No.56)

According to the Circular of CSRC on Certain Issues Regarding Regulating Capital Flows between Listed Companies and Related Parties and Regarding Provisional of External Guarantees by Listed Companies (ZJF [2003] No.56), as the independent directors of Konka Group Co., Ltd. (hereinafter referred to as "the Company"), we conducted specific examinations on the capital flows between the Company and its related parties, as well as on the external guarantees provided by the Company. And we hereby express our independent opinions as follows:

1. Up to 30 Jun. 2009, the principal shareholder of the Company had not occupy any capital of the Company; and the capital occupation by some related parties of the principal shareholder (Shenzhen OCT Real Estate Co., Ltd., Shenzhen OCT Property Management Co., Ltd., Shenzhen OCT Water & Power Co., Ltd., etc.) was mainly resulted from the deposit collection and other timing differences arising from routine business contacts. 2. The operational capital flows between the Company and its principal shareholder and the related parties of the principal shareholder during the first six months of 2009 were specified as follows:

(1) There existed related transactions concerning the Company's purchase of color-TV packing materials from some subsidiaries indirectly controlled by the principal shareholder (Shanghai Huali Packaging Co., Ltd., Shenzhen Huali Packing & Trading Co., Ltd., Anhui Huali Packing Co., Ltd. and Shenzhen Huayou Package Co., Ltd.). And the said related transactions had been submitted to and approved by the relevant board meetings, which were later disclosed to the public. The Company settled the relevant accounts with the said related parties at fixed periods according to relevant contracts, and consequently, there occurred no non-operational capital flows.

(2) There existed small-amount operational capital flows arising from the Company's selling TV walls to and repairing TV walls for some subsidiaries of the principal shareholder (Shenzhen OCT East Co., Ltd., Chengdu Tianfu OCT Industry Development Co., Ltd., etc.).

3. During the first half of 2009, there occurred no non-operational capital flows between the Company and its principal shareholder and the latter's related parties.

4. Up to 30 Jun. 2009, the Company had been operating in a regular manner with no provision of guarantees for external parties.

To sum up, we were of the opinion that the Company did not violate relevant provisions in the Document ZJF [2003] No.56.

Independent Directors: Feng Yutao, Yang Haiying and Zhang Zhong

() Significant asset pledge

As approved at the 11th Meeting of the 6th Board of Directors and the 1st Provisional Shareholders' General Meeting in 2008, the Company applied to Bank of China for a comprehensive credit line not exceeding RMB 3.5 billion with a term of two years. At the same time, the Company provided the following assets for Bank of China as pledge: bank's acceptance bills receivable with the par value of specific time point not lower than RMB 1.2 billion, of which one billion was provided by the Company and the other 0.2 billion by Shenzhen Konka Telecommunications Technology Co., Ltd.

VI. Financial Report

The interim financial report 2009 of the Company (unaudited) is attached behind.

VII. Documents Available for Reference

1. Text of the interim report 2009 carrying the signature of Chairman of the Board of Directors;
2. Text of financial report carrying the signatures and seals of person in charge of the Company, chief in charge of accounting and person in charge of the accounting organization;
3. Texts of all documents disclosed on newspapers designated by CSRC;
4. Text of the Company's Articles of Association;
5. Other relevant materials.

Board of Directors
Konka Group Co., Ltd.
27 Aug. 2009

Konka Group Co., Ltd.

FINANCIAL REPORT

For the period from Jan. 2009 to Jun. 2009

(un-audited)

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Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Balance Sheet

Prepared by: Konka Group Co., Ltd.

30 Jun. 2009

Unit: (RMB) Yuan

Items	Closing balance		Beginning balance	
	Consolidation	Parent company	Consolidation	Parent company
Current Assets:				
Monetary funds	3,323,801,475.66	2,362,501,455.64	2,066,252,494.08	1,475,666,531.16
Settlement reserve				
Dismantle fund				
Transaction financial asset				
Notes receivable	1,803,663,218.25	1,704,103,705.94	2,602,862,135.40	2,490,683,124.51
Account receivable	1,037,604,429.67	817,254,216.48	1,326,261,316.54	1,047,632,207.37
Account paid in advance	138,273,374.82	243,847,478.18	258,992,334.73	202,116,433.21
Premiums receivable				
Reinsurance premiums receivable				
Reinsurance contract reserves receivable				
Interest receivable	21,619,461.69	20,578,728.86	19,905,867.09	17,616,624.79
Dividend receivable				
Other receivables	70,618,947.74	956,492,322.52	81,299,762.88	1,069,914,747.28
Buying back the sale of financial assets				
Inventories	2,776,489,755.51	2,076,709,166.39	2,573,776,867.13	1,914,848,396.91
Non-current assets due within 1 year				
Other current assets				
Total current assets	9,172,070,663.34	8,181,487,074.01	8,929,350,777.85	8,218,478,065.23
Non-current assets:				
Loans and advances				
Available-for-sale financial assets	10,495,702.50	10,495,702.50	9,756,649.50	9,756,649.50
Held-to-maturity investments				
Long-term account receivable				
Long-term equity investment	21,035,083.44	1,149,511,669.87	21,610,338.75	1,149,511,669.87
Investment properties				
Fixed assets	1,309,526,158.06	401,497,142.47	1,344,177,898.16	417,114,182.46
Construction in progress	63,099,441.17	29,077,186.56	27,331,613.11	17,412,689.40
Engineering material				
Disposal of fixed assets				
Production biological assets				
Oil-gas assets				
Intangible assets	174,975,940.39	19,662,067.24	69,223,899.60	19,277,794.23
Development expenses				
Goodwill	3,943,671.53		3,943,671.53	
Long-term deferred expenses	20,034,514.94	7,299,751.48	19,897,124.12	5,970,948.27
Deferred income tax assets	92,374,578.39	90,905,544.27	91,993,543.01	91,053,354.87
Other non-current assets				
Total of non-current assets	1,695,485,090.42	1,708,449,064.39	1,587,934,737.78	1,710,097,288.60
Total assets	10,867,555,753.76	9,889,936,138.40	10,517,285,515.63	9,928,575,353.83

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Balance Sheet (Continued)

Prepared by: Konka Group Co., Ltd.

30 Jun. 2009

Unit: (RMB) Yuan

Current liabilities:				
Short-term borrowings	1,867,811,259.60	1,659,101,209.60	1,346,375,610.78	1,094,765,111.29
Borrowings from central bank				
Deposits and due to banks and other financial institutions				

Call loan received				
Transaction financial liabilities	10,303,877.31	8,445,431.25	12,481,880.16	10,623,434.10
Notes payable	2,521,140,057.15	1,946,026,187.07	2,637,681,947.36	2,441,813,730.21
Account payable	1,553,297,685.26	1,635,374,376.86	1,571,761,341.98	1,640,897,495.08
Account received in advance	197,966,561.12	96,366,858.96	179,376,510.50	110,769,256.44
Financial assets sold for repurchase				
Handling charges and commissions payable				
Payroll payable	129,723,700.15	55,968,478.22	168,838,494.96	81,507,222.39
Tax payable	-113,130,500.94	-71,899,671.45	14,263,975.12	27,855,510.51
Interest payable	8,076,421.29	6,770,718.01	8,247,223.62	5,511,794.93
Dividend payable	68,757,003.94	60,198,635.20	7,108,659.46	
Other account payable	553,598,962.16	611,394,493.95	527,535,236.31	628,707,957.85
Reinsurance premiums payable				
Insurance contract reserves				
Money paid for acting trading of securities				
Money paid for acting underwriting of securities				
Non-current liabilities due within 1 year				
Other current liabilities				
Total current liabilities	6,797,545,027.04	6,007,746,717.67	6,473,670,880.25	6,042,451,512.80
Non-current liabilities:				
Long-term borrowings				
Bonds payable				
Long-term payables				
Deferred income	59,731,369.62	52,592,369.62	43,578,369.62	39,442,369.62
Specific payables				
Estimated liabilities				
Deferred income tax liabilities	563,067.21		563,067.21	
Other non-current liabilities				
Total non-current liabilities	60,294,436.83	52,592,369.62	44,141,436.83	39,442,369.62
Total liabilities	6,857,839,463.87	6,060,339,087.29	6,517,812,317.08	6,081,893,882.42
Owner's equity (or shareholder's equity)				
Paid-in capital (or share capital)	1,203,972,704.00	1,203,972,704.00	1,203,972,704.00	1,203,972,704.00
Capital reserves	1,256,729,537.61	1,249,480,753.58	1,256,138,295.21	1,248,889,511.18
Less: treasury stock				
Specific reserves				
Surplus reserves	804,896,533.82	804,896,533.82	804,896,533.82	804,896,533.82
Provisions for general risks				
Retained profits	520,741,504.92	571,247,059.71	500,638,125.11	588,922,722.41
Foreign exchange difference	9,777,401.42		9,397,273.34	
Total owners' equity attributable to parent company	3,796,117,681.77	3,829,597,051.11	3,775,042,931.48	3,846,681,471.41
Minority interest	213,598,608.12		224,430,267.07	
Total owner's equity	4,009,716,289.89	3,829,597,051.11	3,999,473,198.55	3,846,681,471.41
Total liabilities and owner's equity	10,867,555,753.76	9,889,936,138.40	10,517,285,515.63	9,928,575,353.83

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Income Statement

Prepared by: Konka Group Co., Ltd.

Jan.-Jun. 2009

Unit: (RMB) Yuan

Items	Current period		Last period	
	Consolidation	Parent company	Consolidation	Parent company
I. Total operation income	5,172,000,028.20	4,329,763,251.61	5,620,525,986.16	4,702,793,644.33
Including: Sales income	5,172,000,028.20	4,329,763,251.61	5,620,525,986.16	4,702,793,644.33
Interest income				
Premium income				
Handling charges and commission income				
II. Total operation cost	5,090,423,890.96	4,286,504,527.20	5,526,319,698.61	4,593,246,334.05

Including: Cost of sales	4,191,720,715.02	3,555,349,542.17	4,580,703,057.04	3,866,517,856.89
Interest expenses				
Handling charges and commission expenses				
Surrender value				
Net amount of claims				
Net amount of insurance contract reserve withdrawn				
Expenditure on policy dividends				
Reinsurance premium expenses				
Taxes and associate charges	1,501,410.71	564,937.43	1,034,435.32	37,041.48
Selling expenses	670,563,855.90	584,764,007.10	721,722,597.42	603,230,756.88
Administrative expenses	214,206,657.60	140,842,934.39	212,269,696.54	148,309,633.35
Financial expenses	16,182,434.83	9,934,612.96	17,826,655.80	-15,554,145.34
Impairment loss	-3,751,183.10	-4,951,506.85	-7,236,743.51	-9,294,809.21
Add: gain from change in fair value ("-" means loss)	2,178,002.85	2,178,002.85		
Gain from investment ("-" means loss)	-575,255.31	1,350,000.00	7,599,808.46	7,365,762.03
Including: income from investment in affiliated enterprise and joint ventures	-575,255.31			
Foreign exchange difference ("-" means loss)				
III. Operation profit ("-" means loss)	83,178,884.78	46,786,727.26	101,806,096.01	116,913,072.31
Add: non-operation income	6,278,055.51	3,479,033.75	5,137,548.70	2,303,275.91
Less: non-business expense	1,854,367.27	889,650.21	6,105,295.72	3,153,851.12
Including: loss from non-current asset disposal	753,175.86	462,078.33	2,412,998.20	323,710.66
IV. Total profit ("-" means loss)	87,602,573.02	49,376,110.80	100,838,348.99	116,062,497.10
Less: income tax expense	12,616,092.53	6,853,138.30	15,267,557.93	11,717,262.13
V. Net profit ("-" means loss)	74,986,480.49	42,522,972.50	85,570,791.06	104,345,234.97
Attributable to owners of parent company	80,302,015.01	42,522,972.50	80,555,227.21	104,345,234.97
Minority interest	-5,315,534.52		5,015,563.85	
VI. Earnings per share				
(I) basic earnings per share	0.0667	0.0353	0.0669	0.0867
(II) diluted earnings per share	0.0667	0.0353	0.0669	0.0867

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Cash Flow Statement

Prepared by: Konka Group Co., Ltd.

Jan.-Jun. 2009

Unit: (RMB) Yuan

Items	Current period		Last period	
	Consolidation	Parent company	Consolidation	Parent company
I. Cash flows from operating activities:				
Cash received from sale of commodities and rendering of service	6,575,122,853.39	5,762,056,807.56	6,910,295,802.17	5,662,803,081.32
Net increase of deposits from customers and due from banks				
Net increase of loans from the central bank				
Net increase of funds borrowed from other financial institutions				
Cash received from premium of original insurance contracts				
Net cash received from reinsurance business				
Net increase of savings of policy holders and investment fund				
Net increase of disposal of tradable financial assets				
Cash received from interest, handling charges and commissions				
Net increase of borrowed inter-bank funds				
Net increase of buy-back funds				
Tax refunds received	38,971,081.08	11,796,183.47	42,963,705.50	28,341.28
Other cash received relating to operating activities	134,216,272.04	168,237,617.44	110,164,473.50	41,027,393.12
Subtotal of cash inflows from operating activities	6,748,310,206.51	5,942,090,608.47	7,063,423,981.17	5,703,858,815.72
Cash paid for purchase of commodities and reception of service	5,090,616,508.09	4,897,784,258.68	5,589,742,104.05	4,689,100,363.49
Net increase of customer lending and advance				
Net increase of funds deposited in the central bank and amount due				

from banks				
Cash for paying claims of the original insurance contract				
Cash for paying interest, handling charges and commissions				
Cash for paying policy dividends				
Cash paid to and for employees	433,766,746.42	258,790,124.13	431,875,221.33	251,130,551.72
Various taxes paid	680,438,593.05	580,139,020.60	446,040,959.83	360,838,076.93
Other cash paid relating to operating activities	443,793,978.24	328,248,721.95	638,452,481.75	504,609,571.56
Subtotal of cash outflows from operating activities	6,648,615,825.80	6,064,962,125.36	7,106,110,766.96	5,805,678,563.70
Net cash flows from operating activities	99,694,380.71	-122,871,516.89	-42,686,785.79	-101,819,747.98
II. Cash Flows from investment activities:				
Cash received from disposal of investments			41,682,518.25	27,685,782.74
Cash received from investment income		1,350,000.00	17,471,011.87	10,870,396.18
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4,092,314.92	3,000,754.21	228,847.90	177,730.00
Net cash received from disposal of subsidiary or other business units				
Other cash received relating to investment activities	10,164,944.00			
Subtotal of cash inflows from investment activities	14,257,258.92	4,350,754.21	59,382,378.02	38,733,908.92
Cash paid to acquire fixed assets, intangible assets and other long-term assets	101,003,020.36	5,596,863.88	61,425,545.92	14,776,283.03
Cash paid for investment			84,360.00	84,360.00
Net increase of pledged loans				
Net cash paid to acquire subsidiaries and other business units				
Other cash paid relating to investment activities				
Subtotal of cash outflows from investment activities	101,003,020.36	5,596,863.88	61,509,905.92	14,860,643.03
Net cash flows from investment activities	-86,745,761.44	-1,246,109.67	-2,127,527.90	23,873,265.89
III. Cash flows from financing activities:				
Cash received from absorbing investment				
Including: Cash received by subsidiaries from investment of minority interest				
Cash received from borrowings	1,387,409,892.00	1,247,289,300.00	172,459,585.25	150,000,000.00
Cash received from issuance of bonds				
Other cash received relating to financing activities	1,458,711,172.54	1,131,355,911.64		
Subtotal of cash inflows from financing activities	2,846,121,064.54	2,378,645,211.64	172,459,585.25	150,000,000.00
Cash paid to repay loans	856,297,186.92	675,542,098.17	143,116,558.00	100,000,000.00
Cash paid for interest expenses and distribution of dividends or profit	9,144,221.25		23,714,634.51	11,664,265.83
Including: dividends or profit paid to minority shareholders by subsidiaries				
Other cash payments relating to financing activities	1,406,885,638.20	1,266,157,839.52	1,550.97	
Sub-total of cash outflows from financing activities	2,272,327,046.37	1,941,699,937.69	166,832,743.48	111,664,265.83
Net cash flows from financing activities	573,794,018.17	436,945,273.95	5,626,841.77	38,335,734.17
IV. Effect of foreign exchange rate changes on cash and cash equivalents				
	-4,032,221.84	-3,696,290.89	-5,027,713.03	
V. Net increase in cash and cash equivalents				
Add : beginning balance of cash and cash equivalents	845,026,867.06	358,631,499.14	752,558,414.47	556,082,988.52
VI. Closing balance of cash and cash equivalents				
	1,427,737,282.66	667,762,855.64	708,343,229.52	516,472,240.60

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Consolidated Statement of Changes in Owners' Equity

Prepared by: Konka Group Co., Ltd.

30 Jun. 2009

Unit: (RMB) Yuan

Items	Current period									
	Owners' equity attributable to parent company								Minority interest	Total owners' equity
	Paid-in capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserves	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of last year	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
Add: change of accounting policy										
Correction of errors in previous periods										
Others										
II. Balance at the beginning of this year	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
III. Increase/ decrease of amount in this year ("-" means decrease)		591,242.40					20,103,379.81	380,128.08	-10,831,658.95	10,243,091.34
(I) Net profit							80,302,015.01		-5,315,534.52	74,986,480.49
(II) Gain/loss listed to owners' equity directly		591,242.40						380,128.08		971,370.48
1. Net amount of changes in fair value of financial assets available for sale		591,242.40								591,242.40
2. Effect of changes in other owners' equity of invested units under equity method										
3. Effect on income tax related to items listed to owners' equity										
4. Others								380,128.08		380,128.08
Subtotal of (I) and (II)		591,242.40					80,302,015.01	380,128.08	-5,315,534.52	75,957,850.97
(III) Capital input and reduction of owners										
1. Capital input of owners										
2. Amount of stock payment included in the owners' equity										
3. Others										
(IV) Profit distribution							-60,198,635.20		-5,516,124.43	-65,714,759.63
1. Withdrawing surplus public reserve										
2. Withdrawing general risk reserve										
3. Distribution to owners (or shareholders)							-60,198,635.20		-5,516,124.43	-65,714,759.63
4. Others										
(V) Internal carrying forward of owners' equity										
1. New increase of capital (or share capital) from capital reserves										
2. Converting surplus reserves to capital (or share capital)										
3. Surplus reserves make up losses										
4. Others										
IV. Closing balance	1,203,972,704.00	1,256,729,537.61			804,896,533.82		520,741,504.92	9,777,401.42	213,598,608.12	4,009,716,289.89

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Consolidated Statement of Changes in Owners' Equity (Continued)

Prepared by: Konka Group Co., Ltd.

30 Jun. 2009

Unit: (RMB) Yuan

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

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Statement of Changes in Owners' Equity of Parent Company
30 Jun. 2009

Prepared by: Konka Group Co., Ltd.

Unit: (RMB) Yuan

Items	Current period									Minority interest	Total owners' equity
	Owners' equity attributable to parent company								Others		
	Paid-in capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserves	Surplus public reserve	General risk reserve	Retained profit				
I. Balance at the end of last year	1,203,972,704.00	1,248,889,511.18			804,896,533.82		588,922,722.41				3,846,681,471.41
Add: change of accounting policy											
Correction of errors in previous periods											
Others											
II. Balance at the beginning of this year	1,203,972,704.00	1,248,889,511.18			804,896,533.82		588,922,722.41				3,846,681,471.41
III. Increase/ decrease of amount in this year ("-" means decrease)		591,242.40					-17,675,662.70				-17,084,420.30
(I) Net profit							42,522,972.50				42,522,972.50
(II) Gain/loss listed to owners' equity directly		591,242.40									591,242.40
1. Net amount of changes in fair value of financial assets available for sale		591,242.40									591,242.40
2. Effect of changes in other owners' equity of invested units under equity method											
3. Effect on income tax related to items listed to owners' equity											
4. Others											
Subtotal of (I) and (II)		591,242.40					42,522,972.50				43,114,214.90
(III) Capital input and reduction of owners											
1. Capital input of owners											
2. Amount of stock payment included in the owners' equity											
3. Others											
(IV) Profit distribution							-60,198,635.20				-60,198,635.20
1. Withdrawing surplus public reserve											
2. Distribution to owners (or shareholders)							-60,198,635.20				-60,198,635.20
3. Others											
(V) Internal carrying forward of owners' equity											
1. New increase of capital (or share capital) from capital reserves											
2. Converting surplus reserves to capital (or share capital)											
3. Surplus reserves make up losses											
4. Others											
IV. Closing balance	1,203,972,704.00	1,249,480,753.58			804,896,533.82		571,247,059.71				3,829,597,051.11

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzong

Statement of Changes in Owners' Equity of Parent Company (Continued)

Prepared by: Konka Group Co., Ltd.

30 Jun. 2009

Unit: (RMB) Yuan

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

Regal Representative: Hou Songrong

Person-in-charge of Accounting: Yang Guobin

Person-in-charge of the Accounting Agency: Ruan Renzon

Konka Group Co., Ltd.

Notes to the Financial Statements

For the First Six Months of 2009

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

Note I. 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 listed at Shenzhen Stock Exchange. On August 29, 1995, the Company, with its name changed into "Konka Group Co., Ltd.", obtained the 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 converted 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. 106 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 converted 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 shareholders 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 converted from capital reserve). There was a total equity of 281,209,724 shares after shares were presented and equities were converted 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 SZBF[1996] No. 5 document as issued by CSRC Shenzhen Office, ZJPSZ [1996] No. 16 document issued by CSRC and ZJGZ [1996] No. 2 document, 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 Converted into Equity 1998* 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 converted from capital reserves. The total equity was 467,260,323 shares after converted 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 on 3 Apr. 2008, 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 converted from capital reserves are transferred to all shareholders at the rate of 10 for 10. 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 converted 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. After the change, total share capital increased to 1,203,972,704 shares.

Approved business scope: the Company is engaged in R&D, production and business of household appliances such as TV, refrigerator, washing machine, and small household appliances; household Audio and Visual Equipment (AV equipment); IPTV Set-TopBox(STB);USB DVB-T Receiver; satellite navigation system; satellite television receiving system; digital product; mobile communication equipment and final product; consumer electronic products; office equipment; electronic computer; automobile electronics; intelligent transport system; fire-control/ burglar-alarm system; mould; plastics; various packing materials; electronic component, device; monitor; and manufacturing, application and service of large-screen display equipment; LED backlight, illumination, luminescent device and encapsulation, the relevant technical consulting service, after-sales paid service, after-sales auxiliary products business, and business of spare and accessory parts in connection with the products mentioned above; the wholesales, retails, import/export and relevant supporting services (not relating to state trading manage product, the commodities involved in quota permit management and specified special management shall be subject to the relevant national regulations) in connection with the products mentioned above. And paid maintenance service of electronic products, domestic cargo agent, storage service, software development, sales & service, consultancy and service for enterprise management, as well as self-owned property leasing and property management.

Note II. 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 III. Business Mergers and Consolidated Financial Statements

1. Wholly-owned subsidiaries:

Name of Wholly-owned Subsidiary	Registration Place	Business Nature	Registered Capital (Unit: ten thousand)	Ending Actual Investment Amount (Unit: ten thousand)	Net Investment Balance for Subsidiary Materially Constituted (Unit: ten thousand)		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.	RMB20,000	RMB27,478	RMB27,478	100%	—	100%
Anhui Konka Electronic Co., Ltd. (hereinafter referred to as “ Anhui Konka ”)	Anhui	Color TV	RMB14,000	RMB12,278	RMB12,278	78%	—	78%
Mudanjiang Konka Industry Co., Ltd.	Mudanjiang	Color TV	RMB6,000	RMB3,600	RMB3,600	60%	—	60%
Shenzhen Konka Household Appliances Co., Ltd.	Shenzhen	Electron device	RMB830	RMB1,073	RMB1,073	51%	—	51%
Chongqing Konka Electronic Co., Ltd.	Chongqing	Color TV	RMB4,500	RMB2,700	RMB2,700	60%	—	60%
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd (hereinafter referred to as “ Konka Video & Communication ”)	Shenzhen	Development, sales and technology consultation of LED screen and DTV STB	RMB1,500	RMB900	RMB900	60%	—	60%
Chongqing Konka Electronic Co., Ltd.	Chongqing	Development and sales for auto electronic products	RMB3,000	RMB1,710	RMB1,710	57%	—	57%
KONKA AMERICA, INC.	U . S . A	Sales of electronic products	USD100	USD100	USD100	100%	—	100%
Shenzhen Konka Telecommunications Technology Co., Ltd.	Shenzhen	Mobile communication products	RMB12,000	RMB9,000	RMB9,000	75%	25%	100%
Shenzhen Shushida Electronic Co., Ltd.	Shenzhen	Film & TV products and relevant fittings	RMB4,200	RMB3,150	RMB3,150	75%	25%	100%
Hongkong Konka Co., Ltd.	Hongkong	Import & export of electromechanical and electronic products	HKD50	HKD50	HKD50	99%	1%	100%
Anhui Konka Household Appliances Co., Ltd.	Anhui	Production and sales of refrigerator and other electric appliances	RMB7,819	RMB7,498	RMB7,498	92.97%	4.48%	97.45%
Shenzhen Konka Plastic Manufacture Co., Ltd.	Shenzhen	Plastic manufacture	RMB950	RMB465	RMB465	49%	51%	100%
Chongqing Qingjia Electronic Co., Ltd.	Chongqing	Electronic tuner and high frequency head	RMB1,500	RMB450	RMB450	—	40%	40%
Shaanxi Konka Electronic Co., Ltd.	Shaanxi	Color television	RMB6,950	RMB4,487	RMB4,487	45%	15%	60%
Shenzhen Konka Information Network Co., Ltd.	Shenzhen	Production and sales of digital network products	RMB3,000	RMB2,250	RMB2,250	75%	25%	100%
Shenzhen Konka Electron Fittings Technology Co., Ltd.	Shenzhen	Technical development of ED	RMB6,500	RMB4,875	RMB4,875	75%	25%	100%
Dongguan Konka Packing Material Co., Ltd.	Dongguan	Plastic products	RMB1,000	RMB1,000	RMB1,000	—	100%	100%
Dongguan Konka Tooling and Mould Co., Ltd.	Dongguan	Module and rubber products	RMB1,000	RMB1,000	RMB1,000	—	100%	100%
Konka Household Appliances Investment & Development Co, Ltd.	Hongkong	Investment and shareholding	HKD50	HKD50	HKD50	—	100%	100%
Konka Household Appliances International Trading Co., Ltd	Hongkong	International trading	HKD50	HKD50	HKD50	—	100%	100%
Changshu Konka Electronic Co., Ltd.	Changshu	Production and sales of electronic products	RMB2,465	RMB2,028	RMB2,028	—	60%	60%
Boluo Konka Printed Board Co., Ltd.	Guangdong	Production and sales of electronic products	RMB4,000	RMB1,443	RMB1,443	—	51%	51%
Shenzhen Konka Precision Mold Manufacturing Co., Ltd	Shenzhen	All classes of modules	RMB1,450	RMB739.5	RMB739.5	—	51%	51%
Boluo Konka Precision Technology Co., Ltd.	Boluo	Production and sales of electronic products	RMB1,500	RMB1125	RMB1125	—	100%	100%
Konka (Nanhai) Developer Center	Nanhai	R&D of panel display technology,	RMB50	RMB50	RMB50	100%	—	100%

Konka (Europe) Ltd.	Frankfurt	production development, etc. Sales of electronic products	EUR2.5	EUR2.5	EUR2.5	100%	—	100%
Kunshan Konka Electronic Co Ltd.	Kunshan	Research, design, and production of LCM and panel TV	RMB35,000	RMB35,000	RMB35,000	100%	—	100%

2. Information about Affiliated Company:

Name of Company	Registration Place	Legal Representative	Registered Capital (Unit: ten thousand)	Actual Investment Amount (Unit: ten thousand)	Holding Proportion	Main Business
Shenzhen Dekon Electronics Co., Ltd	Shenzhen	Qiu Weimin	RMB1,000	RMB300	30%	Production and sales of electronic products
Shenzhen Konka Energy Technology Co., Ltd	Shenzhen	Dong Yaping	RMB2,000	RMB300	30%	Operation of new mobile energy products, etc.
Chongqing Jingkang Plastic Product Co., Ltd.	Chongqing	Wang Xiaoyong	RMB1,500	RMB375	31.25%	Manufacturing and processing of module products
Shenzhen Julong OptoElectronics Co., Ltd	Shenzhen	Yu Zhonghou	RMB1,000	RMB200	20%	R&D, manufacture and sales of panel optical display device, etc.
Shanlian Information Technology Project Co., Ltd	Beijing	He Zhiqiang	RMB5,200	RMB500	9.61525%	Technical development, transfer, consultation, service, etc.
Shenzhen Zhongcailian Technology Co., Ltd	Shenzhen	Fan Wenjian	RMB1,000	RMB100	10%	Electronic technology development, economic information consultation

3. Information about Minority Interests

Name of Subsidiary	Minority Interests
Mudanjiang Konka Industry Co., Ltd.	29,661,125.58
Shaanxi Konka Electronic Co., Ltd.	40,926,881.90
Anhui Konka Electronic Co., Ltd.	47,719,197.83
Shenzhen Konka Household Appliances Co., Ltd.	(6,920,174.30)
Chongqing Konka Electronic Co., Ltd.	14,390,799.25
Boluo Konka Printed Board Co., Ltd.	22,277,654.27
Chongqing Konka Automotive Electronic Co., Ltd.	(3,813,816.56)
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.	34,654,353.75
Anhui Konka Household Appliances Co., Ltd.	3,791,687.86
Shenzhen Konka Video & Communication Engineering Co., Ltd	3,271,410.55
Changshu Konka Electronic Co., Ltd.	10,967,505.94
Shaanxi Qingjia Electronic Co., Ltd.	16,671,982.05
Total	213,598,608.12

Note IV 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) Recording currency:

RMB Yuan

(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 conversion method of financial statements: When initial recognition is made for foreign transaction, the amount in foreign currency shall be converted 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 converted 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 converted 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 criterions 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 account 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 an 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) Governmental subsidy:

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

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

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

The 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 subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows:

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

(22) Staff salaries:

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 \times the lapsed time after issuance \div the time during the reporting period - the number of ordinary shares repurchased in the current period \times the lapsed time after repurchase \div 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 conversion of the diluted potential ordinary shares

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

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

In case the exercise prices of the share warrants and share options are lower than the average market price of the ordinary shares of the current period, the dilution shall be taken into consideration. The 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 V. 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 immoveable 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 2009, 20% for the companies incorporated in Shenzhen; 15% for Shenzhen Communication Technology, 25% for the companies incorporated in other places; 17.5% for the companies incorporated in Hong Kong, 15% for Chongqing Qingjia

(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.

On 8 Oct. 2008, in accordance with BGS [2008] No. 94 document “the reply concerning Boluo Konka Precision Technology Co., Ltd. applying for the tax preference of “two-year exemption and three-year half”, National Taxation Bureau of Boluo County Guangdong agreed with Boluo Konka Precision Technology Co., Ltd. to enjoy the tax preference of “two-year exemption and three-year half” since 2008 (be exempt from enterprise income tax for the 2008 to 2009, allowed a fifty percent reduction in the 2010 to 2012).

On 11 Nov. 2002, in accordance with the reply concerning five foreign-investment enterprises such as Chongqing Qingjia enjoying the preferential tax policies for the “Western Development Program” (YGS [2002] No. 488 document), National Taxation Bureau of Chongqing agreed with Chongqing Qingjia to enjoy the preferential tax policies for the “Western Development Program” in 2001 to 2010, a 15 percent preferential income tax will be levied.

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

Note 1. Monetary Funds

Category	Currency	Original Currency Amount	Converted Exchange Rate	Ending amount	Beginning amount
Cash	RMB	11,231.58	1.00	11,231.58	10,028.46
	HKD	276.90	0.88	244.09	323.29
	USD	9.16	6.83	62.58	44.60
	EUR	10	9.64	96.41	---
Sub-total				11,634.66	10,396.35
Bank deposit	RMB	1,259,071,680.25	1.00	1,259,071,680.25	730,184,096.80
	HKD	20,089,084.50	0.88	17,708,527.99	16,580,634.12
	USD	21,913,710.29	6.83	149,712,277.33	88,294,678.57

	GBP	1.32	11.34	14.97	13.01
	CAD	17,126.34	5.93	101,500.93	1,740,032.23
	JPY	5,777,141.00	0.07	414,991.89	497,062.47
	EUR	74,334.55	9.64	716,654.64	716,353.76
Sub-total				1,427,725,648.00	838,012,870.96
Other monetary fund	RMB	1,896,064,193.00	1.00	1,896,064,193.00	1,228,229,226.77
Sub-total				1,896,064,193.00	1,228,229,226.77
Total				3,323,801,475.66	2,066,252,494.08

* As compared with the beginning balance of monetary funds, the ending balance of the monetary funds is increased by RMB ¥ 1,257,548,981.58, up 60.86%, mainly attributable to increase in fixed deposit due to that the Company launched deposits from discount on acceptance bill transferred to the bank in the reporting period; increase in the pledged deposit because the Company launched the NDF combination business, which Renminbi deposit was pledged for purpose of borrowing in dollars.

** The ending balances of other monetary funds amounting to RMB ¥ 982,972,940.05 shall be pledged to secure NDF US dollars loan.

***The cash as listed in the Statements of Cash Flow shall include:

Item	Ending amount
Monetary fund	3,323,801,475.66
Less : Restricted hypothecated deposit	1,896,064,193.00
Cash balance for the year ended on 30 Jun. 2009	1,427,737,282.66
Less: Cash balance for the year of December 31, 2008	845,026,867.06
Net increase cash equivalents	582,710,415.60

Note 2 Notes Receivable

Category	Ending amount	Beginning amount
Banker's acceptance bill	1,795,577,496.53	2,600,112,135.40
Commercial Acceptance Bill	8,085,721.72	2,750,000.00
Total	1,803,663,218.25	2,602,862,135.40

* In the ending notes receivable, RMB 1,242,831,489.21 shall be pledged to secure the line of credit of Bank of China

** As compared with beginning balance of notes receivable, the ending balance in notes receivable is reduced by RMB ¥ 799,198,917.15, down 30.70%, mainly attributable to increase in discount on notes receivable due to that the Company launched deposits from discount on acceptance bill transferred to the bank in the reporting 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 amount			Beginning amount		
	Amount	Proportion to total amount	Bad debt reserve	Amount	Proportion to total amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amounts significant	176,655,358.66	14.30	3,533,107.18	438,800,687.41	28.77	8,776,013.75
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	177,618,598.29	14.38	166,874,874.95	169,741,255.65	11.13	159,610,940.00
III Other insignificant	881,087,914.98	71.32	27,349,460.13	916,499,935.74	60.10	30,393,608.51
Total	1,235,361,871.93	100	197,757,442.26	1,525,041,878.80	100	198,780,562.26

Total amount of top 5	310,610,232.20	25.14	6,212,204.64	409,470,498.40	26.85	8,189,409.97
Account receivable amount occupied by related parties	8,220,402.00	0.67	164,408.04	19,859,002.24	1.3	396,374.24

* 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 ending balance less than RMB ¥ 20,000,000 and 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 decreased by RMB ¥ 289,680,006.87, down by 18.99%, mainly attributable to decrease in balance of accounts receivable from key distributor such as Suning Appliance and Gome.

***** 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.	108,633,134.21	2%	Age within one year
Beijing Pangushi Investment Co., Ltd.	103,357,300.00	2%	Pledged with properties
SpiceMobilesLtd.(India)	40,901,567.32	2%	Age within one year
Nanning Gome Logistics Co., Ltd.	32,396,491.34	2%	Age within one year
Shanghai Darunfa Co., Ltd.	25,321,739.33	2%	Age within one year
Total	310,610,232.20		

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

Age	Ending amount			Beginning amount		
	Amount	Proportion to Total Amount	Bad debt reserve	Amount	Proportion to Total Amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
Within 1 year	1,018,441,422.64	82.44	20,414,555.54	1,310,854,747.33	85.96	29,894,646.94
1-2 years	10,554,911.54	0.85	2,734,813.57	17,648,012.57	1.16	2,843,936.34
2-3 years	28,746,939.46	2.33	7,733,198.20	26,797,863.25	1.75	6,431,038.98
Over 3 years	177,618,598.29	14.38	166,874,874.95	169,741,255.65	11.13	159,610,940.00
Total	1,235,361,871.93	100	197,757,442.26	1,525,041,878.80	100	198,780,562.26

(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 amount			Beginning amount		
	Amount	Proportion to total amount	Bad debt reserve	Amount	Proportion to total amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amounts significant	256,492,457.94	25.85	647,929.83	481,797,364.65	39.41	6,235,264.51
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	168,057,902.20	16.94	159,650,897.10	163,149,481.88	13.35	152,427,748.12
III Other insignificant	567,600,061.11	57.21	14,597,377.84	577,364,766.21	47.24	16,016,392.74

Total	992,150,421.25	100	174,896,204.77	1,222,311,612.74	100.00	174,679,405.37
Total amount of top 5	423,442,785.76	42.68	3,327,027.30	436,699,982.50	35.73	6,122,263.97
Account receivable amount occupied by related parties	258,288,208.75	26.03	164,408.04	191,264,046.41	15.65	396,374.24

* 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.-payment for goods	216,820,898.67	---	Related current
Nanjing Purchasing Center, Suning Appliance Co., Ltd.	108,633,134.21	2%	Age within one year
Dongguan Konka Tooling and Mould Co., Ltd.	40,270,522.21	---	Related current
Nanning Gome Logistics Co., Ltd.	32,396,491.34	2%	Age within one year
Shanghai Darunfa Co., Ltd.	25,321,739.33	2%	Age within one year
Total	423,442,785.76		

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

Age	Ending amount			Beginning amount		
	Amount	Proportion to Total Amount	Bad debt reserve	Amount	Proportion to Total Amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
Within 1 year	801,928,236.49	80.83	11,532,594.64	1,031,908,073.16	84.42	17,233,996.34
1-2 years	2,425,314.70	0.24	121,265.74	2,887,670.86	0.24	144,383.54
2-3 years	17,957,236.46	1.81	3,591,447.29	24,366,386.84	1.99	4,873,277.37
Over 3 years	169,839,633.60	17.12	159,650,897.10	163,149,481.88	13.35	152,427,748.12
Total	992,150,421.25	100	174,896,204.77	1,222,311,612.74	100	174,679,405.37

Note 4. Prepayment

Age	Ending amount		Beginning amount	
	Amount	Proportion to total amount	Amount	Proportion to total amount
	RMB	%	RMB	%
Within 1 year	128,565,860.09	92.98	241,568,633.96	93.27
1-2 years	4,446,193.21	3.22	545,713.77	0.21
2-3 years	677,977.44	0.49	11,879,806.39	4.59
Over 3 years	4,583,344.08	3.31	4,998,180.61	1.93
Total	138,273,374.82	100	258,992,334.73	100

* In the ending balance of prepayment, 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 prepayment, the ending balance is decreased by RMB ¥ 120,718,959.91, down 46.61%, mainly attributable to: Prepayment for Land Purchases amounting to RMB ¥ 54,729,792.00 by Kunshan Konka Electronic Co., Ltd. (a wholly-owned subsidiary of the Company) at the beginning of the year, while the said payment is transferred into intangible assets due to that certificate of the land use right was completed in the reporting period; decrease in advance payment for materials over the last period.

Note 5. Interests receivable

Items	Ending amount	Beginning amount
-------	---------------	------------------

NDF business combination		19,905,867.09
- Interest income from RMB deposit pledge	21,619,461.69	
Total	21,619,461.69	19,905,867.09

Note 6. 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 amount			Beginning amount		
	Amount	Proportion to Total Amount	Bad debt reserve	Amount	Proportion to Total Amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amounts significant	---	---	---	---	---	---
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	26,856,270.82	32.81	9,373,893.11	18,140,475.47	19.47	9,367,264.16
III Other insignificant	54,996,423.87	67.19	1,859,853.84	75,034,212.62	80.53	2,507,661.05
Total	81,852,694.69	100	11,233,746.95	93,174,688.09	100	11,874,925.21
Total amount of top 5	13,257,923.63	16.20	457,283.15	23,959,812.64	25.71	360,037.79
Account receivable amount occupied by related parties	3,901,748.49	4.77	1,367,089.69	3,388,543.73	3.64	1,359,305.46

* Recognition basis of accounts receivable with significant individual amount: the account receivable with ending balance greater than RMB ¥10,000,000.

** 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 ending balance less than RMB ¥10,000,000 and the age of three or more.

*** In the ending balance of other receivables, 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 other receivables, the ending balance is decreased by RMB ¥11,321,993.40, down by 12.15%.

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

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Galaxy International Plaza	3,734,391.00	5%	Age within one year
Sanqing Real Estate Co., Ltd	2,669,765.00	5%	Age within one year
OCT Water and Power Company	2,591,610.98	2%	Age within one year
Administration of Social Insurance of Shenzhen Municipality	2,162,156.65	2%	Age within one year
Industrial and Commercial Bank of China, Beijing Branch, Special Assets Custody Account	2,100,000.00	2%	Age within one year
Total	13,257,923.63		

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

Age	Ending amount			Beginning amount		
	Amount	Proportion to total amount	Bad debt reserve	Amount	Proportion to total amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
Within 1 year	49,672,569.27	60.69	937,489.24	67,899,080.81	72.87	1,410,568.36
1-2 years	957,443.67	1.17	47,722.19	2,199,749.19	2.36	110,016.16
2-3 years	4,366,410.93	5.33	874,642.41	4,935,382.62	5.30	987,076.53
Over 3 years	26,856,270.82	32.81	9,373,893.11	18,140,475.47	19.47	9,367,264.16
Total	81,852,694.69	100	11,233,746.95	93,174,688.09	100	11,874,925.21

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

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

Category	Ending amount			Beginning amount		
	Amount	Proportion to total amount	Bad debt reserve	Amount	占总额比例	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
I. Single amount significant	876,789,388.37	90.68	---	982,718,174.28	90.94	---
II. The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	26,188,996.51	2.71	8,868,755.21	20,926,212.94	1.94	8,888,078.42
III. Others insignificant	63,890,903.81	6.61	1,508,210.96	76,962,545.98	7.12	2,004,107.50
Total	966,869,288.69	100	10,376,966.17	1,080,806,933.20	100	10,892,185.92
Total amount of top 5	753,150,793.17	77.90	---	799,080,346.45	73.93	---
Account receivable amount occupied by related parties	900,377,776.81	93.12	1,367,089.69	1,011,800,981.34	93.62	1,359,305.46

* In the ending balance of other receivables, 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 other receivables, the ending balance is decreased by RMB ¥113,937,644.51, down by 10.54%, mainly attributable to: decrease in call loans between the Company and its subsidiaries.

*** As regards other receivables, the information about top 5 is as follows:

Category	Amount	Proportion of Withdrawing Bad Debt Reserves	Reason
Video & Communication Systems Engineering Co., Ltd	391,708,074.13	---	Related party
Dongguan Konka Electronic Co., Ltd.	143,636,328.50	---	Related party
Dongguan Konka Tooling and Mould Co., Ltd.	124,967,709.36	---	Related party
Shenzhen Konka Household Appliances Co., Ltd.	47,922,620.00	---	Related party
Shenzhen Konka Information Network Co., Ltd.	44,916,061.18	---	Related party
Total	753,150,793.17		

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

Age	Ending amount			Beginning amount		
	Amount	Proportion to total amount	Bad debt reserve	Amount	Proportion to total amount	Bad debt reserve
	RMB	%	RMB	RMB	%	RMB
Within 1 year	248,844,346.39	25.74	793,989.95	295,400,583.13	27.34	1,137,215.39
1-2 years	156,998,717.85	16.24	43,156.27	187,434,930.02	17.34	43,072.15
2-3 years	267,587,587.64	27.68	671,064.74	294,862,327.54	27.28	823,819.94
Over 3 years	293,438,636.81	30.35	8,868,755.21	303,109,092.51	28.04	8,888,078.44
Total	966,869,288.69	100	10,376,966.17	1,080,806,933.20	100	10,892,185.92

Note 7. Inventory and Inventory Falling Price Reserves

(1) Details are listed as below:

Category	Ending amount		Beginning amount	
	Book balance	Book value	Book balance	Book value
Goods on hand	1,666,336,739.27	1,383,974,858.99	1,834,413,311.73	1,552,673,168.57
Raw materials	1,302,898,959.59	1,233,139,165.75	940,850,881.06	869,479,520.77
Turnover materials	6,492,576.10	6,301,838.28	10,641,253.45	10,450,515.63

Goods in transit	2,822,229.26	2,822,229.26	2,667,697.02	2,667,697.02
Goods in process	155,415,095.31	150,251,663.23	143,669,397.22	138,505,965.14
Total	<u>3,133,965,599.53</u>	<u>2,776,489,755.51</u>	<u>2,932,242,540.48</u>	<u>2,573,776,867.13</u>

(2) Falling price reserves of inventory

Falling price reserves of inventory	Beginning amount	Increase in the current period	Decrease in the current period			Ending amount
			Carry-back amount because of picking up of assets value	Writing off	Total	
Goods on hand	281,740,143.16	621,737.12	---	---	---	282,361,880.28
Raw materials	71,371,360.29	1,111,293.85	363,634.42	2,359,225.88	2,722,860.30	69,759,793.84
Turnover materials	190,737.82	---	---	---	---	190,737.82
Goods in process	5,163,432.08	---	---	---	---	5,163,432.08
Total	<u>358,465,673.35</u>	<u>1,733,030.97</u>	<u>363,634.42</u>	<u>2,359,225.88</u>	<u>2,722,860.30</u>	<u>357,475,844.02</u>

Note 8. Available-for-sale Financial Assets

Item	Ending amount	Beginning amount
1.Available-for-sale bonds	---	---
2.Available-for-sale equity instrument	---	---
3.Stock investment	10,495,702.50	9,756,649.50
Total	<u>10,495,702.50</u>	<u>9,756,649.50</u>

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

Note 9. Long-term Equity Investments

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

Item	Ending amount			Beginning amount		
	Book Balance	Depreciation Reserve	Carrying Value	Book Balance	Depreciation Reserve	Carrying Value
Long-term equity investment						
Including: investment for affiliated companies	22,435,083.44	1,400,000.00	21,035,083.44	23,010,338.75	1,400,000.00	21,610,338.75
Other equity investment	---	---	---	---	---	---
Other long-term investment	---	---	---	---	---	---
Total	<u>22,435,083.44</u>	<u>1,400,000.00</u>	<u>21,035,083.44</u>	<u>23,010,338.75</u>	<u>1,400,000.00</u>	<u>21,610,338.75</u>

a. Investment for affiliated companies

I . 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	3,649,728.08	---	---	(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	2,338,185.84	---	(575,255.31)	(1,987,069.47)	1,762,930.53
Shenzhen Julong Optoelectronics Co., Ltd	20%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00
Total		<u>14,733,965.19</u>	<u>15,125,338.75</u>	<u>---</u>	<u>(575,255.31)</u>	<u>(183,881.75)</u>	<u>14,550,083.44</u>

II . Equity investment calculated by cost method

Name of Invested Entity	Proportion in Invested Entity	Initial Investment Cost	Beginning balance	Increase for the current period	Decrease for the current period	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. Information about the change in depreciation reserve

Name of Invested Entity	Beginning amount	Increase for the current period	Write-off for the current period	Ending amount
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.	---	---	---	---
Total	1,400,000.00	---	---	1,400,000.00

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

Item	Ending amount			Beginning amount		
	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	1,174,259,154.56	33,232,484.69	1,141,026,669.87
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	---	---	---	---	---	---
Other long-term investment	---	---	---	---	---	---
Total	1,184,144,154.56	34,632,484.69	1,149,511,669.87	1,184,144,154.56	34,632,484.69	1,149,511,669.87

a. Investment for subsidiaries

Name of Invested Entity	Proportion in Invested Entity	Initial Investment Cost	Beginning balance	Increase for the current period	Decrease for the current period	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	---	---	---	---
Mudanjiang Konka Industrial Co., Ltd.	60%	36,000,000.00	36,000,000.00	---	---	36,000,000.00
Chongqing 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 Konka 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	1,174,259,154.56	---	---	1,174,259,154.56

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	9.61525%	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

c. Information about the change in depreciation reserve

Name of Invested Entity	Beginning amount	Current Increase	Current Write-off	Ending amount
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.	---	---	---	---
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	34,632,484.69	---	---	34,632,484.69

Note 10. Fixed Assets and Accumulated Depreciation

Original Value of Fixed Assets	Beginning balance	Current Increase	Current Decrease	Ending balance
House and Building	1,078,776,032.56	2,202,925.82	4,501,090.03	1,076,477,868.35
Machinery equipment	1,070,851,747.47	17,680,217.53	6,678,729.66	1,081,853,235.34
Electronic equipment	302,901,787.04	6,227,701.40	3,181,058.24	305,948,430.20
Transportation equipment	60,967,592.94	3,082,428.53	5,760,858.64	58,289,162.83

Other equipment	189,489,056.34	5,607,825.35	1,166,245.32	193,930,636.37
Total	2,702,986,216.35	34,801,098.63	21,287,981.89	2,716,499,333.09

Accumulated Depreciation	Beginning balance	Current Increase	Current Decrease	Ending balance
House and Building	237,613,613.11	13,650,038.77	2,280,030.78	248,983,621.10
Machinery equipment	698,674,946.49	29,686,293.86	4,558,359.77	723,802,880.58
Electronic equipment	231,854,203.97	9,550,733.17	1,451,419.59	239,953,517.55
Transportation equipment	40,086,223.28	3,069,175.09	3,237,448.03	39,917,950.34
Other equipment	142,293,297.25	5,930,826.84	2,194,952.72	146,029,171.37
Total	1,350,522,284.10	61,887,067.73	13,722,210.89	1,398,687,140.94

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
Total	8,286,034.09	---	---	8,286,034.09

Carrying Value	Beginning balance	Ending balance
House and Building	839,914,613.54	826,246,441.34
Machinery equipment	367,906,633.40	353,780,187.18
Electronic equipment	70,493,219.02	65,440,548.60
Transportation equipment	20,017,501.07	17,507,343.90
Other equipment	45,845,931.13	46,551,637.04
Total	1,344,177,898.16	1,309,526,158.06

* Construction work in progress amounting to RMB ¥ 2,404,788.26 is transferred to the increased amount of fixed assets in the current period.

Note 11. Construction Work in Progress

Name of Project	Beginning amount	Current Increase Amount	Current Amount Transferred to Fixed Assets	Current Amount of Other Decreases	Ending amount	Source
Purchase of SMT equipment as an agent	257,255.90	---	---	---	257,255.90	Self-raised
Guankang LCM15-32 "module test wire"	2,916,000.00	---	---	---	2,916,000.00	Self-raised
Purification project for Guankang LCM test wire	398,100.00	862,550.00	---	---	1,260,650.00	Self-raised
HD-SDI project	2,620,319.88	---	---	---	2,620,319.88	Self-raised
Plant project of Anhui Konka	3,428,106.00	1,869,363.93	---	497,956.08	4,799,513.85	Self-raised
Production base project of Kunshan Konka	---	18,575,515.48	---	---	18,575,515.48	Self-raised
Konka R&D Building	11,966,915.83	12,603,440.83	---	---	24,570,356.66	Self-raised
Other	5,744,915.50	4,759,702.16	2,404,788.26	---	8,099,829.40	Self-raised
Total	27,331,613.11	38,670,572.40	2,404,788.26	497,956.08	63,099,441.17	

Note 12. Intangible Assets

Items	Beginning balance	Current increase	Current decrease	Ending balance
I. Total original price	112,408,709.26	110,842,804.59	1,167,596.06	222,083,917.79
1. Land use right	71,223,144.62	108,479,557.00	---	179,702,701.62
2. Foreign trademark registration expenses	3,037,299.61	---	---	3,037,299.61
3. Patent and know-how	31,708,543.74	28,000.00	---	31,736,543.74
4. Other	6,439,721.29	2,335,247.59	1,167,596.06	7,607,372.82
II. Accumulated amortization amount	40,283,727.05	3,946,117.72	22,949.98	44,206,894.79
1. Land use right	12,070,941.21	1,081,500.34	---	13,152,441.55
2. Foreign trademark registration expenses	2,374,704.40	97,380.58	---	2,472,084.98
3. Patent and know-how	21,981,142.21	2,093,472.23	---	24,074,614.44
4. Other	3,856,939.23	673,764.57	22,949.98	4,507,753.82
III. Total accumulated amount of intangible assets depreciation reserve	2,901,082.61	---	---	2,901,082.61
1. Land use right	---	---	---	---
2. Foreign trademark registration expenses	---	---	---	---
3. Patent and know-how	2,901,082.61	---	---	2,901,082.61
4. Other	---	---	---	---
IV. Total book value of intangible assets	69,223,899.60	---	---	174,975,940.39
1. Land use right	59,152,203.41	---	---	166,550,260.07
2. Foreign trademark registration expenses	662,595.21	---	---	565,214.63
3. Patent and know-how	6,826,318.92	---	---	4,760,846.69
4. Other	2,582,782.06	---	---	3,099,619.00

* Of the ending balance of intangible assets, the land use right amounting to RMB ¥11,211,807.09 has been mortgaged to secure the bank loan.

Note 13. Goodwill

Items	Source	Beginning balance	Current increase	Current decrease	Ending balance
Acquisition of equities of subsidiaries	Acquisition of equity	3,943,671.53	---	---	3,943,671.53
Total		3,943,671.53	---	---	3,943,671.53

* after testing, the Company considered that there existed no impairment on goodwill at the end of reporting period, therefore, reserve for impairment did not be withdrawn.

Note 14. Long-term Deferred Expenses

Category	Beginning balance	Current increase	Current amortization	Current transfer out	Ending balance
Decoration	8,212,792.36	2,530,287.69	1,702,328.92	---	9,040,751.13
Special shoppe	868,232.52	224,737.27	622,999.18	---	469,970.61
Software license	1,785,006.32	600.04	281,228.84	---	1,504,377.52
Development platform expenses	5,539,130.07	---	920,075.76	---	4,619,054.31

Module expenses	601,110.83	---	96,026.64	---	505,084.19
Prototype	905,788.61	---	416,556.71	---	489,231.90
Other	1,985,063.41	2,534,389.10	1,105,797.06	7,610.17	3,406,045.28
Total	19,897,124.12	5,290,014.10	5,145,013.11	7,610.17	20,034,514.94

Note 15. Deferred income tax assets

Items	Ending amount	Beginning amount
1. Bad debt reserve for accounts receivable	35,281,294.24	35,245,682.20
2. Bad debt reserve for other receivables	2,186,325.48	2,186,070.69
3. Reserve for falling price of inventory	53,798,122.46	53,809,700.41
4. Change in fair value of available-for-sales financial assets	163,209.11	311,019.71
5. Impairment reserve for long-term equity investment	280,000.00	280,000.00
6. Other	665,627.10	161,070.00
Total	92,374,578.39	91,993,543.01

Note 16. Assets Depreciation Reserve

Items	Beginning balance	Current withdrawn amount	Current decrease		Ending balance
			Carry back	Writer-off	
1. Bad debt reserve	210,655,487.47	1,110,490.15	6,231,069.80	(3,456,281.39)	208,991,189.21
2. Reserve for falling price of inventory	358,465,673.35	1,733,030.97	363,634.42	2,359,225.88	357,475,844.02
3. Impairment reserve for long-term equity investment	1,400,000.00	---	---	---	1,400,000.00
4. Impairment reserve for fixed assets	8,286,034.09	---	---	---	8,286,034.09
5. Impairment reserve for intangible assets	2,901,082.61	---	---	---	2,901,082.61
Total	581,708,277.52	2,843,521.12	6,594,704.22	(1,097,055.51)	579,054,149.93

Note 17. Short-term Loan

Type	Ending amount	Beginning amount
Credit loan	---	---
Collateral loan *	12,000,000.00	11,500,000.00
Pledged loan	1,855,811,259.60	1,197,352,457.29
Guaranteed loan	---	137,523,153.49
Total	1,867,811,259.60	1,346,375,610.78

* As for pledged object for collateral loan, please refer to Note 12 for details.

** Pledged loan shall be a loan in US dollar gained by the Company through pledging bank deposit in NDF portfolio business carried out by the Company. As for RMB deposit pledged, please refer to Note 1 for details.

*** Guaranteed loan is the loan of USD 20 million entered into by Konka (Hong Kong) Co., Ltd. (the subsidiary of the Company) and Bank of China (Hong Kong) Limited, which Minsheng Bank Shenzhen Branch issued a letter of guarantee to Bank of China (Hong Kong) Limited. The said letter of guarantee is within the line of credit entered into between the Company and Minsheng Bank Shenzhen Branch. The said guaranteed loan had been paid off in the

reporting period.

Note 18. Tradable Financial Liabilities

Type	Ending amount	Beginning amount
Derivative financial instruments (NDF)	10,303,877.31	12,481,880.16
Total	10,303,877.31	12,481,880.16

* The closing balance of derivative financial instruments came from the ending profit and loss from change in fair value of NDF business as a way of foreign exchange hedge, which was carried out due to that the Company and Shenzhen Konka Telecommunications Technology Co., Ltd. (a subsidiary company of the Company) adopted the irrevocable usance contracts to avoid the risk of exchange rate fluctuations.

Note 19. Notes Payable

Type	Ending amount	一年内将到期的金额
Banker's acceptance bill	2,521,140,057.15	2,521,140,057.15
Commercial Acceptance Bill	---	---
Total	2,521,140,057.15	2,521,140,057.15

* 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 amount		Beginning amount	
	Amount	Proportion to total amount	Amount	Proportion to total amount
	RMB	%	RMB	%
Within 1 year	1,501,972,508.24	96.70	1,514,983,692.13	96.39
1-2 years	16,234,069.73	1.05	1,957,755.70	0.12
2-3 years	1,066,953.91	0.07	14,876,183.29	0.95
Over 3 years	34,024,153.38	2.19	39,943,710.86	2.54
Total	1,553,297,685.26	100	1,571,761,341.98	100

* 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 ¥ 197,966,561.12, 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 is increased by RMB ¥ 18,590,050.62, up 10.36%, mainly attributable to: reduction in advance receipts at the beginning of reporting period due to delivery settlement.

Note 22. Staff Remuneration Payables

Items	Beginning balance	Current Amount Incurred	Current Payment	Ending balance
I. Wages, bonuses, allowances and subsidies	130,898,023.19	342,562,934.29	385,663,718.56	87,797,238.92
II. Welfare expenses for staffs	8,424,616.20	23,477,288.93	22,842,006.79	9,059,898.34
III. Social insurances	16,946,381.77	54,093,071.37	48,687,364.55	22,352,088.59
IV. Housing accumulation fund	1,471,228.22	2,122,696.78	2,278,809.00	1,315,116.00
V. Staff education expenses and labor union expenses	6,641,064.35	4,584,385.20	5,588,015.31	5,637,434.24
VI. Non-monetary welfares	---	---	---	---
VII. Compensations for the cancellation of the labor relationship	1,215,207.80	2,358,180.83	3,573,388.63	---
.Others	3,241,973.43	12,125,066.22	11,805,115.59	3,561,924.06
Including: share-based payment settled in cash	---	---	---	---

Total	168,838,494.96	441,323,623.62	480,438,418.43	129,723,700.15
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* 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

Taxation	Ending amount	Beginning amount
Value added tax payable	(115,522,990.50)	(4,626,297.30)
Sales tax	810,801.82	587,222.55
City maintenance and construction tax	(799,209.64)	314,342.02
Corporate income tax	438,785.35	16,615,583.47
Individual income tax	980,753.41	521,258.50
Educational Surtax	198,484.02	151,855.59
Other	762,874.60	700,010.29
Total	<u>(113,130,500.94)</u>	<u>14,263,975.12</u>

* Due to amount purchased has increased in the reporting period, the ending balance of VAT has a growth by a big margin over the same period of last year.

Note 24. Interests Payable

Items	Ending amount	Beginning amount
NDF business combination		
- Interest expense from USD loan	8,076,421.29	8,247,223.62
Total	<u>8,076,421.29</u>	<u>8,247,223.62</u>

Note 25. Other Payables

Age	Ending amount		Beginning amount	
	Amount	Proportion to total amount	Amount	Proportion to total amount
	RMB	%	RMB	%
Within 1 year	500,880,629.49	90.48	484,899,369.33	91.92
1-2 years	17,783,997.00	3.21	16,383,775.50	3.11
2-3 years	14,581,828.63	2.63	6,771,149.02	1.28
Over 3 years	20,352,507.04	3.68	19,480,942.46	3.69
Total	<u>553,598,962.16</u>	<u>100</u>	<u>527,535,236.31</u>	<u>100</u>

Note 26. Deferred income

Item	Ending amount	Beginning amount
Government' grant for pure flat color TV R&D project	2,932,899.19	2,932,899.19
Government' grant for LCD TV hi-tech industrialization demonstration project	581,583.33	581,583.33
Aid funds for key project of "Konka Logistics Information System" enterprise informationization	689,200.00	689,200.00
The fifth batch of industrial technical research and development	1,000,000.00	1,000,000.00
Foundation for scientific and technological innovation	39,000.00	36,000.00
Government's grant for industrialization project of conditional-access-separation digital television receiver	7,150,000.00	7,150,000.00
Government's grant for industrialization project of LCOS digital projector and LCOS projector	478,333.33	478,333.33
Special technical transformation funds for treasury bond	4,826,300.00	4,826,300.00
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	4,500,000.00	1,500,000.00
IPV6 HDTV payment of infrastructure office of financial bureau	3,050,720.44	3,050,720.44
HDTV production line construction	1,600,000.00	1,600,000.00
Industrialization project of auto motor fuel electrojet control system	883,333.33	883,333.33
Industry funds for flat plate display 2008	7,000,000.00	7,000,000.00
Digital TV patent pool- technical service platform for digital audio/video generality	50,000.00	1,000,000.00
R&D and industrialization for digital products to support network	1,600,000.00	2,000,000.00
Innovative capability project of technical center	3,850,000.00	3,850,000.00
Research funds	1,000,000.00	1,000,000.00
Subsidize for R&D center	3,000,000.00	---
R&D of new display technology such as LCM	10,000,000.00	---
Interactive DTV based ground international transmission	500,000.00	---
Industrialization projects of large size LCM	1,000,000.00	---
IPv6-based multi-mode hand-hold and on-vehicle multimedia terminal	1,000,000.00	1,000,000.00
Total	<u>59,731,369.62</u>	<u>43,578,369.62</u>

Note 27. Deferred income tax liabilities

Item	Ending amount	Beginning amount
Change in fair value of available-for-sale financial assets	---	---
Other	563,067.21	563,067.21
Total	<u>563,067.21</u>	<u>563,067.21</u>

Note 28. Share Capital

Item	Beginning amount	Increase/decrease for the current period						Ending amount
		Rationed shares	Bonus shares	Capital Reserves Transferred to Shares	Additional issue	Other	Subtotal	
I. Non-circulation shares	I. Circulation share subject to trading moratorium							I. Circulation share subject to trading moratorium
1. Sponsor's shares	198,381,940.00	---	---	---	---	---	---	198,381,940.00
Including: Shares held by the State	198,381,940.00	---	---	---	---	---	---	198,381,940.00
2. Non-sponsor's share	6,234.00	---	---	---	---	-1,284	-1,284	4,950.00
Including: Shares held by domestic corporation	---	---	---	---	---	---	---	---
Shares held by foreign corporation	---	---	---	---	---	---	---	---
Shares held by domestic natural person	6,234.00	---	---	---	---	-1,284	-1,284	4,950.00
Total of noncirculation shares	198,388,174.00	---	---	---	---	-1,284	-1,284	198,386,890.00
II. Circulated shares	II. Circulation share not subject to trading moratorium							II. Circulation share not subject to trading moratorium
1. Domestically listed Renminbi common share	599,908,726.00	---	---	---	---	1,284	1,284	599,910,010.00
2. Domestically listed foreign share	405,675,804.00	---	---	---	---	---	---	405,675,804.00
Total circulated shares	1,005,584,530.00	---	---	---	---	1,284	1,284	1,005,585,814.00
III. Total shares	1,203,972,704.00	---	---	---	---	---	---	1,203,972,704.00

*The beginning share capital has been verified by HDYZ [2009] No. B28 Capital Verification Report as made by BDO.

Guangdong Dahua Delu CPA, LLP.
Note 29. Capital Reserve

Items	Beginning amount	Current increase	Current decrease	Ending amount
Share premium	1,210,484,700.00	---	---	1,210,484,700.00
Other capital reserve	45,653,595.21	591,242.40	---	46,244,837.61
Total	1,256,138,295.21	591,242.40	---	1,256,729,537.61

* For the main reasons for decrease in other capital reserves of the Company is due to change in fair value of available-for-sale financial assets.

Note 30. Surplus Reserves

Items	Beginning amount	Current increase	Current decrease	Ending amount
Statutory surplus reserves	550,834,268.25	---	---	550,834,268.25
Arbitrary surplus reserves	254,062,265.57	---	---	254,062,265.57
Total	804,896,533.82	---	---	804,896,533.82

Note 31. Retained Profit

Items	Current	Last period
Beginning retained profit	500,638,125.11	271,471,632.93
Add: Net profit attributable to shareholders of parent company	80,302,015.01	80,555,227.21
Less: Withdrawal of statutory surplus reserve	---	---
Withdrawal of staff welfares and bonus funds	---	---
Cash dividends	60,198,635.20	---
Ending retained profit	520,741,504.92	352,026,860.14

Note 32. Operating Revenue and Operating Cost

(1) The details about operating revenue and operating cost are listed as follows:

Item	Current		Last period	
	Operating revenue	Operating cost	Operating revenue	Operating cost
1. Income from main operation	5,107,148,120.78	4,155,707,059.99	5,521,679,310.83	4,516,853,106.48
2. Other operating revenue	64,851,907.42	36,013,655.03	98,846,675.33	63,849,950.56
Total	5,172,000,028.20	4,191,720,715.02	5,620,525,986.16	4,580,703,057.04

(2) The proportion of total sales revenues of top 5 customers of the Company in the total sales revenues are listed as below:

Items	Current	Last period
Total amount of sales revenue top 5 customers	794,197,206.64	933,059,014.20
Proportion in sales revenues	15.36%	16.60%

(3) Segment table of main operation:

Categories	Current		Last period	
	Income from main operation	Cost of main operation	Income from main operation	Cost of main operation
Color TV business	3,730,733,159.98	3,049,658,994.29	4,053,345,367.75	3,275,475,112.45
Cell phone business	706,483,464.16	628,420,965.23	525,107,654.04	482,874,041.63

Other	669,931,496.64	477,627,100.47	943,226,289.04	758,503,952.40
Total	5,107,148,120.78	4,155,707,059.99	5,521,679,310.83	4,516,853,106.48

(4) Regional segments of main operation:

Regions	Current		Last period	
	Income from main operation	Cost of main operation	Income from main operation	Cost of main operation
Domestic sales	4,370,519,089.99	3,498,084,655.25	4,998,695,917.35	4,026,917,811.64
Overseas sales	981,986,621.57	913,405,069.47	861,381,785.34	828,333,686.70
Subtotal	5,352,505,711.56	4,411,489,724.72	5,860,077,702.69	4,855,251,498.34
Mutual offsetting among segments of the Company in all regions	(245,357,590.78)	(255,782,664.73)	(338,398,391.86)	(338,398,391.86)
Total	5,107,148,120.78	4,155,707,059.99	5,521,679,310.83	4,516,853,106.48

* As compared with that in the previous period, the main operation in the current period is reduced by RMB XXXX, down %, mainly attributable to the decrease in sales revenue of color TV.

(5) Other business items:

Other business category	Current			Last period		
	Other operating revenue	Other operating cost	Profit	Other operating revenue	Other operating cost	Profit
Material transfer	32,303,446.40	33,820,486.70	(1,517,040.30)	66,170,057.51	56,856,555.87	9,313,501.64
Revenue from wastes sales	5,395,997.92	1,493,070.38	3,902,927.54	10,219,098.62	2,048,732.87	8,170,365.75
Other	27,152,463.10	700,097.95	26,452,365.15	22,457,519.20	4,944,661.82	17,512,857.38
Total	64,851,907.42	36,013,655.03	28,838,252.39	98,846,675.33	63,849,950.56	34,996,724.77

The details about operation revenues and costs are listed as follows:

(1) Operation revenues and costs are listed as follows:

Items	Current		Last period	
	Operation revenue	Operation cost	Operation revenue	Operation cost
1. Main operation revenue	4,216,259,024.45	3,455,284,868.28	4,558,518,503.73	3,740,249,026.50
2. Other operation revenue	113,504,227.16	100,064,673.89	144,275,140.60	126,268,830.39
Total	4,329,763,251.61	3,555,349,542.17	4,702,793,644.33	3,866,517,856.89

(2) The proportion of total sales revenues of top 5 customers of the Company in the total sales revenues are listed as below:

Items	Current	Last period
Total amount of sales revenues top 5 customers	784,135,849.22	933,059,014.20
Proportion in sales revenues	18.11%	16.60%

(3) Segment table of main operation:

Categories of main operation	Current		Last period	
	Income from main operation	Cost of main operation	Income from main operation	Cost of main operation
Color TV business	3,710,284,808.09	3,054,809,730.82	4,558,518,503.73	3,740,249,026.50
Cell phone business	---	---	---	---
Other	505,974,216.36	400,475,137.46	---	---
Total	4,216,259,024.45	3,455,284,868.28	4,558,518,503.73	3,740,249,026.50

(4) Regional segment table of main operation:

Regions	Current		Last period	
	Income from main operation	Cost of main operation	Income from main operation	Cost of main operation
Domestic sales	3,959,082,565.95	3,188,442,615.72	4,220,120,111.87	3,401,303,136.77
Overseas sales	257,176,458.50	266,842,252.56	338,398,391.86	338,945,889.73
Total	4,216,259,024.45	3,455,284,868.28	4,558,518,503.73	3,740,249,026.50

(5) Other operation items:

Other operation category	Current			Last period		
	Other operation revenue	Other operation cost	Profit	Other operation revenue	Other operation cost	Profit
Material transfer	97,842,458.89	100,003,436.51	(2,160,977.62)	131,027,609.23	124,967,302.43	6,060,306.80
Incomes from wastes sales	2,255,827.32	---	2,255,827.32	4,442,388.18	60,066.43	4,382,321.75
Other	13,405,940.95	61,237.38	13,344,703.57	8,805,143.19	1,241,461.53	7,563,681.66
Total	113,504,227.16	100,064,673.89	13,439,553.27	144,275,140.60	126,268,830.39	18,006,310.21

Note 33. Financial Expense

Items	Current	Last period
Interest expenditure	45,257,894.21	14,698,199.45
Less: interest income	35,728,483.55	1,393,737.96
Exchange loss	21,272,516.00	28,519,894.61
Less: exchange earnings	20,276,983.01	27,643,892.42
Other	5,657,491.18	3,646,192.12
Total	16,182,434.83	17,826,655.80

* Financial expense—interest expenditure for the current period increased by RMB 30,559,694.76 than last period, with an increase of 207.91%. Reason for increase was: increase in USD loan of NDF portfolio business in the current period, which caused increase of interest expenditure; discount on notes receivable in current period increased, which caused increase of discount interest.

Financial expense—income from interest for the current period increased RMB 34,334,745.59 than last period, with an increase of 2463.50%. Income from interest increased because RMB fixed deposit of NDF portfolio business, which was used to pledged, increased.

Financial expense—exchange loss for the current period decreased by RMB 7,247,378.61 than last period, a drop of 25.41%.

Financial expense—exchange income for the current period decreased by RMB 7,366,909.41 than last period, a drop of 26.65%.

Note 34. Loss on Assets Impairment

Items	Current	Last period
1. Loss on bad debts	(5,120,579.65)	(4,430,792.84)
2. Loss on falling price of inventory	1,369,396.55	(8,972.87)
Total	(3,751,183.10)	(7,236,743.51)

Note 35. Gains and Losses of Change in Fair Value

Category	Current	Last period
Derivative financial instruments (NDF)	2,178,002.85	---

Total

2,178,002.85

* The profit and loss of derivative financial instruments in current period came from the profit and loss from change in fair value of NDF business as a way of foreign exchange hedge, which was carried out due to that the Company and Shenzhen Konka Telecommunications Technology Co., Ltd. (a subsidiary company of the Company) adopted the irrevocable usance contracts to avoid the risk of exchange rate fluctuations.

Note 36. Investment Income

Category	Current	Last period
Gains on sale of available-for-sale financial assets	---	4,843,782.24
Net increase/decrease of owner's equity of investee enterprises adjusted at the end of year	---	---
Gains on transfer of equity investment	---	2,521,979.79
Gains on sale of tradable financial assets (NDF delivery)	---	---
Other	(575,255.31)	234,046.43
Total	(575,255.31)	7,599,808.46

Details about investment earnings are listed as below:

Category	Current	Last period
Gains on sale of available-for-sale financial assets	---	4,843,782.24
Net increase/decrease of owner's equity of investee enterprises adjusted at the end of year	---	---
Dividends received from the subsidiaries	1,350,000.00	---
Gains on sale of tradable financial assets (NDF delivery)	---	---
Gains on transfer of equity investment	---	2,521,979.79
Total	1,350,000.00	7,365,762.03

Note 37. Non-operating income and expense

1. Non-operating income

Items	Current	Last period
1. Total gains on non-current assets disposal	905,122.06	2,322,134.25
Including: Gains on fixed assets disposal	905,122.06	40,273.49
Gains on Intangible assets disposal	---	2,281,860.76
Government grants	999,155.00	15,000.00
Inventory surplus of fixed assets	---	3,445.00
Net income from penalty	2,714,760.72	1,882,608.69
Accounts payable carried over due to inability to make payment	237,213.13	117.77
Other	1,421,804.06	974,242.99
Total	6,278,055.51	5,137,548.70

* As compared with that in the last period, the non-operation income for the current period has increased by RMB 1,140,506.81, up 22.2%.

* Details about government grants are listed as below:

Items	Current
Reward of Fenggang Town for the top 10 foreign-owned enterprises paying tax in 2008	970,000.00
Financial subsidies from Anhui Chuzhou	7,000.00
Reward for excellence enterprise from Anhui Chuzhou	10,000.00
Aid funds from Chongqing Financial Bureau for technology innovation for foreign trade export for 2008	1,900.00
Subsidies of science and technology insurance for 2008 from Chongqing Financial Bureau	10,255.00
Total	999,155.00

2. Non-operating expense

Items	Current	Last period
1. Total losses on non-current assets disposal	1,087,703.66	2,412,998.20
Including: Losses on fixed assets disposal	1,087,703.66	2,412,998.20
Losses on Intangible assets disposal	---	---
Inventory shortages of fixed assets	---	---
Donation expenditures	439,773.43	2,379,562.51
Fine expenditures	287,620.09	577,467.74
Penalties	36,442.50	---
Abnormal losses	---	149,094.64
Dismissal subsidies	---	---
Other	2,827.59	586,172.63
Total	<u>1,854,367.27</u>	<u>6,105,295.72</u>

As compared with that of the previous period, the non-business expense in the current period is reduced by RMB ¥4,250,928.45, down 69.63%, mainly attributable to bigger decrease in expenditures for non-current assets disposal and donation expenditures.

Note 38. Income Tax

Items	Current	Last period
Current income tax expense	13,144,938.51	15,585,026.26
Deferred income tax expense	(528,845.98)	(317,468.33)
Total	<u>12,616,092.53</u>	<u>15,267,557.93</u>

Note 39. Other cash related to operating activities

Items	Current	Last period
Other cash received related to operating activities		
Temporarily received maintenance funds	303,342.00	1,314,004.27
Interest incomes from bank deposit	4,410,949.93	4,712,136.45
Advance and deposit	4,590,203.87	1,471,985.16
Incomes from fine and penalty	431,210.61	225,574.60
Repayment for personal loan	5,702,094.34	1,544,740.70
Subsidy revenue	17,648,147.60	---
Revenue from rejected product	6,111,252.73	5,268,664.85
Other and current payment	95,019,070.96	95,627,367.47
Subtotal	<u>134,216,272.04</u>	<u>110,164,473.50</u>
Other cash paid related to operating activities		
Cashes paid for management expenses	68,736,387.95	100,525,644.09
Cashes paid for business expenses	261,739,935.34	373,165,669.06
Expenditures of deposit, guaranty funds and maintenance funds	9,410,071.84	7,101,463.31
Staff reserve funds	13,053,423.35	11,779,566.23
Donation expenditures	10,108.00	---
Reimbursed expenses	23,793,084.87	21,400,002.59
Penalty expenditures	8,683.55	1,103,692.47
Expense on bank commission	11,707,306.09	5,227,834.37

Others and current payment	55,334,977.25	118,148,609.63
Subtotal	443,793,978.24	638,452,481.75

Note 40. Other cash related to investing activities

Items	Current	Last period
Other cash received related to investing activities		
Backflow of capital for subscribing application for new shares	---	---
Composite income from forward foreign exchange contract	---	---
Other	10,164,944.00	---
Subtotal	10,164,944.00	---
Other cash paid related to investing activities		
Outflow of capital for subscribing application for new shares	---	---
Loss on forward foreign exchange contract	---	---
Subtotal	---	---

Note 41. Other cash related to financing activities

Items	Current	Last period
Other cash received related to financing activities		
Paying matured RMB time deposit certificate that are pledged	487,994,966.13	---
Discharge of guaranty money for deposits used for pledged	251,181,686.97	---
Other	719,534,519.44	---
Subtotal	1,458,711,172.54	---
Other cash paid related to financing activities		
Loan fees for forward foreign exchange contract combination	632,063.77	---
RMB time deposit certificate pledged	1,403,556,500.00	---
Guaranty money for used for pledged	---	---
Other	2,697,074.43	1,550.97
Subtotal	1,406,885,638.20	1,550.97

Note 42. Cash and Cash Equivalent

Items	Current	Last period
I. Cash	1,427,737,282.66	708,343,229.52
Including: Cash on hand	11,634.66	11,311.77
Bank deposits available for payment at any time	1,427,725,648.00	708,331,917.75
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	1,427,737,282.66	708,343,229.52

Note VII. Government Grants

Category of government grants	Amount to be deferred	
I. Government grants related to assets		
Government' grant for pure flat color TV R&D project		2,932,899.19
Government' grant for LCD TV hi-tech industrialization demonstration project		581,583.33
Aid funds for key project of "Konka Logistics Information System" enterprise informationization		689,200.00
The fifth batch of industrial technical research and development		1,000,000.00
Foundation for scientific and technological innovation		39,000.00
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		4,500,000.00
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
Industry funds for flat plate display 2008		7,000,000.00
Digital TV patent pool- technical service platform for digital audio/video generality		50,000.00
R&D and industrialization for digital products to support network		1,600,000.00
Innovative capability project of technical center		3,850,000.00
Research funds		1,000,000.00
Subsidize for R&D center		3,000,000.00
R&D of new display technology such as LCM		10,000,000.00
Interactive DTV based ground international transmission		500,000.00
Industrialization projects of large size LCM		1,000,000.00
IPV6-based multi-mode hand-hold and on-vehicle multimedia terminal		1,000,000.00
Total		59,731,369.62

Note VIII. Supplementary of Cash Flow Statement

Supplementary information	Current	Last period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	74,986,480.49	85,570,791.06
Add: Assets impairment reserve	(3,751,183.10)	(7,236,743.51)
Depreciation of fixed assets, depletion of oil gas assets and depreciation of productive biological asset	59,240,104.33	58,598,313.04
Amortization of intangible assets	3,946,117.72	7,952,475.07
Amortization of long-term deferred expenses	5,145,013.11	512,506.62

Loss on disposal of fixed assets, intangible assets and other long term assets	(905,122.06)	439,606.15
Losses on retirement of fixed assets	1,087,703.66	2,219,918.64
Losses on change in fair value	(2,178,002.85)	---
Financial expense	5,497,188.82	(16,267,878.62)
Investment losses	575,255.31	(7,599,808.46)
Decrease of deferred income tax assets	(381,035.38)	(385,844.62)
Increase of deferred income tax liabilities	---	(3,384,693.50)
Decrease of inventory	(201,723,059.05)	262,818,592.97
Decrease of operating, receivables	415,015,961.04	257,787,638.08
Increase of operating, payable	(256,861,041.33)	(678,468,508.91)
Other	---	(5,243,149.80)
Net cash flow arising from operating activities	99,694,380.71	(42,686,785.79)
2. Significant investing and financing activities not concerned with receipts and disbursements		
Debts transferred into capital	---	---
Convertible bonds due within 1 year	---	---
Fixed assets under financing lease	---	---
3. Net change in cash and cash equivalents		
Ending balance of cash	1,427,737,282.66	708,343,229.52
Less: Beginning balance of cash	845,026,867.06	752,558,414.47
Add: Ending balance of cash equivalents	---	---
Less: Beginning balance of cash equivalents	---	---
Net increase of cash and cash equivalents	<u>582,710,415.60</u>	<u>(44,215,184.95)</u>

Note IX. Related Parties and Transactions thereamong

(1) Information about parent company of the Company is as below:

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	17.48%	17.48%

* As confirmed by China Securities Depository & Clearing Corporation Limited (CSDCC) Shenzhen Branch dated 30 Jun. 2009, Overseas Chinese Town Group Company, as of 30 June 2009, holds 210,457,260 shares of the Company, accounting for 17.48% of the Company's total shares, which was because OCT Group increases its shareholding to the Company.

(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 Property 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
Chengdu Tianfu Overseas Chinese Town Industrial Development 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.	Subsidiary company of the first major shareholder

Shenzhen Konka Energy Technology Co., Ltd

Affiliated company

Shenzhen Dekon Electronics Co., Ltd.

Affiliated company

(4) Transactions among related companies

Name of Company	Item	Current			Last period		
		Amount	Proportion in Total Parallel Transactions	Pricing Policy	Amount	Proportion in Total Parallel Transactions	Pricing Policy
Shenzhen Dekon Electronics Co., Ltd	Procurement of goods	4,993.07	0.00%	Market price	32,814,268.22	1.01%	Market price
Shanghai Huali Packaging Co., Ltd.	Procurement of goods	2,882,256.22	0.10%	Market price	13,970,180.56	0.43%	Market price
Shenzhen Huali Packing & Trading Co., Ltd	Procurement of goods	2,679,312.32	0.09%	Market price	3,270,317.66	0.10%	Market price
Anhui Huali Packaging Co., Ltd.	Procurement of goods	8,407,392.45	0.28%	Market price	21,865,882.80	0.67%	Market price
Shenzhen Huayou Packaging Co., Ltd.	Procurement of goods	8,267,001.58	0.27%	Market price	4,049,132.12	0.12%	Market price
Overseas Chinese Town Group Company	To pay fee for land use	---	---	---	437,152.20	100%	---
Shenzhen East Overseas Chinese Town Co., Ltd.	Sales of goods	5,817,906.02	56.92%	Market price	2,358,212.00	2.51%	Market price
Chengdu Tianfu Overseas Chinese Town Industrial Development Co., Ltd.	Sales of goods	2,455,641.03	24.02%	Market price	---	---	---

(5) Current accounts among related companies

Current items	Name of Affiliated Company	Economic Contents	Ending amount	Beginning amount
Accounts receivable	Shenzhen East Overseas Chinese Town Co., Ltd.	Payments for goods	6,648,302.00	6,269,712.00
	Chengdu Tianfu Overseas Chinese Town Industrial Development Co., Ltd.	Payments for goods	1,509,600.00	12,674,000.00
	Beijing Century Overseas Chinese Town Industrial Co., Ltd.	Payments for goods	62,500.00	875,000.00
	Shenzhen Konka Energy Technology Co., Ltd	Payments for goods	---	40,290.24
Subtotal			<u>8,220,402.00</u>	<u>19,859,002.24</u>
Other receivables	Shenzhen Overseas Chinese Town Real Estate Co., Ltd.	Deposit	1,232,734.86	1,303,396.86
	Shenzhen Overseas Chinese Town Property Management Co., Ltd.	Deposit	77,402.65	77,402.65
	Shenzhen Special Economic Zone Overseas Chinese Town Hydropower Company	Prepayment for water/electricity rate	2,591,610.98	2,007,744.22
Subtotal			<u>3,901,748.49</u>	<u>3,388,543.73</u>
Accounts payable	Shenzhen Dekon Electronics Co., Ltd	Payments for goods	362,387.21	3,311,410.85
	Shanghai Huali Packaging Co., Ltd.	Payments for goods	---	1,644,331.44
	Shenzhen Huali Packing & Trading Co., Ltd	Payments for goods	1,743,852.41	1,646,697.78
	Shenzhen Huayou Packaging Co., Ltd.	Payments for goods	2,151,911.10	2,608,821.88
Subtotal			<u>4,258,150.72</u>	<u>9,211,261.95</u>
Advance receipts	Shanghai Overseas Chinese Town Investment Development Co., Ltd.	Payment for goods received in advance	8,810,640.00	---
Subtotal			<u>8,810,640.00</u>	<u>---</u>

Note X. Other Significant Events

Note XI. Extraordinary Gains and Losses

Character and content	Current	Last period
1. Gains and losses on non-current assets disposal		
(1) Gains on long-term assets disposal		
Including: Gains on disposal of fixed assets	905,122.06	40,273.49
Gains on disposal of intangible assets	---	2,281,860.76
Gains on equity transfer	---	5,318,957.59
Subtotal	905,122.06	7,641,091.84
(2) Gains on long-term assets disposal	---	---
Including: Losses on disposal of fixed assets	1,087,703.66	2,412,998.20
Losses on disposal of intangible assets	---	---
Losses on equity transfer	---	---
Subtotal	1,087,703.66	2,412,998.20
Net gains and losses on non-current assets disposal	(182,581.60)	5,228,093.64
2. Governmental grants counted into the current profit and loss	999,155.00	15,000.00
3. Profit and loss from change in fair value arising from transaction financial assets	2,178,002.85	---
4. Investment income from sale of financial assets available for sale	---	---
5. Income from sale of transaction financial assets (NDF delivery)	---	---
6. Other non-operating income and expenses besides the above items		
(1) Non-operating income	4,373,778.45	2,800,414.45
(2) Less: Non-operating expense	766,663.61	3,692,297.40
Net non-operating income and expense	3,607,114.84	(891,882.95)
Total of extraordinary gain and loss before deducting income tax	6,601,691.09	4,351,210.69
Less: amount influenced by income tax	806,507.67	1,259,410.11
Total of extraordinary gain and loss after deducting income tax	5,795,183.42	3,091,800.58
Less: amount influenced by minority interest	497,672.32	219,720.94
Total of extraordinary gain and loss after deducting income tax	5,297,511.10	2,872,079.65

Note XII. Return on Equity

Profits during Report Period	Return on equity			
	Fully diluted		Weighted average	
	Current	Last period	Current	Last period
Net profits attributable to ordinary shareholders of the Company	2.12%	2.24%	2.10%	2.25%
Net profits attributable to ordinary shareholders of the Company after deduction of extraordinary profits and losses	1.98%	2.16%	1.97%	2.17%

Note XIII. Earnings per Share

Profits during Report Period	Earnings per share			
	Basic earnings per share		Diluted earnings per share	
	Current	Last period	Current	Last period
Net profits attributable to ordinary shareholders of the Company	0.0667	0.0669	0.0667	0.0669

Net profits attributable to ordinary shareholders of the Company after deduction of extraordinary profits and losses	0.0623	0.0645	0.0623	0.0645
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Items	Current	Last period
Calculation of basic earnings per share and diluted earnings per share		
(I) Numerators		
Net profit after tax	80,302,015.01	80,555,227.21
Adjustment: influences of dividend on preferred stock and other instruments	---	---
Profits and losses ascribed to ordinary shareholders of the parent company in the calculation of earnings per share	80,302,015.01	80,555,227.21
Adjustment :	---	---
Dividend and interest related to potential diluted ordinary shares		
Change in earnings or expenses due to translation of potential diluted ordinary shares	---	---
Profits and losses ascribed to ordinary shareholders of the parent company in the calculation of earnings per share	80,302,015.01	80,555,227.21
(II) Denominators		
Weighted average of ordinary shares issued in the current period in the calculation of basic earnings per share	1,203,972,704.00	1,203,972,704.00
Add: Weighted average at the time of all potential diluted ordinary shares translated into ordinary shares	---	---
Weighted average of ordinary shares issued in the current period in the calculation of earnings per share	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	0.0667	0.0669
Net profits ascribed to ordinary shareholders of the Company after deduction of extraordinary profits and losses	0.0623	0.0645
Diluted earnings per share		
Net profits ascribed to ordinary shareholders of the Company	0.0667	0.0669
Net profits ascribed to ordinary shareholders of the Company after deduction of extraordinary profits and losses	0.0623	0.0645

Note XIV. Approval for Financial Statement

The Financial statements of the Company have been approved by the Board of Directors of the Company on 25 Aug. 2009.