

KONKA GROUP CO., LTD.

Annual Report 2009

Chairman of the Board: Hou Songrong

April 2010

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Section . Important Note

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

The Annual Report 2009 and Summary has been reviewed and approved by the 6th Board of Directors at the 39th Session.

By reviewing at the 14th session of the 6th Supervisory Committee, it believed that the Annual Report 2009 and Summary are in compliance with the content and format stipulated by CSRC and Stock Exchange, the information of which can reflect the Company’s business management and financial status for the year 2009 in true, accurate and complete.

None of director, supervisor or senior management staff stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

Zhongrui Yuehua Certified Public Accountants Co., Ltd. audited the Company’s annual financial report and produced the standard Auditor’s Report with unqualified opinion.

Mr. Hou Songrong, Chairman of the Board, Mr. Yang Guobin, Chief Financial Officer, and Ruan Renzong, person in charge of the accounting affairs hereby confirm that the Financial Report enclosed in this Annual Report 2009 is true and complete.

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

Section II. Company Profile

1. Legal Name in Chinese: 康佳集团股份有限公司

Abbr. in Chinese: 康佳集团

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

Abbr. in English: KONKA GROUP

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

Post Code: 518053

Internet website: <http://www.konka.com>

E-mail: szkonka@konka.com

3. Legal Representative : Chairman of the Board Mr. Hou Songrong

4. Secretary to the Board: Mr. Xiao Qing

Securities Affairs Representative: Mr. Wu Yongjun

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

Telephone: 0755-26608866

Fax: 0755-26600082

E-mail: szkonka@konka.com

5. Newspaper designated by the Company for information disclosure: Securities Times, etc.

Internet website designated by CSRC for publishing the annual report: <http://www.cninfo.com.cn>

Place for saving the annual report: Secretariat to the Board of Directors

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Stock Abbreviation: Shen Konka A, Shen Konka B

Stock Code: 000016、 200016

7. Date of Initial Registration: 1 Oct. 1980

Place: Shenzhen City

8. Registered number of business license of the corporate legal entity: 440301501121863

9. Registered number for taxation: 440301618815578

10. Certified Public Accountants Engaged by the Company:

Name: Zhongrui Yuehua Certified Public Accountants Co., Ltd.

Address: 8-9/F, Block A, International Enterprise Building, No. 35 Jinrong Street, Xicheng District, Beijing

Section . Summary of Financial and Business Highlights

I. Accounting Date as of year 2009

(I) Major accounting highlights

Unit: RMB Yuan

Items	Amount
Operating profit	124,672,101.26
Total profit	145,898,113.51
Net profit attributed to shareholders of the Company	151,077,290.18
Net profit attributed to the shareholders of the Company after extraordinary gains and losses	119,681,007.80
Net cash flow arising from operating activities	294,103,558.23

	2009	2008		Increase/decrease over the last year (%)	2007
		Before the adjustment	After the adjustment		
Operating revenue	13,259,033,591.95	12,205,292,227.57	12,205,292,227.57	8.63	12,169,078,369.50
Total profit	145,898,113.51	280,845,894.52	295,561,955.40	-50.64	256,450,384.55
Net profit attributed to the shareholders of the Company	151,077,290.18	250,817,154.35	267,680,281.04	-43.56	207,091,715.42
Net profit attributed to the shareholders of the Company after extraordinary gains and losses	119,681,007.80	254,938,313.48	271,801,440.17	-55.97	217,833,696.81
Net cash flow arising from operating activities	294,103,558.23	362,642,078.29	362,642,078.29	-18.90	35,139,498.85
	31 Dec. 2009	31 Dec. 2008		Increase/decrease than that of the last year (%)	31 Dec. 2007
		Before the adjustment	After the adjustment		
Total assets	13,568,083,128.38	10,517,285,515.63	10,550,222,993.18	28.60	10,599,949,691.10
Owner's equity (shareholders' equity)	3,875,367,861.56	3,775,042,931.48	3,801,716,512.21	1.94	3,541,109,135.15
Share capital	1,203,972,704.00	1,203,972,704.00	1,203,972,704.00	0.00	601,986,352.00

(II) Major financial indicators

Unit: RMB Yuan

	2009	2008		Increase/decrease over the last year (%)	2007
		Before the adjustment	After the adjustment		
Basic EPS	0.1255	0.2083	0.2223	-43.54	0.172
Diluted EPS	0.1255	0.2083	0.2223	-43.54	0.172
Basic EPS after extraordinary gains and losses	0.0994	0.2117	0.2258	-55.98	0.1809
Weighted average ROE	3.93%	6.84%	7.26%	-3.33	6.00%

(%)					
Weighted average ROE after extraordinary gains and losses (%)	3.11%	6.95%	7.38%	-4.27	6.31%
Net cash flow arising from operating activities	0.2443	0.3012	0.3012	-18.89	0.0584
	31 Dec. 2009	31 Dec. 2008		Increase/decrease than that of the last year (%)	31 Dec. 2007
		Before the adjustment	After the adjustment		
New asset per share attributed to the shareholders of the Company	3.2188	3.1355	3.1576	1.94	5.8824

II. Items of extraordinary gains and losses and amount

Unit: RMB Yuan

Items of extraordinary gains and losses	Amount	Note (if applicable)
Gains/losses on disposal of non-current assets	-122,269.41	
Government subsidies accounted into gains or losses of current period, except for those acquired in the ordinary course of business or granted continuously in certain standard quota according to relevant national laws and regulations	13,193,331.14	
Gains/losses on change in fair value of trading financial assets and liabilities, and investment gains on disposal of held for trading financial assets, financial liabilities and available-for-sale financial assets except for hedging financial instruments related to ordinary business of the Company	20,207,631.66	NDF
Other non-operating income and expenses other than the abovementioned	8,154,950.52	
Other non-recurring gains and losses in line with the definition of profit and loss items	54,354.16	
Effect of income tax	-8,520,698.01	
Effect of minority interests	-1,571,017.68	
Total	31,396,282.38	-

III. Change in shareholders' equity in the reporting period

Unit: RMB Yuan

Items	Opening amount	Increase in 2009	Decrease in 2009	Closing amount
Share capital	1,203,972,704.00	-	-	1,203,972,704.00
Capital reserve	1,256,138,295.21	1,311,432.37	-	1,257,449,727.58
Surplus reserve	806,783,259.43	2,524,736.37	-	809,307,995.80
Of which: Statutory welfare fund	525,424,980.23	88,353,918.61	-	613,778,898.84
Retained profit	9,397,273.34	-	18,538,738.00	-9,141,464.66
Currency translation difference	3,801,716,512.21	92,190,087.35	18,538,738.00	3,875,367,861.56
Accumulated losses of subsidiaries that the Company did not make up	234,896,086.25	-	3,995,974.36	230,900,111.89
Shareholders' equity attributed to the Company	4,036,612,598.46	92,190,087.35	22,534,712.36	4,106,267,973.45
Minority interest	1,203,972,704.00	-	-	1,203,972,704.00
Total shareholders' equity	1,256,138,295.21	1,311,432.37	-	1,257,449,727.58

Section IV. Change in Share Capital and Particulars about Shareholders

I. Change in shares

(I) In the reporting period, the total shares of the Company remained unchanged compared to the last year.

(II) In the reporting period, the change in share structure:

Unit: share

	Prior to the change		Increase/decrease (+,-)					Subsequent to the change	
	Number	Ratio	Issuance of new share	Bonus	Transfer capital reserve to share	Other	subtotal	Number	Ratio
I. Shares subject to trading moratorium	198,388,174	16.48%	-	-	-	-1,284	-1,284	198,386,890	16.48%
1. Shares held by state	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned corporations	198,381,940	16.48%	-	-	-	-	-	198,381,940	16.48%
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-	-
Including: Shares held by domestic corporations	-	-	-	-	-	-	-	-	-
Shares held by domestic natural person	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Including: Shares held by foreign corporations	-	-	-	-	-	-	-	-	-
Shares held by foreign natural person	-	-	-	-	-	-	-	-	-
5. Shares held by senior management staffs	6,234	0.00%	-	-	-	-1,284	-1,284	4,950	0.00%
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. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	1,203,972,704	100%	-	-	-	0	0	1,203,972,704	100%

Changes in shares subject to trading moratorium

Number of shareholders	Shares subject to trading moratorium at the year-begin	Releasing from trading moratorium in 2009	Increase in this year	Shares subject to trading moratorium at the year-end	Reason	Date of releasing
Overseas Chinese Town Group Corporation	198,381,940	0	0	198,381,940	Commitment in the share merger reform	30 Mar. 2010
Shares held by senior management	6,234	1,284	0	4,950	Shares held by senior management staffs	Unknown

staffs						
Total	198,388,174	1,284	0	198,386,890	-	-

Note: 1. Overseas Chinese Town Group Corporation, the original nontradable shareholder of the Company, promised not to trade or transfer the nontradable shares of the Company within 24 months since the day such shares were authorized with listing and circulation rights on the market of A-share. After the expiration of the aforesaid commitment, the number of nontradable shares of the Company sold by OCT Group Corporation through listing at the Stock Exchange shall not exceed 5 percent of the Company's total shares within 12 months, and not exceed 10 percent within 24 months.

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

II. Issuance and listing of shares

(I) Over the past three years as at the end of reporting period, the Company did not issue any securities.

(II) Apart from 4,950 shares held by senior management staff of the Company, the Company has no other nontradable staff shares.

III. Introduce to shareholders

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

Date	Additional shares that can be listed for trade after expiration of trading moratorium	Balance of number of shares subject to trading moratorium	Balance of number of shares not subject to trading moratorium	Note
30 Mar. 2010	198,381,940	0	198,381,940	

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

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

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

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

Unit: share

No.	Name of shareholder subject to trading	Number of shares subject to	Actual number of shares subject to	Time that can be listed for	Additional shares that can	Trading moratorium
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	moratorium	trading moratorium	trading moratorium that can be applied for circulation	trade	be listed for trade	
1	OCT Group Corporation	198,381,940	198,381,940	2010-3-30	0	Note

Note: 1. Overseas Chinese Town Group Corporation, the original nontradable shareholder of the Company, promised not to trade or transfer the nontradable shares of the Company within 24 months since the day such shares were authorized with listing and circulation rights on the market of A-share. After the expiration of the aforesaid commitment, the number of nontradable shares of the Company sold by OCT Group Corporation through listing at the Stock Exchange shall not exceed 5 percent of the Company's total shares within 12 months, and not exceed 10 percent within 24 months.

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

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

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

Unit: Share

Total number of shareholders		79,120			
Shares held by the top ten shareholders					
Name of shareholder	Nature of shareholder	Proportion of shareholding (%)	Total number of shares held	Number of shares subject to moratorium	Number of shares pledged or frozen
OCT Group corporation	State-owned corporation	19.00	228,754,783	198,381,940	0
HOLY TIME GROUP LIMITED	Foreign corporation	3.37	40,554,903	0	Unknown
Agricultural Bank of China - Penghua Motivity Growth Mixed Fund	Domestic non-state-owned corporation	2.40	28,854,267	0	Unknown
GAOLING FUND,L.P.	Foreign corporation	2.19	26,400,625	0	Unknown
China Everbright Bank Company Limited - First-Trust Leading Strategy Open-ended Fund	Domestic non-state-owned corporation	1.55	18,692,893	0	Unknown
Industrial and Commercial Bank of China - China International Domestic Demand Dynamic Stock Fund	Domestic non-state-owned corporation	1.50	18,000,000	0	Unknown
BOCI SECURITIES LIMITED	Foreign corporation	1.46	17,550,000	0	Unknown
China Construction Bank - China Advantage Growth Stock Fund	Domestic non-state-owned corporation	1.42	17,085,225	0	Unknown
NOMURA SECURITIES CO.LTD	Foreign corporation	1.12	13,500,000	0	Unknown

GUOTAIJUNAN SECURITIES(HONGKONG) LIMITED	Foreign corporation	1.10	13,235,005	0	Unknown
Shares held by the top ten shareholders not subject to moratorium					
Name of shareholders		Numbers of shares not subject to moratorium held		Type of shares	
HOLY TIME GROUP LIMITED		40,554,903		Domestically listed foreign share	
OCT Group corporation		30,372,843		RMB ordinary share	
Agricultural Bank of China - Penghua Motivity Growth Mixed Fund		28,854,267		RMB ordinary share	
GAOLING FUND,L.P.		26,400,625		Domestically listed foreign share	
China Everbright Bank Company Limited - First-Trust Leading Strategy Open-ended Fund		18,692,893		RMB ordinary share	
Industrial and Commercial Bank of China - China International Domestic Demand Dynamic Stock Fund		18,000,000		RMB ordinary share	
BOCI SECURITIES LIMITED		17,550,000		Domestically listed foreign share	
China Construction Bank - China Advantage Growth Stock Fund		17,085,225		RMB ordinary share	
NOMURA SECURITIES CO.LTD		13,500,000		Domestically listed foreign share	
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED		13,235,005		Domestically listed foreign share	
Explanation on associated relationship among the top ten shareholders or acting-in-concert		There was no associated relationship between the first principal shareholder (OCT Group Corporation) and other shareholders, and OCT Group Corporation did not join in any consistent actions. The Company is not aware of whether association relationship exists between other shareholders and whether they are acting-in-concert person.			

(IV) Shareholders holding more than 5% of total shares

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

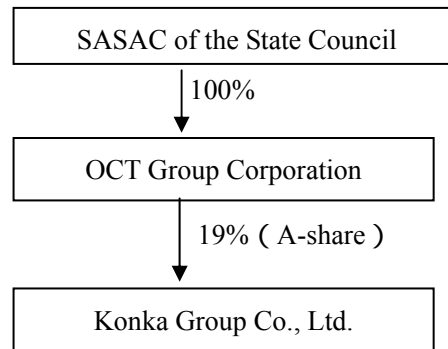
IV. About the controlling shareholder and actual controller

(I) The first principal shareholder and actual controller

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

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

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



(III) About corporate shareholder holding over 10% equities of the Company (including 10%) There is no other shareholder holding over 10% equities of the Company (including 10%) other than OCT Group Corporation, the controlling shareholder of the Company.

Section V. Particulars about Directors, Supervisors, Senior Management

Staffs and Employees

I. Particulars about directors, supervisor and senior management

(I). General information

Name	Office title	Sex	Age	Office term	Remarks
Hou Songrong	Chairman of the Board	Male	41	Aug. 2007-Aug. 2010	
Su Zheng	Director	Male	53	May 2008-Aug. 2010	
Wang Xiaowen	Director	Female	40	May 2008-Aug. 2010	
Huo Jun	Director	Female	43	Aug. 2007-Aug. 2010	
Feng Yutao	Independent Director	Male	42	Aug. 2007-Aug. 2010	
Yang Haiying	Independent Director	Female	42	Aug. 2007-Aug. 2010	
Zhang Zhong	Independent Director	Male	41	Aug. 2007-Aug. 2010	
Dong Yaping	Chairman of the Board of Supervisors	Male	56	May 2008-Aug. 2010	
Wen Tongyun	Supervisor	Female	42	Aug. 2007-Aug. 2010	
Liu Yong	Supervisor	Male	38	Feb. 2010-Aug. 2010	Staff representative
Chen Yuehua	President	Male	46	Feb. 2009-Feb. 2011	
Cheng Dahou	Vice President	Male	47	Feb. 2009-Feb. 2011	
Yang Guobin	Vice President	Male	41	Nov. 2009-Feb. 2011	
Wang Youlai	Vice President	Male	48	Feb. 2009-Feb. 2011	
He Jianjun	Vice President	Male	40	Feb. 2009-Feb. 2011	
Xiao Qing	Secretary to the Board	Male	40	Aug. 2007-Aug. 2010	
Yang Rong	CFO	Female	35	Nov. 2009-Feb. 2011	
Mu Gang	Vice President	Male	40	Nov. 2009-Feb. 2011	
Lin Gaike	Vice President	Male	38	Nov. 2009-Feb. 2011	

Note: Staff representative meeting of the Company was held on 8 Feb. 2010, at which agreed Mr. Xiang Yang didn't take post of staff supervisor of the Supervisory Committee of KONKA Group due to work transfer. At the staff representative meeting, unanimously approved to elect Mr. Liu Yong as the staff supervisor of the 6th Supervisory Committee at by vote.

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

Name	Full name of shareholding unit	Office title held	Office term	Whether drew remuneration or allowance from the Company or not
Dong Yaping	OCT Group Corporation	Standing committee of Party Committee, Vice General Manager	-	No
Su Zheng	OCT Group Corporation	Standing committee of Party Committee, Deputy Secretary of Party Committee and Secretary of Inspecting Discipline Commission	-	No
Wang Xiaowen	OCT Group Corporation	Standing committee of Party Committee	-	No
Hou	OCT Group	Standing committee of Party Committee	-	Yes

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

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

2. In the report period, directors, supervisors and senior management staffs never held stock option or awarded restraint stocks.

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

1. Director

Mr. Hou Songrong, Chairman of the Board, CEO and Secretary of the CPC, was born in 1968 with the Han nationality; he got master of economics, economic manager. He successfully took the posts of Factory Director of Shenzhen Zhongqiao Industrial Co., Ltd., Business Manager of Investment and Development Dept. in Overseas Chinese Town Group Corporation, Deputy General Manager and General Manager of Shenzhen Overseas Chinese Town Xingqiao Industrial Corporation, and Vice-president, standing Vice-president, Vice Secretary of the CPC and President as well as Vice Chairman of the Board in Konka Group Co., Ltd. Now he serves as standing committee of Party Committee in Overseas Chinese Town Group Corporation, as Chairman of the Board and Secretary of the CPC in Konka Group Co., Ltd, Chairman of Overseas Chinese Town Hong Kong Limited, Chairman of the Board in Overseas Chinese Town (Asia) Holdings Limited and Vice President of Shenzhen Overseas Chinese Town Co., Ltd.

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

Ms. Wang Xiaowen, Director of the Company, born in 1969, Han nationality, is a holder of university diploma She successively took the post of Director and Chief Financial Officer in Shenzhen Overseas Chinese Town Industry Development Co, Ltd, Chief Administrative Officer of President Office, Chief Financial Officer, Assistant to President in Overseas Chinese Town Group Corporation, supervisor of Konka Group, director of InterContinental Shenzhen and supervisor of Shenzhen Overseas Chinese Town Co., Ltd. Now she serves as standing committee member of Party Committee in Overseas Chinese Town Group Corporation, director of Shenzhen OCT Real Estate Co., Ltd, Chairman of the Board and Secretary to the CPC in Overseas Chinese Town Hotel Group Co., Ltd, Chairman of the Board of Shenzhen OCT Investment Co., Ltd, Vice President of Shenzhen OCT Co., Ltd, director of Chengdu Tianfu OCT Industrial Development Co., Ltd and Union Developing Group of China, as well as supervisor of V-Sun Securities Co., Ltd and Shenzhen OCT Happy Coast Investment Co., Ltd.

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

2. Independent Director

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

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

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

3. Supervisor

Chairman of the Supervisory Committee Dong Yaping, male, Han nationality, diploma of college, is an economist and Senior political officer. He has successively held the posts of Division Chief of Department of Foreign Affairs Financial Supervision under the Ministry of Supervision, Cadre of Overseas Chinese Affairs Office of The State Council, Deputy Secretary of the CPC and Secretary of Inspecting Discipline Commission and Vice President in Overseas Chinese Town Group Corporation, as well as Chairman of the Supervisory Committee of Shenzhen Overseas Chinese Town Holding Company. Now he is standing committee member of the CPC and Vice GM in Overseas Chinese Town Group Corporation, Vice Chairman of Shenzhen Overseas Chinese Town Co., Ltd, Deputy Chairman in Changsha Window of the World Co., Ltd, Chairman of Chengdu Tianfu Overseas Chinese Town Industrial Development Co., Ltd, Chairman of the Supervisory Committee in Shenzhen OCT East Co., Ltd and Chairman of the Supervisory Committee Taizhou OCT Investment Development Co., Ltd.

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

Liu Yong, staff supervisor, male, Han nationality, born in 1972, bachelor holder of postgraduate, is an assistant to engineer. He successively took posts of Vice Director of GM's Office in Shenzhen KONKA Telecommunications Technology Co., Ltd and Vice General Director of Office of Konka Group. Now he is Office General Directors of Konka Group.

4. Senior executives

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

Mr. Cheng Dahou, Vice President of the Company, was born in 1962 with the Han nationality; he obtained bachelor degree, being senior engineer. He served successfully as Deputy General

Manager of Overseas Chinese Town Property Management Limited, Director of Customer Service Center in Overseas Chinese Town Real Estate Co., Ltd., Chief Officer of HR in Overseas Chinese Town Group Corporation, as well as Chairman of the Board in Overseas Chinese Town Xinqiao Industrial Development Co., Ltd.

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

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

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

Mr. Xiao Qing: Secretary of the Board; was born in 1969 with the Han nationality; he got bachelor degree, being Economist. He used to be General Manager at the Central Office of City Credit Cooperation in Ya'an District of Sichuan, and Senior Vice President of Top Group, as well as Chief Officer of the Investment Development Center in Konka Group Co., Ltd.

Ms. Yang Rong, CFO, Han nationality, born in 1975, postgraduate. She once was Vice GM of the Financial Department of Konka Group, Vice Director of the Financial Department and Vice Director of the Audit Department of Overseas Chinese Town Group Corporation.

Mr. Mu Gang, Vice President, Hui nationality, born in 1970, postgraduate. He once was Vice Director and Director of the Brand Marketing Management Department of Konka Group, Director of the Operation Management Center of Konka Group, Vice GM and GM of the Multimedia Marketing Division of Konka Group.

Mr. Lin Gaike, Vice President, Han nationality, born in 1972, postgraduate, engineer. He once was Chief of the New-type Display Design Institute of the R&D Center of Konka Group, Vice GM of the Digital Flat-panel Division of Konka Group, and Vice GM of the Color TV Division of Konka Group.

. Remuneration as of year 2009

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

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

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

Name	Number of shares held	Number of shares	Reasons for change	Total remuneration before tax received from the Company in the reporting period (RMB 10 Thousand)
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	at year-begin	held at year-end		Wage, allowance and the part of social insurance undertaken by the Company	Reward	Total
Hou Songrong	0	0	-	33.85	94.73	128.58
Su Zheng	0	0	-	0.00	0.00	0.00
Wang Xiaowen	0	0	-	0.00	0.00	0.00
Huo Jun	0	0	-	0.00	0.00	0.00
Feng Yutao	0	0	-	9.52	0.00	9.52
Yang Haiying	0	0	-	9.52	0.00	9.52
Zhang Zhong	0	0	-	9.52	0.00	9.52
Dong Yaping	0	0	-	0.00	0.00	0.00
Wen Tongyun	0	0	-	0.00	0.00	0.00
Liu Yong	0	0	-	22.75	21.67	44.41
Chen Yuehua	0	0	-	43.78	71.24	115.02
Cheng Dahou	0	0	-	29.40	59.43	88.83
Yang Guobin	0	0	-	29.40	71.24	100.64
Wang Youlai	6,600	6,600		29.40	71.24	100.64
He Jianjun	0	0	-	29.40	71.24	100.64
Xiao Qing	0	0	-	29.40	71.24	100.64
Yang Rong	0	0		4.24	0.00	4.24
Mu Gang	0	0		46.72	92.77	139.49
Lin Gaike	0	0		36.63	46.31	82.94
Total	6,600	6,600	-	363.54	671.09	1,034.63

Notes: 1. Among the bonuses actually paid for senior executives in the year 2009, there existed some bonuses that should have been paid before the year 2009 and were put off until 2009. To be specific, such delayed bonuses for Hou Songrong, Chen Yuehua, Cheng Dahou, Yang Guobin, Wang Youlai, He Jianjun and Xiao Qing respectively stood at RMB 711.8 thousand, 362.2 thousand, 244.2 thousand, 362.2 thousand, 362.2 thousand, 362.2 thousand and 362.2 thousand. Except for the said delayed bonuses, bonuses that should be paid in the year 2009 for Hou Songrong, Chen Yuehua, Cheng Dahou, Yang Guobin, Wang Youlai, He Jianjun and Xiao Qing stood at RMB 235.5 thousand, 350.1 thousand, 350.1 thousand, 350.1 thousand, 350.1 thousand, 350.1 thousand and 350.1 thousand. As such, as showed in "total remuneration before tax received from the Company in the reporting period" in the table above, total remuneration paid in 2009 for Hou Songrong, Chen Yuehua, Cheng Dahou, Yang Guobin, Wang Youlai, He Jianjun and Xiao Qing stood at RMB 574.0 thousand, 787.9 thousand, 644.1 thousand, 644.1 thousand, 644.1 thousand, 644.1 thousand and 644.1 thousand.

2. The bonus was paid to Mu Gang for his performance as GM of the Multimedia Marketing Division in 2009. And the bonus was paid to Lin Gaike for his performance as Vice GM of the Color TV Division in 2009.

() Particulars about directors and supervisors who don't receive remuneration from the Company

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

() Attendance of directors at board meetings

Name of director	Office title	Due presence (times)	Presence in person (times)	Attending the meeting by telecommunication	Entrusted presence (times)	Absence (times)	Attending board meetings not in person for twice
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				(times)			in succession
Hou Songrong	Chairman of the Board	13	2	11	0	0	No
Su Zheng	Director	13	2	11	0	0	No
Wang Xiaowen	Director	13	1	11	1	0	Yes
Huo Jun	Director	13	2	11	0	0	No
Feng Yutao	Independent Director	13	2	11	0	0	No
Yang Haiying	Independent Director	13	2	11	0	0	No
Zhang Zhong	Independent Director	13	2	11	0	0	No

Times of board meetings convened within the year 2009

Times of board meetings convened within the year 2009	13
Of which: times of site meetings	2
Times of meetings convened by telecommunication	11
Site meetings combining telecommunication means	0

. The Company elected and changed its directors, supervisors and senior executives in the report period.

() Members of the Board of Directors remained unchanged in the report period.

() Members of the Supervisory Committee remained unchanged in the report period.

() Some senior executives were changed in the report period.

1. As decided by the 21st Meeting of the 6th Board of Directors convened on 26 Feb. 2009, some senior executives were changed:

(1) Chairman of the Board of Directors Mr. Hou Songrong proposed that he should cease to hold a concurrent post of CEO, that routine operation of the Company should be handed over to a specialized CEO, and that Mr. Chen Yuehua was an appropriate candidate for the post of CEO. According to the proposal of Mr. Hou Songrong and as examined and officially nominated by the Nomination Committee under the Board, the Board of Directors agreed to engage Mr. Chen Yuehua as CEO of the Company.

(2) The Company continued to engage Mr. Yang Guobin as CFO, and Mr. Cheng Dahou, Mr. Wang Youlai and Mr. He Jianjun as vice CEOs.

2. As decided at the 31st Meeting of the 6th Board of Directors on 25 Nov. 2009, Mr. Yang Guobin, Mr. Mu Gang and Mr. Lin Gaike was engaged as vice CEOs, Mr. Yang Guobin ceased to be CFO of the Company and Ms. Yang Rong was engaged as the new CFO.

. Particulars about employees at period-end

Unit	Shenzhen headquarter	Selling branch	Mudan River Konka	Shaanxi Konka	Anhui Konka	Chongqing Konka	Dongguan Konka	Konka Mould Plastic	Anhui Electrical Appliance	Boluo Konka	Changshou Konka	Chongqing Qingjia	Total
Number of employees	2555	4593	282	1275	3323	128	3608	1503	698	636	118	424	703

Employee structure in Shenzhen Headquarters

Classification	Production staff	Salesperson	Technical staff	Financial staff	Administrative staff	Retired workers requiring to bear the cost by the Company	Higher than undergraduate	Doctor	Master	Bachelor
Number of employees	694	366	640	122	578	155	1202	16	190	996
Proportion	27.16%	14.32%	25.05%	4.77%	22.62%	6.07%	47.05%	0.63%	7.44%	38.98%

Section VI Corporate Governance Structure

1. Actuality of corporate governance

Within the report period, in accordance with the Company Law, Securities Law of the PRC, Code of Corporate Governance for Listed Companies, Share Listing Rules of Shenzhen Stock Exchange and the relevant rules and regulations of the CSRC; the Company timely amended the Articles of Association, and formulated the internal control systems such as Special System for Selection of Accounting Firm, Management System for Inside Information and Insiders and Management System for Derivatives Investment; accelerated the development by continuously perfecting the corporate governance structure and normative operation, so as to enhance the corporate governance, and guarantee the stable and healthy development. By the end of the reporting period, the actual conditions of corporate governance basically met the requirements of the regulatory documents in respect of corporate governance structure of listed companies issued by CSRC.

(1) Shareholders and the shareholders' meeting

The Company ensured that all shareholders, in particular medium and minor shareholders, enjoyed equal positions and exercised their own rights; communicated effectively with shareholders via telephone and e-mail; handled the visits and enquiries from shareholders seriously, to enable the shareholders have their rights of information to the Company's material issues, participation rights and voting rights.

(2) Controlling shareholder and the Company

The controlling shareholder strictly regulated its behavior and complied with the regulations of the Articles of Association in exercising their rights and obligations as a shareholder in the Company, not bypassed the shareholders' meeting to intervene in the Company's decisions and operations; the Company and the controlling shareholder are independent with respect to its staff, assets, finance, organization and business; the Board of Directors, Supervisory Committee and the internal departments of the Company functioned independently, to ensure that the material decisions can be made by its shareholders' meeting and Board of Directors in accordance with the laws.

(3) Directors and the board of directors

The Company formulated the Rules of Procedure for Board of Directors, and all directors of the Company were able to seriously discharge their duties stipulated by the relevant laws, regulations and the Articles of Association; the Company established the system of independent director, and selected three independent directors, the number of directors and composition of the Board of Directors of the Company complied with the laws, regulations and Articles of Association. The independent directors fulfilled their duties in a serious manner in accordance with the requirements of the laws, regulations and the Articles of Association to protect the Company's interest as a whole and ensure that it was not detrimental to the rights of major and minority shareholders. The Company set up four special committees, and developed the relevant working rules. Within the report period, the Board held 13 meetings, which effectively exerted the decision-making mechanism of Board of Directors.

(4) Supervisors and supervisory committee

The number of supervisors and composition of the Supervisory Committee of the Company complied with

the laws, regulations and Articles of Association; the Company established the Rules of Procedure for Supervisory Committee, in which, the supervisors performed their duties, and exercised their functions of supervision and inspection in an earnest and responsible manner, while gave their independent opinions in connection with supervision over the Company's significant events, associated transactions, financial position, as well as the directors and senior management members.

(5) Performance evaluation standard and incentive-restrictive mechanism

The senior management of the Company was recruited on an open basis and in compliance with the laws and regulations. The Company established and improved the appraisal standards and motivation and control mechanism for senior management, so as to attract qualified personnel, and ensure the stability of senior management.

(6) Interested parties

The Company maintained an interdependence and mutual promotion relationship with the interested parties such as banks and other creditors, staff, consumers and suppliers by fully respecting and safeguarding their legal rights, so as to jointly promote sustainable and healthy development.

(7) Information disclosure and transparency

The Company strengthened its investor relations management by formulating the Management System for Investor Relations and the Management System for Information Disclosure. The Company strictly complied with the requirements of the laws, regulations and the Articles of Association to disclose its information as required by the relevant regulations on an honest, complete, accurate and timely basis, to ensure the accuracy and timely information disclosure, while ensure equal access to information for all shareholders. Owing to his efforts in promoting the standardizing operations of the listed companies, implementing the requirements of regulatory authorities, investor relations management, as well as the information disclosure, Mr. Xiao Qing, the Board Secretary, has won the title "Golden Board Secretary of New Fortune" consecutively in three years, and retained the title of Board Secretary in 2009 active promotion of corporate governance practices for the listed companies by Shenzhen Securities Regulatory Bureau.

(8) Special campaign of corporate governance

Within the report period, the Company continuously continued to focus its work on the special campaigns of corporate governance of listed companies, and conducted the self-inspection and rectification seriously. Upon self-inspection, the Company's actual conditions of corporate governance was found basically met the requirements of the regulatory documents in respect of corporate governance structure of listed companies issued by CSRC.

(9) System of accountability for major discrepancies of information disclosure in annual reports disclosure

According to requirements of Notice on the Matters Concerning the Accountability for Major Discrepancies of Information Disclosure in Annual Report issued by CSRC and Shenzhen Securities Regulatory Bureau (with SZJGSZ No. (2010) 14), the Company established a "Accountability for Major Discrepancies of Information Disclosure in Annual Report", and submitted the 39th Meeting of the sixth Board of Directors for consideration and adoption.

(10) Nonstandard governance

a. Type of non-standard governance matter existed

There was a situation that the Company disclosed undisclosed information, and submitted the production investment plan and financial budget to the substantial shareholder.

b. Types and cycle of undisclosed information provided to the substantial shareholder

(i) Monthly financial data;

(ii) Monthly business analysis

c. Reasons for the related non-standard governance existed

The Company submitted the undisclosed information such as monthly financial data to the substantial shareholder directly administrated by the State-owned Assets Supervision and Administration Commission of State Council in accordance with the managerial demand of SASAC.

d. Impact on Company independence

After the self-inspection, the Company kept strictly to the requirements of “Notice on Strengthening the Supervision of Listed Company’s Provision of Non-public Information to Substantial Shareholders and Actual Controllers”, and “Supplementary Notice Concerning Strengthening the Supervision of the Non-standard Governance Behavior of Listed Company’s Provision of Non-public Information to Substantial Shareholders and Actual Controllers”, while stringently performed the necessary procedures. There existed no circumstances of substantial shareholder’s abuse of control and disclosure of undisclosed information for insider trading, and hence, it has no impact on the independence of the Company.

2. Performance of duties by independent directors

(1) Establishment and perfection of relevant working system of independent directors

The Company established the Independent Director System, which explicitly stipulated the qualifications, required independency, methods of election and nomination, as well as the duties. To further clarify the responsibilities of independent directors in the preparation of Company’s annual reports and information disclosure, while give their full play to the supervision, the Company modified the Independent Director System, and established the Rules for Independent Directors in Preparation of Annual Reports, specifying the requirements of independent directors’ understanding of Company’s operation, their communication with annual audit certified public accountant, as well as the inspection and supervision in preparing the annual reports.

Also, the Company specified the duties and obligations of independent directors in the systems of Articles of Association and the Rules of Procedure for Board of Directors.

(2) Particulars about duty fulfillment of independent directors

Within the report period, the Company earnestly and honestly performed their duties with diligence as the independent director, while carefully read the related materials prepared by the Company, to give their professional opinions regarding the Company’s associated transactions, periodical reports and investment from the aspects of law, finance, technology and the corporate governance, thus practically and effectively protecting the legal interests of the Company and its individual investors; they also made the independent and objective judgments, and thereby improving the scientificity and objectivity of decisions made by the Board of Directors, while played a positive role in the benign development of the Company, all of which protected the interests of the Company and its individual investors.

Duty fulfillment of independent directors in 2009

Name of independent director	Required attendance during the year	Attendance in person (times)	Attendance through proxies (times)	Absence (times)	Remark
Feng Yutao	13	13	0	0	
Yang Haiying	13	13	0	0	
Zhang Zhong	13	13	0	0	

(3) Independent directors' objection to the relevant matters of the Company

The independent directors of the Company did not raise any objection to the proposals of Board of Directors and other important issues of the Company in the reporting period.

3. Independence from controlling shareholders in terms of five aspects

Within the report period, the Company was highly independent in terms of staff, assets, finance, organization and business from its controlling shareholders with the capacity of independent and complete business and operating autonomy.

(1) Business: the Company established the management control system, and set up an independent business department, and had its independent managerial decision-making capacity.

(2) Staff: the Company was independent of the controlling shareholder with respect to labour, personnel and salaries management. The President and other senior management members received their remunerations in the Company, while the related personnel assumed roles in the company of controlling shareholder didn't receive their remunerations in the Company.

(3) Assets integrity: the Company had places of production and operation completely separated from the controlling shareholder, and the unaffiliated and integral assets structure, as well as the complete systems for production, supply and sales, and the ancillary facilities, ownerships.

(4) Organization: the Company had a complete organization structure and corporate governance structure, while its production operations, administrative management, offices and premises for production and operation were completely independent from the controlling shareholder.

(5) Finance: the Company established an independent finance department and an independent finance and accounting system, while implemented a complete financial management system with separate bank accounts.

4. Appraisal and incentive mechanism for senior management

In order to enable the senior management of the Company give better performance of their duties, and clarify their rights and obligations, the Company established and improved a fair, transparent and efficient performance standard and incentive & restraint mechanism for the senior management. The Company assessed the accountabilities and operation effected of senior management in terms of professional skills, management level and job performance; took the salary plus bonus as a main incentive way, to improve the incentive of senior management. The appraisal and supervision of senior management was conducted by Board of Directors and Supervisory Committee, respectively.

5. Report of self-assessment on internal control

The Company's internal audit department conducted a thorough and close examination on the Company's internal control in 2009 in accordance with the requirements of Basic Standard for Enterprise Internal Control (CK No.7 (2008)), the Announcement on 2009 Annual Reports of the Listed Firms and the Relevant Tasks, Internal Control Directions for Listed Companies and the Articles of Association. Based on that, the BOD of Company further reviewed all rules and regulations, and got a deeper understanding of the efforts being made by the Company in 2009 regarding the strengthening of internal controls, while evaluated the situation of its internal controls.

(1) Establishment and optimization of internal control system of the Company

a. General plan for internal control construction

By following the requirements of Basic Standard for Enterprise Internal Control and other relevant laws and regulations, the internal control system established by the Company was basically sound and effectively executed. The internal control of the Company was set based on its management system, while set up the working system and business system of subsidiaries, branch offices and each functional department, whereby, the basic management system includes the Rules of Procedures for Shareholders' General Meeting, Board of Directors and Supervisory Committee, Independent Director System, Management System for Associated Transaction, Detailed Rules for the President, Management System for Information Disclosure, etc.

To ensure the comprehensive implementation of "Basic Standard for Enterprise Internal Control", and further strengthen the constructions of internal control system and its supervision and management system, the Company constantly arranged its internal control system and business process by improving the weaknesses, and realized continuous optimization of internal controls based on the fulfillment of compliance requirements.

b. Establishment and improvement of internal control regulations

In strict compliance with the requirements of standardization operation for listed companies, the Company actively promoted the innovations in the modern enterprise management system and paid much attention to the development of its internal control system. Through constant adjustments and optimization, the Company's internal control systems were greatly improved to cover all the Company's business divisions, subsidiaries and businesses. Meanwhile, the internal control systems were effectively implemented in the Company's decision-making, execution, supervision and feedback. At the same time, the internal management and control system, the approving procedures and the approving powers covering all the operation links were established and improved, which ensured a rational layout of the Company's organs, posts, powers and responsibilities, as well as the clear powers and responsibilities, checks and balances, mutual supervision among different organs and posts.

Currently, the Company's Shareholders' Meeting, Board of Directors, Supervisory Committee and management enjoyed clear powers and responsibilities, as well as a standardized operation; and the Company disclosed its relevant information on the principles of factuality, accuracy, completeness, timeliness and fairness; also, the Company's risk control system worked effectively, which ensured the healthy operation of all the Company's business activities.

To sum up, according to Company Law, Code of Corporate Governance for Listed Companies, Guideline for Internal Control of Listed Companies and other laws and regulations, the Company established and put

into operation an effective internal control in terms of all major aspects, which complied with relevant requirements of CSRC and Shenzhen Stock Exchange. And the internal control system was proved to be able to reasonably ensure the realization of the Company's strategic objectives, objectives concerning the efficiency and outcome of operation and management, objectives of factual and complete financial reports and relevant information, and objectives of the safety of the Company's assets.

(c) Inspection and supervision of internal control

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

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

(d) Conduct of self-assessment of internal control

In accordance with the work arrangements and requirements of the Financial Audit Committee, the Company's internal audit department checked the establishment, improvement and implementation of internal control, and submitted the examination report. The Financial Audit Committee has conducted self-assessment to the internal control of the Company.

(e) Deficiencies in internal control and rectification

The completeness of internal control system design and the effectiveness of implementation needed to be further improved. The Company will continuously improve the internal control system and intensify the supervision and implementation.

(2) General

a. Organizational structure of the Company's internal control

The organizational structure of the Company's internal control consisted of the Shareholders' Meeting, the Board of Directors, the Supervisory Committee and the management, functioning well respectively as the power organ, the decision-making organ, the supervisory organ and the execution organ. The Company established the rules of procedures for Shareholders' Meeting, the Board of Directors and Supervisory Committee in accordance with the requirements of Company Law, Securities Law of the PRC, Guideline for the Articles of Association of Listed Companies and the relevant rules and regulations of the CSRC, and its corporate governance structure was well improved catering to the requirement of Code of Corporate Governance for Listed Companies.

The Shareholders' Meeting was the highest organ of authority of the Company, the Board of Directors

served as the decision-making body, while the Supervisory Committee exercised the supervisory power. Subordinating to the Board, the Board Secretariat was responsible for handling the routine work of the Board. The four special committees set up subordinating to the Board (the Strategy Committee, the Nomination Committee, the Financial Audit Committee and the Remuneration & Appraisal Committee) functioned according to their own responsibilities.

The President which was responsible to the Board of Directors exercised the powers of operation and management, to ensure the normal operation of the Company. The functional departments were responsible for the implementation of the specific production and operation and the management of routine operations of the Company, and thus to constitute a set of complete and effective operating management system involving production, supplying, sales, personnel, finance and administration systems, to lay a foundation for the standardized operation and long-term healthy development of the Company.

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

In compliance with the stipulations and requirements under the Company Law, Securities Law of the PRC, Code of Corporate Governance for Listed Companies, Articles of Association and the relevant rules and regulations, the Company established a complete internal operation system on the basis of its actual situation.

The Company formulated a series of important rules and regulations including the Rules of Procedures for Shareholders' Meeting, Board of Directors and Supervisory Committee, Independent Director System, Management System for Associated Transaction, Detailed Rules of for the President and Management System for Information Disclosure, so as to ensure the standardized operation and healthy development of the Company.

On the basis of the principles of internal control and objective, the Company completed the responsibilities and posts establishments and segregation of duties. To strengthen the internal management, the Company also established a series of internal control systems covering the entire operating process of the Company's management including financial management, operating management, merchandise purchase and sales, foreign investment, and administration as well, and thus forming a set of standardized and rule-based management system.

c. Set up of Internal Audit Department

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

The internal audit was effectively performed with the objectives of strengthening the internal control, preventing risks and improving efficiency. It audited and supervised the operating activities, engineering investment and tendering activities of the Company and its subsidiaries, and directly responsible to the Board of Directors by independently exercising the power of audit supervision.

d. Major activities conducted by the Company for establishing and improving its internal control in 2009, as well as the relevant achievements

(i) Formulated the “Special System for Selection of Accounting Firm”

In an effort to standardize the behavior of selecting an accounting firm for the annual audit, practically protect the interests of shareholders, and improve the quality of financial information, the Company formulated the “Special System for Selection of Accounting Firm” by combining with its practical condition in pursuant to the related requirements of securities regulatory authorities.

(ii) Formulated the “Management System for Inside Information and Insiders

In order to standardize the behavior of inside information management, enhance the Company’s inside information protection, while maintain the principle of fairness in information disclosure, the Company, by following the stipulations of relevant laws, regulations and regulatory documents such as Company Law of the People’s Republic of China, Securities Law of People's Republic of China, the Announcement on 2009 Annual Reports of the Listed Firms and the Relevant Tasks, Internal control Directions for Listed Companies, Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies, as well as the Information Disclosure Management of Konka Group, formulated the “Management System for Inside Information and Insiders” based on its actual situation.

(iii) Formulated the “Management System for Derivatives Investment”

In order to standardize its behavior of derivatives investment and control its risks, the Company formulated the “Management System for Derivatives Investment” by combining with its actual situations while following the of relevant laws, administrative regulations, departmental and business rules and regulatory documents such as Company Law, Securities Law and the Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies.

(3) Key control activities of the Company

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

Name of controlling subsidiary companies	Registered capital (Unit: in 10,000 yuan)	Proportion of shares held	
		Direct	Indirect
Dongguan Konka Electronic Co., Ltd.	RMB20,000	100%	—
Anhui Konka Electronic Co., Ltd.	RMB14,000	78%	—
Mudanjiang Konka Industrial Co., Ltd.	RMB6,000	60%	—
Shenzhen Konka Electronic Co., Ltd.	RMB830	51%	—
Chongqing Konka Electronic Co., Ltd.	RMB4,500	60%	—
Shenzhen Konka Visual Information System Engineering Co., Ltd.	RMB1,500	60%	—
Chongqing Konka Automobile Co., Ltd.	RMB3,000	57%	—
Konka AMERICA,INC.	USD100	100%	—
Shenzhen Konka Telecommunications Technology Co., Ltd.	RMB12,000	75%	25%
Shenzhen Shushida Electronic Co., Ltd.	RMB4,200	75%	25%
Hong Kong Konka Limited	HKD50	99%	1%
Anhui Konka Electric Appliance Co., Ltd	RMB7,819	92.97%	4.48%
Shenzhen Konka Injected Plastic Manufactory Co., Ltd.	RMB950	49%	51%
Chongqing Konka Electronic Co., Ltd.	RMB1,500	---	40%

Shanxi Konka Electronic Co., Ltd.	RMB6,950	45%	15%
Shenzhen Konka Communication Network Co., Ltd.	RMB3,000	75%	25%
Shen Zhen Konka Electronics Technology Co., Ltd.	RMB6,500	75%	25%
Dongguan Konka Packaging Co., Ltd.	RMB1,000	—	100%
Dongguan Konka Plastic Mould Co., Ltd.	RMB1,000	—	100%
Konka Household Appliances Investment & Development Co., Ltd.	HKD50	—	100%
Konka Household Appliances International Trading Co., Ltd.	HKD50	—	100%
Changshu Konka Electronic Co., Ltd.	RMB2,465	—	60%
Boluo Konka PCB Co., Ltd.	RMB4,000	—	51%
Shenzhen Konka Precision Mould Co., Ltd.	RMB1596.8799	—	46.31%
Boluo Konka Precision Technology Co., Ltd.	RMB1,500	—	75%
Konka (Nanhai) Development Center	RMB50	100%	---
Konka (Europe) Co., Ltd	EUR2.5	100%	---
Kunshan Konka Electronic Co., Ltd.	RMB35,000	100%	---
Konka (Kunshan) Real Estate Investment Co., Ltd.	RMB20,000	100%	

b. Internal control on holding subsidiaries

The Company formulated a standardized and optimized working system and procedures, and managed its holding subsidiaries by following the operating management idea of “full authority and complete supervision”, while appointed directors, supervisors and management personnel to manage those subsidiaries. Meanwhile, it also required such subsidiaries to operate in compliance with the relevant regulations of Company Law, and clearly specified the significant event reporting system. Besides, it also set up a system for the performance appraisal and inspection of those subsidiaries, and conducted the comprehensive appraisal in terms of system construction and achievement of operating performance, to ensure the effective control of subsidiaries.

Within the report period, the management of those subsidiaries stringently executed in compliance with the above-mentioned system, and no violations of the relevant laws and regulations occurred.

c. Internal control concerning the Company’s associated transactions

The Company clearly set out the authorities of the Shareholders' Meeting and Board of Directors on approval of associated transactions in the Articles of Association and Management System for Associated Transactions, in which, the withdrawal system for connected person was specified. All associated transactions were performed in accordance with the legal procedures, without infringing the interests of the Company and its shareholders.

All of the Company’s associated transactions made in 2009 strictly complied with the stipulation of Management System for Associated Transactions.

d. Internal control concerning the Company’s provision of guarantees for outsiders

The Company clearly specified the authorities of the Shareholders' Meeting and Board of Directors on approval of guarantees for outsiders in the Articles of Association and provide guarantee to the outsiders.

All of the Company's guarantees for outsiders strictly complied with the stipulation of provide guarantee to the outsiders within the report period.

e. Internal control concerning the Company's raise and use of capitals

The Company formulated the Management for Raised Capital, which specified the placement, use, management, information disclosure and supervision of the raised capitals.

The Company conducted and used non capital-raising in 2009.

f. Internal control concerning the Company's major investments

The Company specified the approving procedures and the authorities on approval of the investments in the Articles of Association and Investment Management. The related order of consideration of the Company's major investments was processed in accordance with the requirements of the Articles of Association, Rules for Investment Management and Listing Rules.

g. Information disclosure

The Company formulated the Management System for Information Disclosure in compliance with the requirements of Company Law and Share Listing Rules issued by Shenzhen Stock Exchange, and defined the standards of information disclosure, while clarified the person responsible for the Company's information disclosure, and formulated the responsibilities, procedures of management and supervision of information disclosure.

Meanwhile, the Company also formulated the Management System for Investor Relations, which standardized the handling of investor consulting of the Company, thus ensuring the fairness of information disclosure.

The Company strictly complied with the stipulation of Administrative Measures for the Disclosure of Information of Listed Companies and Share Listing Rules of Shenzhen Stock Exchange in 2009, and all Company's information disclosed in a timely, accurate, complete and fair manner.

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

(4) Self-assessment on the Company's internal control system

Within the report period, the Company and its holding subsidiaries were managed and controlled by adhering to the spirit of the documents of Company Law and the Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies. As the Board of Directors of the Company thought, the Company's system of internal controls was compete, reasonable and effective, and was effectively performed by the Company and its holding subsidiaries, while such system and relevant systems were able to adapt to the requirements of the Company's development, provided guarantees to the healthy operation of each

business and control of business risks of the Company. The actual status of the internal controls of the Company was basically catering to the regulatory documentation and requirements of Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies.

(5) Problems found in key control activities and the rectification plans

By December 31, 2009, through the Company's self-evaluation and rectification, the Company's internal control system was basically in a sound position, with no deficiencies or abnormalities found affecting significantly the Company's governance, operational management and development.

The Company will focus on improving the system of internal controls, enhancing the capacity of scientific decision-making and risks prevention, while further strengthening the enforcement of system of internal controls, to ensure the normal operation of the Company's operation activities, and protect the interests of the investors.

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

(a) In 2009, the Company received no punishments from CSRC and Shenzhen Stock Exchange in terms of its internal control.

(b) The certified public accountants for the Company's annual audit expressed no disagreement on the effectiveness of the Company's internal control.

(7) Opinions by Supervisory Committee and independent directors on the Company's self-assessment

a. Opinions by Supervisory Committee on the Company's self-assessment of its internal control

Upon the review, the Company's Supervisory Committee held the opinions that the Company complied with the spirits of documents of Basic Standard for Enterprise Internal Control issued jointly by the Ministry of Finance and CSRC, and the Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies. By adhering to the principles of internal controls, the Company's management benefit improved steadily, while the operation quality continuously enhanced, and thus ensuring the safety of its assets. The organizational structure of the Company's internal controls was complete, while the internal audit department and staffing were well allocated, and therefore to ensure the effective implementation and supervision of key control activities of the Company.

In 2009, the Company's operation complied with the Basic Standard for Enterprise Internal Control, Guideline for Internal Control of Listed Companies and relevant systems of internal controls with satisfactory performance.

In conclusion, the Supervisory Committee considered that the Self-assessment Report on Internal Controls by the Company factually and objectively presented the establishment and execution of the internal control systems.

b. Opinions by independent directors on the Company's self evaluation of its internal control

Upon the review, the Company's independent directors (Mr. Feng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong) held the opinions that the Company was able to comply with the principles of internal controls, and operated it by taking into account of the prevailing practical needs of the Company within the report period. The internal control system of the Company has covered all aspects of its operation, and all of its business

activities were conducted in compliance with the stipulations of relevant systems.

The independent directors believed that the Company delivered a stringent, adequate and effective internal control to its subsidiaries in terms of management, associated transactions, external guarantees, use of fund raised, major investments, as well as the information disclosure, which was in conformity with its actual status, and can effectively ensure the normal operation of the Company's operation management. In consequence, the Self-assessment Report on Internal Controls by the Company factually and objectively presented the establishment and execution of the internal control systems.

Section VII Shareholders' General Meeting

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

I. The 2008 Annual Shareholders' General Meeting of Konka Group Co., Ltd. was convened at the Central Meeting Room on the 1st floor of the office building of Konka Group in Shenzhen Overseas Chinese Town at 9:30 a.m. on June 29 2009 (Monday).

II. The 1st Provisional Shareholders' General Meeting in 2009 of Konka Group Co., Ltd. was convened at the Central Meeting Room on the 1st floor of the office building of Konka Group in Shenzhen Overseas Chinese Town at 9:30 a.m. on September 11, 2009 (Friday).

The resolutions made at the said two meetings were published on China Securities Journal, Securities Times, Shanghai Securities News and Ta Kung Pao (HK), as well as the international website <http://www.cninfo.com.cn> respectively on June 30, 2009 and September 12, 2009.

Section VIII Report of Board of Directors

I. Main operation condition of the Company in the report period

() General business performance in 2009

1. In spite of short supply of LCD panels and LCD modules, sales revenue of the company in 2009 was still better than 2008 in the same period.

In the first half year of 2009, the domestic LCD TV manufactures were lost in the dilemma of severe short supply of LCD panels and LCD modules, which greatly impacted the sales revenue and profit in the first half year of 2009. Continuous short supply of LCD panels and LCD modules caused the sales revenue in the first quarter year of our company to reduce by 15.14% in the same period of 2008.

In the second half year of 2009, the tension in supply of LCD panels, LCD modules was released. Although it was not completely released, the company followed the upgrading trend of panel TVs and overcame some difficulties, such as considerably rising of price in screen body, severe short supply in main specifications. It implemented some effective policies and took active measures to accomplish a great increase in sales of panel TV. Therefore sales revenue in the second half year of 2009 increased 22.81% compared with the same period in 2008.

Although affected by short supply of LCD panels and LCD modules, the sales revenue of the company increased 8.63% compared with the same period of 2008.

2. Owing to the following reasons, net profit in 2009 reduced compared with the same period in 2008
 - (1) Continuous short supply of LCD panels and LCD modules caused the net profit of owners in parent company to reduce 14.52% in the first quarter year compared with the same period of 2008.
 - (2) In the first three quarters of 2009, the profit obtained from panel TVs was also reduced due to the continuous rising in the price of LCD panels for TVs that takes the profit of downstream panel TV manufacturers, since the panel costs 60% to 80% of a LCD TV.
 - (3) In the third quarter of 2008, the profit of the company was comparatively higher because the sales volume of color TVs tremendously increased by Olympic economy. However, without direct stimulations on color TV sales in the third quarter of 2009, its net profit decreased a lot.
 - (4) In 2009, sales volume of panel TVs increased quickly, while the sales volume of display tube dropped quickly. This caused proportion increase in sales value of panel TVs and proportion reduce in sales value of display tube. As the gross profit rate of the display tube was higher and that of the panel TVs was lower, the whole gross profit rate of the TV business reduced to certain degree compared with that of 2008.
 - (5) Since the panel TVs was replacing display tube TVs quickly, sales of the latter shrunk very quickly. Therefore the company planned to reduce the capital assets related to display tube TVs.

The above factors caused the net profit of owners in parent company to reduce by 43.56% compared with the same period of 2008.

(II) Main work conducted in the report period

1. Manufacture of color TVs

First, excellent products were created to effectively sharpen the competitive edge. In terms of LED backlight TVs and network TVs, the company only used 5 months to push forward the top end model 88 series LED TV. With only 1.99cm thick body, it becomes the first LED TVs that was less than 2cm in thickness, and won the 2009 German IF honor for its delicate and fashionable shape. Based on this, the company also developed network TV, energy-saving series products, which greatly promoted the

product image and brand image of Konka.

Second, the company reduced its cost all-around, which enforced its cost advantages. Cost was reduced through platform shifting, domestic components and compatible design. By means of cost reducing discussion between supplier and client, bidding and quick response, and precise manufacture, it successfully accomplished the task of cost reducing in the whole year.

2. Multimedia marketing

In 2009, the company faced with the severe operating conditions, especially the difficulties caused by short supply of LCD screens. However the company promptly seized opportunities to update appliance products, launched a series of innovative models, and responded to the market by its best products combination, systematic supplying chain management, effective promotion strategies and excellent service, thus it made a great achievement.

First, the company upgraded its brand and its new products came into the market successfully. The company successfully pushed forward the energy-saving LED, Net Rui and Net Rui LED and other series products. Meanwhile, it launched three-door and dual-door energy-saving refrigerators on the basis of "energy-saving and good quality", which were all praised by customers.

Second, the company innovated marketing operations and its promoting strategies. The company proposed a new way of promotion and publicity. By starting several promotion activities, such as "group purchase", "old-for-new service", and "direct selling in supermarket", it created 9.19, 12.12 national group purchasing and other typical modes which drew the attention of its industry.

Third, the company changed the operation system and promoted the reform of organization. It started upgrading plan in county and rural markets, meanwhile promoted the ability reinforcement of operation departments and offices and increased their performances. It also selected part of the operation departments to carry out trial reform, in order to increase the sales revenue, expand sales scale and set up template market, which also achieved good results.

3. Cell phone

In 2009, the cell phone operations further enhanced profit, strictly restricted operation risks, improved the response ability to market, promoted difference strategy. As a result, its inside and outside sales grew greatly even in financial crisis environment. Moreover, the profit of Konka cell phone business achieved a greater increase compared with the same period before while profit of other mobile phone business of other brands generally went down.

In terms of export, it made great achievements in developing key markets, not only realized stable increase in sale volume in Indian market, but also achieved breakthrough in Middle East and Southeast Asian markets.

4. International marketing

On the basis of overcoming the changeable international situation, its main task was to develop key clients. It had successfully developed a group of new client of high quality, which helped the company to maintain the increasing trend of business in the new markets.

5. White home electrical appliances

The company started several integration promotions, such as "spring thunder activity" and "summer trend". By selling household electrical appliance to the countryside, old-for-new service and group purchase and other terminal promotion activities, it exploited clients in counties which were blank in white appliances and effectively covered the county market. Meanwhile, it made great efforts in introducing top end researching talents which obviously improved the researching and developing capability of the company and successfully developed 168L ice bar, 249L wind direct cool refrigerator

and other top end products. This not only expanded the product line, but also improved the brand image.

6. New business

The digital network business had established a comparatively complete supplying chain system in purchasing, manufacturing and logistics through enhancing researching investment, and increasing sales revenue and profit.

Video business was accelerated in terms of internal improvement, talent optimization, cost control and development of new business, which laid a solid foundation for implementing LED strategy.

Based on perfecting organization construction, the company consummated business operation and management procedure of household appliance business, promoting its development.

II. Composition of operation revenue and profit

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

1. Main business classified according to industry and product

Unit: In RMB 1'0000

Main business classified according to industry						
Industries or products	Operating revenue	Operating cost	Rate of gross profit (%)	Increase/decrease of operating revenue than last year (%)	Increase/decrease of operating cost than last year (%)	Increase/decrease of rate of gross profit than last year (%)
electron	1,313,114.42	1,067,588.46	18.70	8.94	9.27	-0.25
Main business classified according to product						
Color television	1,013,058.24	822,853.50	18.78	11.49	11.70	-0.16
Mobile phone	162,928.84	136,735.48	16.08	29.11	25.09	2.70
White appliances	96,531.77	75,186.87	22.11	-16.45	-24.61	8.43
Others	40,595.57	32,812.60	19.17	-26.16	4.73	-23.84
Total	1,313,114.42	1,067,588.46	18.70	8.94	9.27	-0.25

2. Main business classified according to region

Unit: RMB'0000

Region	Operating revenue	Increase/decrease than last year (%)
Domestic sales	1,106,788.95	14.14
Overseas sales	206,325.47	-12.46
Total	1,313,114.42	8.94

III. Exceptions in main items of accounting statement and reasons for change (In Renminbi: 10,000 yuan)

Items	2009	2008	Increase/decrease (%)	Reasons for changes
Cash and cash equivalents	362,448.04	206,625.25	75.41	Increase in NDF loan guarantees
Trading financial assets	367.32	-	Add	The profit and loss from fair value of NDF was recognized for transactional financial liabilities, and the minus difference on foreign currency exchange rate was recognized as transactional financial assets.
Interest receivable	3,252.99	1,990.59	63.42	Time deposit interest received from derivative financial instruments pledge;

Other receivables	1,957.24	8,129.98	-75.93	Purchase of fixed assets was settled under other receivables, and transferred during the period;
Inventories	409,070.25	293,224.25	39.51	(1) Driving by the seasons of sale, increase of stocks and inventories (2) the cost of flat-panel materials and product rose up due to the increase of market demand on flat-panel TVs in 2009; (3) the cost of flat-panel materials and product was high.
Inventory revaluation reserve	52,819.42	35,846.57	47.35	Write down the inventory falling price by net realizable value;
Long-term equity investments	5,780.04	2,161.033	164.47	The Company increased its investment on Shenzhen City Ruifeng photoelectron Limited;
Construction in progress	6,108.79	2,733.16	123.51	The investment on plant and other facilities of the white appliances industrial park Phase II of subsidiaries Anhui Konka Electronic Co., LTD. amounted to RMB 1800, and the investment on the R&D Building in headquarters amounted to RMB 2,000.
Net bal of intangible assets	16,750.25	6,922.39	141.97	Tenure obtained by the wholly-owned subsidiaries Kunshan Konka Electronic Co., Ltd in current year;
Deferred tax asset	15,068.64	11,086.08	35.92	The deferred tax asset was recognized for provisions for net inventories and bad debts, withholding maintenance expenses, deferred revenue.
Short term loans	277,001.41	134,637.56	105.74	Increase of NDF composite business scale and foreign currency loan during the period;
Accounts payable	259,924.22	157,176.13	65.37	Increase of proportion of LCD materials purchased during the period, yet its value of goods was higher;
Taxes payable	-13,289.77	1,426.4	-1,031.70	The excess input tax paid at the end of period was high due to the increase of purchase of LCD during the period;
Interest payable	2,363.30	824.72	186.56	NDF foreign exchange management portfolio was carries out during the period, and foreign currency loan interest was payable;
Dividends payable	80.45	710.87	-88.68	Because of subsidiaries' distribution of minority dividend;
Other payables	76,395.96	52,753.52	44.81	Negotiation (refinancing) increased to about RMB 7,294.00, and the withholding expenses (the customer promotion cost increased to approximately RMB 6,132.00, and other promotion cost increased to RMB 3,610.00);
Deferred tax liabilities	130.87	56.31	132.43	The trading financial assets income was recognized for deferred tax liabilities;
Financial expenses	5,450.92	131.85	4034.16	Increase of interest expenses of NDF secured borrowings, NDF was pledged as foreign currency loans and led the changes of exchange gain or loss; the increase of purchase cash payment of flat-panel materials and the discount of notes

				receivable;
Asset impairment losses	21,602.67	8,171.12	164.38	Increases of inventory falling price reserves and fixed assets depreciation reserves of parent company and subsidiaries during the period;
Changes of fair value of assets	1,615.50	-1,248.19	-229.43	Changes of NDF fair value contract signed during the period;
Return on investment	322.03	-2,095.82	-115.37	NDF delivery led to the increase of return on investment;
Non-operating expense	608.88	1,291.29	-52.85	Decrease of donations expenditure during the period;
Minority interest	-369.07	1,011.56	-136.49	Due to the suspend production of the subsidiaries Mudanjiang Konka and Chongqing Konka, the fixed assets depreciation reserves withdrawn during the period excepting buildings;

IV. Principal Holding Company and Joint Stock Company

(I) Operation and performance of principal shareholding company and joint stock company

1. Shenzhen Konka Telecommunications Technology Co., Ltd

With its 100% equity directly and indirectly held by the Company and registered capital of RMB 120 million, Shenzhen Konka Telecommunications Technology Co., Ltd, is engaged in the business of developing, producing and selling digital mobile communication equipment and mobile phone products. At the end of the report period, the Company's total assets were RMB 979,968,758.40 and net assets were RMB15,211,060.2, the sales revenue in 2009 was RMB1,666,970,050.73, operating profit was RMB 13,768,557.64 and net profit was RMB12,613,250.06.

2. Dongguan Konka Electronics Co., Ltd.

With its 100% equity held directly and indirectly by the Company and registered capital of RMB 200 million, Dongguan Konka is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 396,080,278.19 and the net assets were RMB 183,162,323.95, the sales revenue in 2009 was RMB 216,730,106.62, profit from sales revenue was RMB 27,013,353.94 and net profit was RMB 29,261,788.47.

3. Shanxi Konka Electronics Co., Ltd.

With its 60% equity held directly and indirectly by the Company and registered capital of RMB 69.5 million, Shanxi Konka is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB 126,098,810.12 and the net assets were RMB 105,013,388.97, the sales revenue in 2009 was RMB 67,741,414.58, profit from sales revenue was RMB 808,742.00 and net profit was RMB 1,214,660.61

4. Anhui Konka Electronics Co., Ltd.

With its 78% equity held by the Company and registered capital of RMB 140 million, Anhui Konka is engaged in production and operation of color TV. At the end of the report period, the Company's total assets were RMB352,954,844.88 and the net assets were RMB 232,518,113.89, the sales revenue in 2009 was RMB 305,795,254.85, profit from sales revenue was RMB 7,808,132.44 and net profit was RMB 6,141,320.68.

5. Hongkong Konka Co., Ltd.

With its 100% equity held directly and indirectly by the Company and registered capital of HKD 500 thousand, Hongkong Konka is engaged in export and import of electromechanical and electronic products.

At the end of the report period, the Company's total assets were RMB 373,705,450.87 and the net assets were RMB 104,669,809.38, the sales revenue in 2009 was RMB 1,292,705,450.87, profit from sales revenue was RMB 39,158,868.61 and net profit was RMB 39,392,615.20.

(2) Special purpose entity controlled by the Company

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

V. Risks in the operation and countermeasure

The operation of the Company will have the following risks in 2010:

(I) The FPTV will continue accelerating to replace the CRT TV, the market competition will be more intense, while the pressures of market position and profitability the Company faced will be greater.

(II) The competition among cell phone manufacturers in the 3G market might become even fiercer, and the competition pressure of Made-in-China mobile phones will increase greatly.

(III) For the white appliance business, due to the developed market structure, obvious oligopolistic competition, its competition will be focused on the market share, and the pressure will be tremendous.

Countermeasures: The Company will insist on and promote the value operation strategy and product innovation, propel the value engineering, excellent engineering and quality engineering, while conduct strict quality control, create different masterpieces, and make effort to promote the comprehensive ability and profitability in the ruthless market environment. Details for countermeasures are as follows:

(I) The Company will dedicated to reducing the production cost based on its industrial chain superiority of the integration manufacturing of LCD TV module, aims to create the most competitive flat-panel products, construct the leading research team, as well as the design capacity of LED and IPTV and core modules, to boost the long-term stable development of television service.

(II) In terms of mobile phone business, the Company will specify the development strategic positioning of 3G product; realize the differentiation by the speed, and, optimize the product structure ceaselessly, continue to develop the channel at home and abroad, while strictly control the risks, thereby establishing the position of Konka in the domestic mobile phone market.

(IV) The distribution coverage of white appliance business will be increased by means of grasping market tendency of "low energy consumption, large capacity, more fashionable and refreshing", while focus on energy efficiency, to create the excellent lineup based on its appealing appearance, differentiated fresh keeping technology and high performance, and thereby realizing the rapid development of white appliance business.

VI. 2010 Business Plan

(一) 2010 business environment analysis and operating idea

1. A macro-economy is beneficial for industry development.

Given the overall macroeconomic situation, the world economy of 2010 has shown the trend of revival after it hit bottom. With steady increase in both investment and consumption as well as significant improvement in external demand, China's economy will keep making a full recovery. Therefore, the overall environment of economic development will be better than that in 2009, prefect for industry development.

2. Three networks convergence enters formal popularization phase.

On January 13th, 2010, the Standing Committee of the State Council made the decision of promoting the convergence of telecommunication network, broadcasting television net and internet, and planed the popularization progress of establishing experimental units from 2010 to 2012 and overall popularizing the three networks convergence in 2013. The company's television, cell phone and Digital STB business will be faced with industrial upgrade by then.

3. The industrial competition is further intensified.

In terms of the color TV industry, at present, it has entered an era of LCD TV popularization. Although the market looks relatively promising, the competition will be more intensified, which leads to more unpredictable competition situation and greater pressure on the companies for keeping their market status and making a profit. Regarding the cell phone industry, with the continued rapid market development, major manufacturers will wage a more brutal battle over 3G terminal, and meanwhile the competition among cell phone manufacturers in China will be much fiercer than ever. In terms of domestic appliance industry, despite an overall trend of accelerated growth, the market competition focuses more on market share and is under massive pressure, due to a relatively mature market structure and an evident oligarch competition situation.

On the whole, although the company faces a complex and ever-changing macroeconomic situation and competition environment, it is still in a growing market with plenty of opportunities.

Objectives of 2010

1. Striving for the improvement of product competitiveness

Respective business units of the company will continue to thoroughly implement the value business strategy, vigorously promoting "the three major projects" to improve the ability of research and development, thus improving the competitiveness of the company's products on the market.

i. Strengthen ID design: In color TV production, craft design and man-machine interface will be emphasized, and new breakthroughs will be made in craft by adopting double-colored injection; in cell phone production, man-machine interface design will be focused on; in domestic appliance production, the appearance and performance of big volume, high efficiency refrigerator will be ameliorated to realize progress in craft.

ii. Stress difference-based function design: Application functions based on open platform will be developed in network TV and cell phone, presenting a more humanized design in user common functions; LED TVs will lead the "ultrathin" trend in the industry; the cost of material and manufacture will be minimized in low cost production on the premise of maintaining quality level; low cost and fuel efficient products will constitute the majority of the products for export, with an appropriate amount of high-end products; cell phone products will be further developed in the aspects of qwerty keyboard, touch screen and difference-based function design.

iii . Promote low cost design: Firstly, new platforms will be developed in time in accordance with the trend of technology development. Secondly, the application proportion of standardization, generalization and modularization will be increased, and component substitution as well as the application of new material, technique and craft will be promoted.

2. Improving marketing management level

In 2010, the company needs to develop new customers while retaining old ones, with the marketing work emphasis on improving the satisfaction level of both new and old customers.

3. Promoting brand construction

Taking the product features into consideration, the company will carry out a promotion strategy of

band rejuvenation, publish and introduce new VI system, establish and promote the information platform of brand expansion system, as well as look for new brand image representatives to improve brand influence.

4. Optimizing supply chain management

The company will speed up turnover velocity and effectively lower inventory level on the premise of guaranteeing the quality of service. Meanwhile, the company will enhance the accuracy of sales plan, accomplishing immediate color TV production after the arrival of screens.

5. Effectively lowering the cost

In 2010, the company will continuously lower the cost through innovations in product design, operating model, organization structure and management method, cutting down the cost to the greatest extent and improving the use efficiency of outlay.

6. Intensifying internal control

On one hand, the company will further clarify classified authorization system, regulate business approval procedure and strengthen the control over authorization so as to ensure the effective implementation of every authorization, accelerating the business development. On the other hand, the soundness, reliability, validity and efficiency of the internal control system of the company will be improved and perfected to ensure the safety of company asset and property as well as prevent jobbery.

7. Promoting Talents' development

Talents' development will still be one of the focal points in 2010's work. The company will quicken the cultivation and both introduction and maintenance of all-around and specialized talents with high political consciousness, a broad perspective, a great capacity in practice, a strong sense in reform and excellent learning ability by strengthening the encouragement system reform, promoting the reform of performance and efficiency management system and the building of talents echelon in each level and improving the training of mainstay in management.

Besides the above major works, the company will make efforts to rapidly enlarge the business scale in international marketing, small household electric appliances and Set Top Box (STB) under the principle of risk controllable. Business and financing management, investing development, audit and law affairs, informatizing construction and discipline inspective and supervisory work should also be promoted in an orderly way so as to provide security for the sound and steady development of the whole business.

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

In order to realize operation target of 2010, expected capital demand of the Company is RMB 657 million.

For details are as follows:

(I) Capital demand and usage plan

No.	Investment project	Planned investment amount (RMB'0000)
1	Fixed capital investment of white appliance digital television, and relevant industry	32,127.10
2	Investment on Konka Digital Development & Research Centre Building in 2010	20,000.00
3	Investment on Konka Kunshan LCD module project in 2010	13,592.39

(II) Source of capital

The company will flexibly make use of all credit loan policies to increase available capital scale. Meanwhile the company will enhance funds management, adopt active and effective measures to withdraw funds in time, and improve funds allocative efficiency, so as to satisfy the funds demand of the company.

VIII. Investment of the Company

(I) In the report period, investments of the Company are as follows:

Items	2009	2008	Change amount	Change range (%)
Short-term investment				
Sub-total				
Long-term investment				
(1) Investment on stocks	57,800,445.23	21,610,338.75	36,190,106.48	167.47%
(2) Investment on bonds				
(3) Other investment				
Total	57,800,445.23	21,610,338.75	36,190,106.48	167.47%

No.	Full name of invested company	Main business scope	Proportion of equity in the invested company
1	Konka (Kunshan) Real Estate Investment Co., Ltd.	Real estate investment, property management, interior finish, construction materials purchase and sale, construction installation	100%
2	Dongguan Xu Tongda Mould Plastic Co., Ltd., with registered capital of RMB 5 million	Manufacture and sell: plastic mould, plastic products; assembly: TV, set-top box; import and export of goods (except items forbidden by law and regulation and the state decided to ban or shall be permitted; items restricted by law and regulation should be operated after approved).	Shenzhen Konka Precision Mold Manufacture Co., Ltd. holds 100% equity

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

(III) Significant projects invested with non-raised capital

In the report period, there are no significant projects invested with non-raised capital.

. Routine Work of the Board of Directors

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

During the report period, the Board of the Company held 13 meetings in total, i.e. the 21st to 33rd meeting of the Sixth Board, with details of the meetings, resolutions, and public notice are as follows:

1. The 21st meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held the meeting room of Shenzhen OCT International Hotel on February 16, 2009 (Monday).
2. The 23rd meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held the meeting room of Shenzhen OCT International Hotel on April 28, 2009 (Tuesday), which deliberated and approved the Annual Report 2008.
3. The 24th meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on June 24, 2009 (Thursday).
4. The 26th meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on August 25, 2009 (Tuesday), which deliberated and approved the Semi-Annual Report 2009.
5. The 28th meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on October 21, 2009 (Wednesday), which deliberated and approved the Third Quarterly Report 2009.
6. The 29th meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on October 28, 2009 (Wednesday).

7. The 30th meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on November 3, 2009 (Tuesday).
8. The 31st meeting of the Sixth Board of Directors of Konka Group Co., Ltd was held through fax on November 25, 2009 (Wednesday).

The resolutions of the Board meetings above were published on the newspapers designated by CSRC: China Securities Journal, Securities Times, Shanghai Securities News and Hong Kong Ta Kung Pao as well as the designated internet website www.cninfo.com.cn respectively on February 18, 2009, April 30, 2009, June 6, 2009, August 27, 2009, October 23, 2009, October 30, 2009, November 5, 2009, and November 27, 2009.

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

The Board of Directors had dutifully implemented the resolutions of the two Shareholders' General Meetings in 2009:

1. Revised the Article of Association, and formulated Special System for engagement of CPAs.
2. According to resolution of the Shareholders' General Meeting, the Company has converted the capital reserve to share capital: based on the total capital of 1,203,972,704 shares at the end of 2008, the Company gave RMB 0.5 cash bonus for every 10 shares to all shareholders. The total allotted dividends on shares were RMB 60,198,635.2 and those undistributed profit will be allotted in the next year.
4. Engagement of Zhongrui Yuehua CPAs as the audit institution for the audit of Annual Report 2009 of the Company.

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

() Establishment and consummation of related working system of Financial Audit Committee

The company had constituted the Work Rules for the Financial Audit Committee under the Board which illustrated the exact personnel, obligations and rights of the Financial Audit Committee under the Board. It revised the Work Rules for the Financial Audit Committee under the Board and established an annual report working flow for the Financial Audit Committee under the Board so as to further specify the obligations of Financial Audit Committee under the Board during the compilation and revelation of the annual report, which could give full play to the supervision function of the Financial Audit Committee under the Board.

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

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

() It has fulfilled the following duties during the preparation of Annual Report 2009:

1. Reviewed and approved the arrangement for 2009 annual auditing of the Company;
2. Issued Audit Opinion of the Financial Audit Committee on Financial Accounting Statements Prepared by the Company before CPAs' entry of Audit;
3. Communicated and exchanged ideas with the CPAs responsible for annual auditing on the problems occurring during the auditing;
4. Issued Audit Opinion on Financial Accounting Statements of the Company after CPAs Issued the

Preliminary Audit Opinion;

5. Issued Summary Report on Annual Auditing by Zhongrui Yuehua CPAs.

6. Submitted the decision on the resolution of the annual financial statement of the Company to the Board

7. Submitted the decision on the resolution of engagement of the CPAs in 2009 to the Board

() In 2009, according to the authorization of the Board of Directors, the Financial Audit Committee accepted the report on the work of the Company's Internal Auditing Department and carried out management over the Internal Auditing Department of the Company and its work.

() Reviewed the First Quarterly Report 2009, Semi-Annual Report 2009, and the Third Quarterly Report 2009, and had no objection to the aforesaid financial statements.

() Proposed to engage Zhongrui Yuehua CPAs as the audit institution for annual financial statement auditing 2008 of the Company after investigation

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

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

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

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

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

3. It reviewed the Financial Statement 2009 prepared by the Company before the CPAs' entry of Auditing, the Arrangement for Annual Auditing 2009 of Konka Group Co., Ltd, and approved the arrangement for the auditing of annual report.

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

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

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

The Committee kept in touch with the CPAs when the Financial Statements 2009 of the Company were audited. We inquired the management of the Company about the events concerned by the audit institution and again reviewed the Financial Statements of the Company as soon as the intermediary institution formed the preliminary opinion. The annual audit institution of the Company gave an explanation to us on the problems which were discovered during auditing and the events, which needed adjusting, and the Company conducted corresponding adjustment based on the opinion of the annual audit institution.

We didn't have objection to the Financial Accounting Statements 2009 of the Company audited preliminarily by Zhongrui Yuehua CPAs.

7. It deliberated the Financial Statements 2009 after the auditing by annual audit institution, and issued the resolution of the Financial Accounting Statements 2009 of the Company, with details as follows:

After careful checking by members of the Financial Audit Committee, we have no objection to the

standard unqualified Auditors' Report 2009 of the Company issued by Zhongrui Yuehua CPAs. 8. It issued the Summery Report on the Annual Auditing 2009 by Zhongrui Yuehua CPAs. According to the requirement of relevant documents like Work Rules for the Financial Audit Committee under the Board, it summarizes the annual auditing 2008 of the Company by the CPAs as follows:

Zhongrui Yuehua CPAs (hereafter refers to CPA firm) had audited and evaluated the financial condition of Konka Group in 2009, and examined its related capitals. After the annual auditing, the CPA firm issued a standard audit report with clean opinion on paper as to the annual auditing of the company.

During the audit process, we communicated and discussed with our annual auditing CPAs, supervised and reviewed their auditing work. According to the requirement of relevant documents like Work Rules for the Financial Audit Committee under the Board, it summarizes the annual auditing 2009 of the Company by the CPAs as follows:

(1) General information

The CPAs communicated with Independent Directors, the Committee and the Management Team of the Company before the auditing, and signed the audit engagement with the Company with full understanding of the Company's internal control, total assets, operation revenue and scope of combined statements.

(2) Confirmation of the general audit plan

Before the formal entry of the CPAs' auditing, the CPA firm and Independent Directors, the Committee as well as the Management Team of the Company drew out the plan for the Company's annual auditing 2009 through consultation with each other. In our opinion, the plan was detailed and the responsibility of each person was specified, which made sufficient preparation for the annual auditing.

(3) Communication during the auditing

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

(4) Reply to the supervision letter and inquiry

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

(5) Accomplishment of auditing on schedule

In our opinion, the CPAs responsible for annual auditing conducted auditing stringently according to provisions in China's Independent Auditing Standards and issued the auditor's report based on the results of auditing. Its arrangement of work was reasonable, its practice was standard, and its auditing was comprehensive. They successfully finished annual auditing 2009 of the company.

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

Since Zhongrui Yuehua CPAs provided the company with its professional auditing service based on its approved professional etiquette, rigorous work style and upper occupational level, the committee suggested continuing engaging Zhongrui Yuehua CPAs as the audit institution for the Financial Statement 2010 of the Company.

XI. Summary report on the performance of the Remuneration Committee subject to the Board of Directors

The Remuneration and Appraisal Committee under the Board of Directors was composed of three Directors, two Independent Directors and one Non-Independent Director. Mr. Feng Yutao, the Independent Director,

held the post of Chairman.

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

1. The remuneration of Directors, Supervisors and Senior Management Staff of the Company disclosed in the Annual Report 2009 was in line with the actual situation.

The disclosed remuneration of the Company's Directors, Supervisors and Senior Management Staff complied with the remuneration management system of the Company, and no breach of the remuneration management system occurred in the Company.

The Remuneration and Appraisal Committee would continuously promote the improvement of the Company's internal incentive and restrain mechanism, gradually establish an incentive system of short-term and long-term, promote the close combination of the management team with the profit of the Company as well as its shareholders.

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

(I) Annual distribution preplan

In 2009, the net profit belonging to Owners of the parent company after auditing was RMB151,077,290.18. Based on the actual status and the requirement for long-term development of the Company, the Board of Directors decided the annual profit distribution plan 2009 after serious deliberation at the 39th meeting of the 6th Board of Directors, with details as follows:

1. Based on the net profit in 2009, the Company withdrew RMB2,524,736.37, i.e. 10% of statutory surplus.
2. The profit distribution plan: based on the Company's total share capital of 1,203,972,704 shares as of Dec.31, 2009, the Company distributed cash dividends RMB 0.1 (tax included) to every 10 shares. The distributed profits aggregated RMB 12,039,727.04 and the retained profit was carried forward next year for distribution.

The plan needs approval from Shareholders' General Meeting.

(II) Opinion of Independent Directors

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

(III) Cash dividends in the previous three years

Year for dividend distribution	Amount of cash dividends (tax included)	Net profit belonging to shareholders of listed company in consolidated financial statement in the year for dividend distribution	Percentage that cash dividends take up in net profit belonging to shareholders of listed company in consolidated financial statement	Yearly distributable profits

2008	60,198,635.20	267,680,281.04	22.49%	525,424,980.23
2007	0.00	207,091,715.42	0.00%	273,047,084.22
2006	60,198,635.20	96,774,909.50	62.20%	122,927,713.69
Percentage that accumulative amount of cash dividends of the last 3 year take up in average annual net profit of the last years				63.20%

XIII. Special explanation on capital transaction with affiliated parties and external guarantees

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

The CPAs special explanation on capital appropriation by the controlling shareholders and other affiliated parties of the Company is fully presented as follows:

Special Audit Report on Appropriation of Listed Company's Capital by Affiliated Parties of Konka Group Co., Ltd

ZRYHZZ Zi No. [2010]1101

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

Entrusted by the Company, we have specially audited the 2009 *Summary Statement on Fund Appropriation by Controlling Shareholders and Other Related Parties of Listed Company* (herein after refer to as "Summary Statement") attached hereafter on the base of the audit of consolidated balance sheet and balance sheet of parent company as of 31 Dec. 2009, 2009 consolidated income statement and income statement of parent company, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in equity and statement of changes in equity and financial statement footnotes of Konka Group Co., Ltd (herein after refer to as "Konka Group Company"). In accordance with *Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties*(CSRS Document No. 56 [2003]), which was issues by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission of the State Council, Konka Group Company's management is responsible for the provision of authentic, legal and complete audit evidences. Our responsibility is to express a special opinion on the Summary Statements based on our audit.

We conducted our audit in accordance with the Chinese Certified Public Accountants' Auditing Standards. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. During the audit process, we have conducted the procedures, including checking the accounting records, recalculate the amount of related items, etc, that we consider to be necessary. We believe that our audit has provided an appropriate basis for our audit opinion.

We believe that there are no difference between the materials in Summary Statement attached hereafter and the rechecked accounting data and audited relevant content of financial statements of Konka Group Company as of 31 Dec. 2009.

To understand the Appropriation of listed company's Capital by Affiliated Parties of Konka Group Company 2009 well, the Summary Statement attached hereafter shall be read together with the financial statements.

This audit report shall be solely used for disclosure of Konka Group Company 2009 annual report and shall not be used for any other purpose.

Attachment: 2009 Summary Statement on Fund Appropriation by Controlling Shareholders and Other Related Parties of Listed Company

China Shenzhen

Certified Public Accountant of China CPA

Certified Public Accountant of China CPA

April 28 , 2010

Attachment

2009 SUMMARY STATEMENT ON FUND APPROPRIATION BY CONTROLLING SHAREHOLDERS AND OTHER RELATED PARTIES OF LISTED COMPANY

Prepared by: Konka Group Co., Ltd.

In Renminbi: 10,000 yuan

Appropriation of non-operating capital	Name of occupied parties	Relationship between occupied parties and the listed Company	Accounting subject by listed company	Balance at the period-beginning of 2009	Accumulative amount in 2009(excluding interest)	Interest of occupied capital in 2009	Accumulative repayment in 2009	Balance at the period-end of 2009	Reason for occupation	Nature of occupation	Remarks
Large shareholder and its affiliate company	-	-	-	-	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	-	-	-	-	
Other transaction of affiliate capital	Name of transaction party	Relationship between transaction parties and the Listed Company	Accounting subject by listed company	Balance at the period-beginning of 2009	Accumulative amount in 2009(excluding interest)	Interest of occupied capital in 2009	Accumulative repayment in 2009	Balance at the period-end of 2009	Reason for occupation	Nature of occupation	
Large shareholder and its affiliate company	Overseas Chinese Town Group Company	Controlling Shareholder	Accounts receivable-other	-	106.79	-	106.79	-	Training, poverty alleviation, donation and land occupancy charge	Operating transaction	
	Shenzhen OCT East Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable	626.97	703.50	-	949.67	380.80	Payment for goods	Operating transaction	
	Beijing Century Overseas Chinese Town Industry Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable	87.50	-	-	81.25	6.25	Payment for materials	Operating transaction	
	Chengdu Tianfu Overseas Chinese Town Industry Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable	1,267.40	498.07	-	1,403.75	361.72	Payment for materials	Operating transaction	

	Shanghai Overseas Chinese Town Investment Development Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable	-	1,105.63	-	1,050.56	55.07	Payment for goods	Operating transaction	
	Anhui Huali Packaging Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable-other	-	2.80	-	1.80	1.00	Deposit	Operating transaction	
	Shenzhen Overseas Chinese Town Service Station Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable-other	8.00	-	-	-	8.00	Payment for refueling	Operating transaction	
	Shenzhen Overseas Chinese Town Real Estate Co., Ltd.	Subsidiary of Controlling Shareholder	Accounts receivable-other	130.34	-	-	9.12	121.22	Deposit, Rent	Operating transaction	
	Shenzhen Overseas Chinese Town Property Management Co., Ltd	Subsidiary of Controlling Shareholder	Accounts receivable-other	7.74	-	-	-	7.74	Deposit	Operating transaction	
	Overseas Chinese Town Hydropower Company	Subsidiary of Controlling Shareholder	Accounts receivable-other	200.77	989.78	-	1,087.22	103.33	Water and electricity	Operating transaction	
Subsidiaries and affiliated enterprise of the Listed Company	Shenzhen Shushida Electronic Co., Ltd.	Subsidiary	Accounts receivable	119.68	-	-	-	119.68	Payment for goods in the year of 2002	Operating transaction	Account payable 2,051.0 , other payables1,556.09
	Mudanjiang Konka Industry Co., Ltd.	Subsidiary	Accounts receivable	952.49	116.17	-	20.27	1,048.39	Payment for goods, expenses	Operating transaction	Account payable 1,563.68
	Hongkong Konka Co., Ltd.	Subsidiary	Accounts receivable	14,822.10	95,478.93	-	86,335.06	23,965.97	Expenses, Payment for goods	Operating transaction	other payables6,517.93
	Shaanxi Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable	381.29	3,580.60	-	2,567.78	1,394.11	Payment for goods	Operating transaction	Account payable 7,030.53
	Dong Guan Konka Plastic Mould Co., Ltd.	Subsidiary	Accounts receivable	9,663.27	4,515.71	-	8,588.05	5,590.93	Correspondent fund	Operating transaction	Account payable 20,938.39
	Shenzhen Konka Video&Communication Systems Engineering Co., Ltd	Subsidiary	Accounts receivable-other	33,013.22	7,805.18	-	11,804.63	29,013.77	Payment for goods on behalf of others, expenses	Operating transaction	Account payable 12,032.21
	Shenzhen Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	2,048.43	0.52	-	595.45	1,453.50	Payment for goods	Operating transaction	Account payable 7.4
	Chong Qing Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	1,234.40	156.65	-	359.84	1,031.21	Expenses	Operating transaction	Account payable 22.03

Chong Qing Konka Automobile Co., Ltd.	Subsidiary	Accounts receivable-other	1,091.53	70.34	-	1.02	1,160.85	Correspondent fund ,expenses	Operating transaction	Account payable 16.49
Changshu Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	419.31	568.70	-	914.43	73.58	Expenses	Operating transaction	Account payable 1875.44
Dong Guan Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	14,428.44	4,960.60	-	2,598.60	16,790.44	Payment for goods, payment for equipment	Operating transaction	Account payable 8293.35
Chong Qing Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	405.87	102.51	-	0.50	507.88	Expenses, payment for purchase	Operating transaction	other payables 25
Dong Guan Konka Plastic Mould Co., Ltd.	Subsidiary	Accounts receivable-other	6,480.62	8,544.10	-	1,206.07	13,818.65	Payment for equipment	Operating transaction	
Boluo Konka PCB Co., Ltd.	Subsidiary	Accounts receivable-other	1,110.35	284.20	-	21.75	1,372.80	Engineering funds, expenses	Operating transaction	Accounts payable 892.63
Dong Guan Konka Packaging Co., Ltd.	Subsidiary	Accounts receivable-other	-20.29	39.19	-	0.24	18.66		Operating transaction	Accounts payable 914.29
Konka South China Sea Institute	Subsidiary	Accounts receivable-other	30.17	31.00	-	-	61.17	Reserve funds	Operating transaction	
Konka Household Appliances International Trading Co., Ltd.	Subsidiary	Accounts receivable-other	3,363.00	346.99	-	39.05	3,670.94	Correspondent fund	Operating transaction	
Shenzhen Konka Information Network Co., Ltd.	Subsidiary	Accounts receivable-other	4,489.90	4.54	-	0.04	4,494.40	Correspondent fund	Operating transaction	Account payable 94.54
Konka Household Appliances International Trading Co., Ltd.	Subsidiary	Prepayment	5,855.97	44,461.88	-	46,022.99	539.20	Payment for goods	Operating transaction	
An Hui Konka Electronic Co., Ltd.	Subsidiary	Prepayment	275.96	41,394.01	-	36,914.14	4,755.83	Payment for goods	Operating transaction	other payables 5,921.79
Anhui Konka Electric Appliance Co., Ltd	Subsidiary	Prepayment	-	3,431.57	-	-	3,431.57	Payment for goods	Operating transaction	
Chong Qing Konka Electronic Co., Ltd.	Subsidiary	Prepayment	705.11	5,869.97	-	6,035.87	539.20	Payment for goods	Operating transaction	

	Shenzhen Konka Telecommunications Technology Co., Ltd.	Subsidiary	Prepayment	2,248.63	-	-	993.79	1,254.84	Payment for goods	Operating transaction	other payables 5,773.13
	Changshu Konka Electronic Co., Ltd.	Subsidiary	Prepayment	-	128.22	-	-	128.22	Payment for goods	Operating transaction	
	Mudanjiang Konka Industry Co., Ltd.	Subsidiary	Prepayment	-	436.82	-	-	436.82	Payment for goods	Operating transaction	
	Chong Qing Konka Electronic Co., Ltd.	Subsidiary	Prepayment	-	0.68	-	-	0.68	Payment for goods	Operating transaction	
	Anhui Konka Electric Appliance Co., Ltd.	Subsidiary	Accounts receivable-other	1,561.19	61,249.13	-	61,960.03	850.29	Inter-bank lending	Non-operating transaction	
	Shenzhen Konka Video&Communication Systems Engineering Co., Ltd.	Subsidiary	Accounts receivable-other	4,200.00	-	73.60	73.60	4,200.00	Inter-bank lending	Non-operating transaction	
	Chong Qing Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	-	150.00	51.42	51.42	150.00	Inter-bank lending	Non-operating transaction	
	Dong Guan Konka Plastic Mould Co., Ltd.	Subsidiary	Accounts receivable-other	232.30	-	38.62	38.62	232.30	Inter-bank lending	Non-operating transaction	
	Boluo Konka Precision Technology Co., Ltd.	Subsidiary	Accounts receivable-other	2,801.19	124.17	121.90	123.17	2,924.09	Borrowings, expenses	Non-operating transaction	
	Boluo Konka PCB Co., Ltd.	Subsidiary	Accounts receivable-other	683.80	-	-	-	683.80	Inter-bank lending	Non-operating transaction	
	Dong Guan Konka Packaging Co., Ltd.	Subsidiary	Accounts receivable-other	380.58	-	-	-	380.58	Investment fund	Non-operating transaction	
	Shenzhen Konka Electronic Co., Ltd.	Subsidiary	Accounts receivable-other	4,792.26	0.02	-	4,792.28	- 0.00	Inter-bank lending	Non-operating transaction	
	-	-	-	-	-	-	-	-			
Related natural person and cooperation controlled by	-	-	-	-	-	-	-	-			
	-	-	-	-	-	-	-	-			

them											
Other related parties and affiliated enterprises	Dongyangyi Industry Co., Ltd.	Shareholder of Subsidiary	Accounts receivable-other	-	49.00	-	-	49.00	Dividend income tax paid for others	Non-operating transaction	
	Shenzhen Konka Energy Technology Co., Ltd	Affiliated company	Accounts receivable	4.03	-	-	4.03	-	Deposit	Operating transaction	
	Shenzhen Shangyongtong Investment Development Company	Shareholder of Subsidiary	Accounts receivable-other	595.79	-	-	595.79	-	Payment on behalf of others	Operating transaction	
Total	-	-	-	120,699.32	287,307.97	285.54	277,348.67	127,188.49		-	

(II) The special explanation and independent opinions given by Independent Directors on external guarantees of the Company and its implementation of *Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties*(CSRS Document No. 56 [2003])

According to the requirements of No. 56 [2003] *Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties promulgated by CSRS*, we, as the Independent Directors of Konka GROUP CO., LTD (hereinafter refer to as “the Company”), examined capital transaction with affiliated parties as well as external guarantees provided by the Company, and carefully read the Auditors’ Report 2009 and the *Special Audit Report on Appropriation of Listed Company’s Capital by Affiliated Parties of Konka Group Co., Ltd*, which were issued by RSM China. The independent opinions were expressed as follows:

1. As of Dec. 31, 2009, large shareholders of the Company did not appropriate capital of the Company; it was normal for the business transaction when such affiliated parties of large shareholders as Shenzhen Overseas Chinese Town Real Estate Co., Ltd, Shenzhen Overseas Chinese Town Property Management Co., Ltd and Shenzhen Overseas Chinese Town Water and Electricity Co., Ltd appropriated capital of the Company due to collecting deposits and other timing difference.

2. The Company had the following associated transactions with the large shareholders and its subsidiaries:

(1)The Company had routine associated transactions of packing materials for color TV with such subsidiaries indirectly controlled by the Company’s large shareholders as Shanghai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Anhui Huali Packing Co., Ltd, and Shenzhen Huayou Packing Co., Ltd. The associated transactions had been submitted to and approved by the Board meeting, with relevant information disclosed.

(2) The affiliated companies of the Company had associated transactions of video wall with the controlling subsidiaries of the Company’s large shareholders such as Shenzhen OCT East Co., Ltd and Chengdu Tianfu OCT Industrial Development Co., Ltd.

As for the associated transactions above, the Company conducted settlements with the affiliated parties at regular intervals according to the agreement in contracts, and the Company had no non-business capital transaction.

3. In 2009, the Company did not have any non-operating capital transaction with large its shareholders and their affiliated parties.

4 As of Dec. 31, 2009, the Company operated normatively and had no external guarantee.

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

Independent Director: Feng Yutao, Yang Haiying and Zhang Zhong

XIV. Fair Value Measurements

(I) Rules for internal control relevant to fair value

The Company defined the scope of application of the fair value measurement, conducted confirmed measurement on the businesses relating to fair value measurement, strictly implemented the decision-making and approving procedures concerning the purchase and sale of the projects relating to fair value measurement, made clear the purchasing and holding purposes, and disclosed the relevant information according to the share listing rules. In terms of the institution, the Company strengthened its supervision on the management team, to prevent the use of fair value to manipulate the Company’s financial information. At the same time, the Company strengthened its efforts in providing relevant trainings to its financial personnel and punishing those violating the relevant laws and regulations.

(II) Items relevant to fair value measurement

In Renminbi: Yuan

Items	Amount at the period-begin	Profits and losses due to change of fair value in the period	Change of fair value cumulatively accounted into equity	Withdrawal of devaluation in the period	Amount at the period-end
Financial assets:					
Including:					
1. The financial assets measured by fair value, whose variations are accounted into the current	0	3,673,164.00	3,673,164.00		3,673,164.00

profits and losses					
Including : Ramified financial assets	0	3,673,164.00	3,673,164.00		3,673,164.00
2. Financial assets available for sale	9,756,649.50	511,471.60	-1,043,626.97		10,268,121.10
Sub-total of Financial Assets	9,756,649.50	4,184,635.60	2,629,537.03		13,941,285.10
Financial Liabilities	12,481,880.16	-12,481,880.16	0		0
Investment Real Estate					
Capitalized biological assets					
Others					
Total	22,238,529.66	-8,297,244.56	2,629,537.03	0.00	13,941,285.10

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

In the report period, the Company held no financial assets and liabilities of foreign exchange.

XV Explanations on Retrospective Accounting Adjustments

The Company has made the retrospective adjustments to the financial statements such as the income tax and the surplus reserves in accordance with the *Accounting Standard for Business Enterprises—Basic Standard* and the requirements of other accounting standards issued by the Ministry of Finance of the People's Republic of China, with details as follows:

I. The Company has completely implemented the accounting standards for business enterprises since 2007. According to the *Accounting Standards for Enterprises No. 18 - Income Taxes*, the retrospective adjustment shall be made to the effect of the temporary difference arising between the carrying amount of an asset or liability and the tax base on the date of initial implementation. However, The Company failed to the make the retrospective adjustment to the temporary difference arising between the carrying amount of the maintenance cost accrued and the governmental grants in respect of the assets of the Company and the tax base on the income tax, Konka Group corrected this failure in this fiscal year by adjusting the income taxes for Year 2008 lower by RMB 4,755,356.09, adjusting the deferred income tax assets as of December 31, 2008 higher by RMB 18,867,256.07 and adjusting the surplus reserves as of December 31, 2008 higher by 1,886,725.61. The retained profit to the parent company is RMB 16,980,530.46.

II. When the Accounting Standards for Business Enterprises were fully carried out in 2007, the Company didn't fully offset the owner's equity against the balance when the loss shared by the minority shareholders in a subsidiary exceeds the ownership equities shared by such minority shareholders in that subsidiary at the beginning of the year, in accordance with Article 21 (2) of the *Accounting Standards for Enterprises No. 33 - Consolidated Financial Statement*. Konka Group corrected this error by adjusting the minority shareholders' loss and profit higher by RMB 2,608,290.27 for Year 2008, adjusting the minority interests as of December 31, 2008 higher by RMB 10,465,819.18 and adjusting the retained profits payable to the parent company lower by RMB 10,465,819.18.

The Company reclassified the accounts of RMB 13,337,860.04 incurred during last period receivable by the parent company from the subsidiaries into the other receivables according to the nature of the payments, and the accounts payable by the parent company to the subsidiaries totaling RMB 11,278,449.11 into other payables. Such adjustment will not affect the consolidation of the financial statements and the net assets and the retained earnings of the parent company.

The Company reclassified the profit and losses on changes in fair value incurred by the parent company in the last period into the investment income with an amount of RMB 11,898,444.92, and the profit and losses on changes in fair value incurred by Konka Telecommunications Technology Co., Ltd., one of subsidiaries of Konka Group, into the investment income with an amount of RMB 5,351,180.00, according to the nature of the transactions in respect of the held-for-trading financial assets. The total amount consolidated and reclassified is RMB 17,249,624.92. Such adjustment will not affect the consolidation of the financial statements and the net assets and the retained earnings of the parent company.

The Company has adjusted the actual amounts of the corresponding items listed in the financial statements for Year 2008 when correcting the previously mentioned accounting errors.

Influences of previously mentioned adjustment on the Comparative Financial Statements 2008 of the Company are as follows:

In Renminbi : Yuan

Items	Before adjustment	Adjusted amount	After adjustment
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Amount of Balance sheet as to December 31,2008			
Deferred tax assets	91,993,543.01	18,867,256.07	110,860,799.08
Surplus reserves	804,896,533.82	1,886,725.61	806,783,259.43
Retained profits	500,638,125.11	6,514,711.28	507,152,836.39
Equities attributable to the parent company owner	3,775,042,931.48	8,401,436.89	3,783,444,368.37
Minority interests	224,430,267.07	10,465,819.18	234,896,086.25
Amount of Income statement 2008			
Income tax expenses	22,521,423.18	-4,755,356.09	17,766,067.09
Net profits	258,324,471.34	4,755,356.09	263,079,827.43
Net profits attributable to the parent company owner	250,817,154.35	2,147,065.82	252,964,220.17
Minority interests	7,507,316.99	2,608,290.27	10,115,607.26

XVI. Particulars about major customers

Total sale of top five customer of the Company aggregated RMB 2,413,848,049.88, taking up 18.21% of annual total sales of the Company.

XVII. Other events

- (I) In the report period, the Company continued to designate Securities Times as the newspaper for information disclosure without any change.
- (II) The Company continued to engage RSM China to take charge of the Company's annual auditing 2009.

Section IX. Report of the Supervisory Committee

I. Particulars about the work of the Supervisory Committee

During the report period, the sixth Supervisory Committee of the Company held three meetings: the 11th to 13th meeting of the 6th Supervisory Committee, with details of the meetings and the resolutions as follows:

(I) The 11th meeting of the 6th Supervisory Committee of Konka Group Co., Ltd. was held at the meeting room in InterContinental Shenzhen on Apr. 28, 2009 (Thursday), which deliberated and approved *the Report on the Work of the Supervisory Committee 2008*, the *Annual Report 2008* and the *First Quarterly Report 2009*, the *Self-Appraisal Report on Internal Control* as well as the *Proposal on Retrospective Accounting Adjustments*.

(II) The 12th meeting of the 6th Supervisory Committee of Konka Group Co., Ltd. was held through fax on August 25, 2009 (Thursday), which deliberated and approved the *Semi-Annual Report 2009 of Konka Group Co., Ltd.*

(III) The 13th meeting of the 6th Supervisory Committee of Konka Group Co., Ltd. was held through fax on October 21, 2009 (Wednesday), which deliberated and approved the *Third Quarterly Report 2009*.

Resolutions of the aforesaid meetings of the Supervisory Committee were published on the newspapers designated by CSRC: *China Securities Journal*, *Securities Times*, *Shanghai Securities News* and *Hong Kong Ta Kung Pao*, as well as the designated internet website www.cninfo.com.cn respectively on April 30, 2009, August 27, 2009, October 23, 2009.

II. Independent opinions of the Supervisory Committee

In 2009, the Supervisory Committee seriously fulfilled its duties with responsible attitude towards shareholders and according to provisions in the *Company Law*, *Securities Law* and the *Articles of Association*. Members of the Supervisory Committee attended the Board meetings and conducted supervision and examination on the voting procedures of significant decision-makings and resolutions, as well as the operation of the Company according to laws.

(I) The operation of the Company according to laws

During the report period, the Supervisory Committee lawfully supervised the Company's operation and believed that the decision making process of the Shareholders' General Meetings and the Board Meetings complied with the law. The Board of Directors and Management Team of the Company carried out feasibly and effectively the disposals by the Shareholders' General Meeting, which complied with relevant laws or administrative rules and *ARTICLES OF CORPORATION*. There was no breach of laws, regulations, and the *ARTICLES OF CORPORATION* or behavior damaging the interest of the Company as Directors and Senior Executives of the Company implemented their duties.

In 2009, the Company held Annual Shareholders' General Meeting one time, Extraordinary General Meeting for one time, the proposals made in which had been implemented effectively.

(II) Inspection of the Company's financial status

To ensure the interests of shareholders, the Supervisory Committee supervised the accounting of the Company in the report period and believed the Company's financial system sound and the financial operating well and the Company strictly fulfill the requirements of corporation accounting system, accounting standard and other related financial provisions. The Annual Financial Report 2009 of the Company was audited by RSM China and a standard unqualified Auditor's Report was issued. The report had truly reflected the actual financial status and operation achievements of the Company

(III) Utilization of raised proceeds of the Company

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

(IV) Acquisition and disposal of assets by the Company

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

(V) Opinion on affiliated opinions

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

2. In the report period, based on its actual demand of production and operation, the Company had routine associated transactions of packing materials for color TV with such subsidiaries indirectly controlled by the Company's large shareholders as Shanghai Huali Packing Co., Ltd, Shenzhen Huali Packing & Trading Co., Ltd, Anhui Huali Packing Co., Ltd, and Shenzhen Huayou Packing Co., Ltd. The associated transactions had been submitted to and approved by the Board meeting, with relevant information disclosed. The affiliated companies of the Company had associated transactions of video wall with the controlling subsidiaries of the Company's large

shareholders such as Shenzhen OCT East Co., Ltd and Chengdu Tianfu OCT Industrial Development Co., Ltd. The transaction between the Company and the aforesaid affiliated parties were carried out on the basis of equality and consultation, without damaging the interest of the Company and all shareholders.

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

(VI) Self-Appraisal Report on Internal Control

The Company can strictly comply with the Circular of the Ministry of Finance and CSRC on the *Basic Standards for Enterprise Internal Control* and Circular of the Shenzhen Stock Exchanges on *Guideline for Internal Control of Listed Companies* and the fundamental principals for internal control, which improvised the Company's effectiveness and operation quality and ensured the safety of the Company's assets. The internal control organization of the Company was complete and the Company's internal audit department and the staffs were completed, which ensured the efficient execution and supervision of Company internal controlling of major activities.

In 2009, the Company conducted well according to *the Basic Standards for Enterprise Internal Control* and the Company's related internal controlling system and the implementation was good.

To conclude, we believe that Company's *Self-evaluation Report on Internal Control 2009* presented the actual situation of the Company's internal control operation in a thorough, objective and factual manner.

Section X. Significant Events

I. Significant lawsuits and arbitration

In 2009, the Company had no significant lawsuits or arbitrations.

II. Significant acquisitions and mergers

The Company was not involved in any significant acquisition or merger in 2008.

III. Particulars about securities investment

(I) Particulars about equity of other listed companies held by the Company

Stock code	Short form of stock	Amount of initial investment (RMB)	Proportion in the equity of the said company	Book value at the end of period	Gains and losses in the report period	Change in owners' equity in the report period	Financial accounting subject	Source of shares
000002	Vanke	2,311,748.07	0.00%	1,268,121.10	0.00	511,471.60	Financial available for sale	Subscription of new stock
600891	ST CHURIN	9,000,000.00	3.84%	9,000,000.00	0.00	0	Financial available for sale	Subscription of corporate shares
Total	-	11,311,748.07	-	10,268,121.10	0.00	511,471.60	-	-

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

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

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

Name of stock	Amount of shares at the period-begin	Amount of shares bought in the report period	Amount of shares sold in the report period	Amount of shares at the period-end	Amount of used capital	Investment income
Everbright Securities	0	2000	2000	0	42,160.00	13,756.41
Metallurgical Corporation of China	0	23000	23000	0	124,660.00	31,669.08
China Merchants Securities	0	1000	1000	0	31,000.00	3,062.21
China Shipbuilding Industry (601989:CH)	0	13000	13000	0	95,940.00	10,529.35

IV . Report of Derivatives Investment

1. Table for Derivatives Investment

Analysis on Risks of Positions of Derivatives Held and Explanations on Control Measures during the Period of Report (including but not limited to the market risk, liquidity risk, credit risk, operational risk, legal risk, etc).	<p>For each NDF portfolio transaction conducted by the company, the yield to maturity is fixed, so no risk will occur.</p> <p>The major risks that may arise from the NDF portfolio transactions conducted by the Company include:</p> <ol style="list-style-type: none"> 1. The risk due to the possible bankruptcy of the deposit pledge bank. If the deposit pledge bank becomes bankrupt, the deposit pledged in such bank may be difficult to be recovered in full. 2. The risk due to the possible bankruptcy of the bank engaging in overseas NDF portfolio business. In case of the bankruptcy, the earnings on NDF portfolio business may not be paid. <p>The Company always engages in NDF transactions with large-sized banks such as Bank of China, which have steady operations and sound credit standing with a low possibility of becoming bankrupt, so we do not consider the loss arising from the possible bankruptcy of such banks.</p>
The changes to the market prices and the fair value of the derivatives invested in the Period of Report, and the methods and setting of relevant assumptions and parameters to be disclosed in the analysis on the fair value of the derivatives.	As the yield to maturity is fixed for the NDF portfolio business conducted by the Company, no changes have taken place to the fair value.
Notes on any major change in the basic principals of	Up to the Date of Announcement, there is no special accounting

accounting policies and accounting of the Company's derivatives comparing with those of last report period in this report period	method applicable to the NDF portfolio business conducted by the Company, and the accounting principles are subject to the <i>Accounting Standards for Business Enterprises</i> .
Notes on whether there is any significant change to the accounting policies and principles applicable to the derivatives invested by the Company during the Period of Report, and the specific opinions of the independent director(s), the sponsor or the financial consultant on the Company's derivatives investments and the risk control.	The Company's independent director believes that conducting the NDF business is necessary for the Company because it can benefit the Company from RMB floating exchange rates, enabling the Company to achieve the risk-free fixed income, and that as the Company is improving its internal control system for the derivatives investment, the specific risk control measures taken are enforceable.

2. Positions of Derivatives Investments Held at the end of the Period of Report

In Renminbi: 10,000 yuan

Type of Contract	Amount of Contract at the Beginning	Amount of Contract at end of the Period	Profit & Loss during Period of Report	Percentage of Amount of Contract at end of Period to the Net Assets at end of the Period
NDF Portfolio Business	0	258,435.68	2,067.65	67.00%
Total	0	258,435.68	2,067.65	67.00%

V. Significant associated transactions

(I) In 2009, the Company had some associated transactions with the controlling shareholder (Overseas Chinese Town Group Company) and its subsidiaries, including selling LCD screen, purchase of goods, paying property management fee, water and electricity expenses, etc, all of which were fair transactions at normal market prices. These transactions did not harm the interest of the Company or other shareholders of the Company.

(II) Routine associated transactions in the report period are as follows: In Renminbi : Yuan

Type of affiliated transaction	Further classification according to product or labor service	Affiliated person	Total	Proportion in the same type of transaction	Type of affiliated transaction
Raw materials of color TV	Cardboard cases for color TV	Anhui Huali Packaging Co., Ltd.	24,067,965.82		0.18
		Shanghai Huali Packing Co., Ltd	11,514,832.99		0.09
		Shenzhen Huayou Packing Co., Ltd	12,096,288.30		0.09
		Shenzhen Huali Packing & Trading Co., Ltd	9,623,339.39		0.07
		Huizhou Huali Packing Co., Ltd.	4,373,339.46		0.03
Raw materials	Instruction books	Guangzhou Panyu Hualiyoude Color Printing & Packing Co., Ltd.	2,939,202.08		0.02

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

1. The Company has published the Forecasting Public Notice on Routine Affiliated Transaction (public notice No. 2009-05) on *Securities Times*, *Shanghai Securities News*, *China Securities Journal* and *Hong Kong Ta Kung Pao* as well as the Internet website designated by CSRC <http://www.cninfo.com.cn> on April 30, 2009. In the report period, the basis for pricing, transaction price, transaction amount and settlement methods of raw packaging material purchased by the Company from Anhui Huali Packing Co., Ltd, Shanghai Huali Packing Co., Ltd. and Shenzhen Huali Packing & Trading Co., Ltd, were basically in accordance with the forecast. As Shenzhen Huayou Packing Co., Ltd would stop production, the business thus was transferred to Huizhou Huali Packing Co., Ltd. In the report period, the total transaction amount of packing raw materials purchased actually by the Company from Shenzhen Huayou Packing Co., Ltd and Huizhou Huali Packing Co., Ltd. were in accordance with the transaction amount forecasted in beginning of the year 2009 by the Company from Shenzhen Huayou Packing Co., Ltd. In order to meet the requirements for instruction books by the development of the Company's major business, in the report period, the Company purchased partial instruction books of small amount.

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

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

(III) Guarantees between the Company and the affiliated parties

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

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

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

VI. Significant contracts and their fulfillment

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

(II) Significant guarantee

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

(III) In the report period, the Company had no trust financing.

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

VII. Commitment

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

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

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

VIII. CPA firm and its remuneration

With deliberation and approval of the Shareholders' General Meeting 2008, the Company engaged RSM China to take charge of annual auditing of the Company's financial statement 2009, for a term of one year. In 2009, the financial audit fee that the Company paid to the CPA firm was RMB 730,000 for A shares domestic auditing.

IX. Particulars about reception of visit and investigation of the Company in the report period

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

In the report period, reception of visit & investigation are as follows:

Time	Place	Method	Visitor	Content of discussion and materials provided
January 21,2009	Meeting room of the Company	Field research	CITIC Securities, Changsheng Fund	Development trend of Color TV industry, the competitive power of LCD TV and the Color TV industry status of the Company
February 05,2009	Meeting room of the Company	Field research	Ping An Securities	Company development strategy in Color TV industry, promotion of new products of LCD TV and the situation of LCD TV industry
February 18,2009	Meeting room of the Company	Field research	Ping An Securities	Status quo , development of Color TV industry and development concept of the LCD TV business
February 19,2009	Meeting room of the Company	Field research	SYWG BNP PariBAS Asset Management,	Company competitive power and development strategy in color TV

			Boshi Fund, Fullgoal Fund, Yinhua Fund, CCB Principal Asset Management Co., Ltd., etc.	industry, market prospect of the new products and progress of relevant work
February 20,2009	Meeting room of the Company	Field research	China Securities	The information about the investment of LCD module project and the basic situation of Color TV and mobile telephone business of the company
February 23,2009	Meeting room of the Company	Field research	Sinolink Securities	The information about construction of Konka's R&F building, the development of Color TV industry
February 25,2009	Jining Branch	Field research	Shenyin & Wanguo Securities, TianHong Fund, Fortune SGAM Fund management Co., Ltd., HARFOR FUND MANAGEMENT CO.,LTD, Power Corporation of Canada, etc.	The sales statues in the project of home appliances to the countryside
March 05,2009	Meeting room of the Company	Field research	Penghua Fund, United securities, China jianyin investment securities, Yingda Securities	Information about the investment 2009 of the Company, establishment of LCD module project and the competitive strategy of Color TV
March 05,2009	Meeting room of the Company	Field research	Guosen Securities, Rongtong Fund Management Co., Ltd., ABC-CA Fund management Co., Ltd., China Merchants Fund	Development trends of color TV, expense reduction by the Company and the investment situation 2009
March 16,2009	Meeting room of the Company	Telephone communication	CITIC Securities	Development trends of color TV, the market competitive power of the company's products of color TV
April 2,2009	Meeting room of the Company	Field research	Morgan Stanley	The company's core competitive power, development strategy, market prospect of the new products and the process of related works
April 30,2009	Meeting room of the Company	Telephone communication	Shenyin & Wanguo Securities, Sinolink Securities, etc.	Basic situation of the company's major business and the industry status and the industry status of the Company,
May 6,2009	Meeting room of the Company	Field research	China Jianyin Investment Securities, First-trust Fund, Da Cheng Fund, Lion Fund	Industry development trends, the industry status of the Company and development strategy
May 11,2009	Meeting room of the Company	Field research	BNP Paribas Investment Partners Taiwan Co., Ltd., JP Morgan Fleming Securities	The getting tender and sales status in the project of home appliances to the countryside, the industry development trend of the Company's major business
May 13,2009	Meeting room of the Company	Field research	Fortis Investment Management Co., Ltd. Haitong	Related situation about Annual Report 2008, the Company's development strategy, and the sales statues in the project of home appliances to the countryside
May 13,2009	Meeting room of the Company	Field research	Congrong Investment management Co., Ltd.	The competitive power of the Company's products, the planning of new products
May 15,2009	Meeting room of the Company	Field research	HSBC Jintrust Fund Management Co., Ltd.	The development strategy, internal

				management status of the Company, the investment of LCD module project
June 2,2009	Meeting room of the Company	Field research	CICC, CCB Principal Assets, ABC-CA Fund management Co., Ltd., Fortune Trust Co., Ltd.	the development strategy of the Company, the market status of Color TV industry, mobile telephone industry and white home electrical appliance, the company's development concept
June 10,2009	Meeting room of the Company	Field research	Sinolink Securities, Fortune Securities, China Securities, Hongyuan Securities. Etc.	Related situation about the business development, development concepts and internal management of the Company
June 15,2009	Meeting room of the Company	Field research	Guotai Securities Junan	The competitive power, development strategy of color TV, mobile telephone and white home electrical appliance of the Company and the market prospect of the new products
June 25,2009	Meeting room of the Company	Field research	Guotai Securities Junan	The investment of LCD module project, basic status of the Company's business of Color TV and mobile telephone.
July 13,2009	Meeting room of the Company	Field research	Guoyuan Securities, First Shanghai Investments Ltd	Industry development trend, the industry status of the Company , market prospect of the new products and progress of relevant work
September 15,2009	Meeting room of the Company	Field research	Industrial Securities	The establishment of LCD module project, sales statues in the project of home appliances to the countryside, the situation about the market competition of LCD TV
September 24,2009	Meeting room of the Company	Field research	United securities, CITIC-Prudential Fund	Development trends of color TV and mobile telephone industry, the industry status of the Company
October 12,2009	Meeting room of the Company	Field research	Morgan Stanley	the situation about the market competition of LCD TV, the market competitive power, advantages and disadvantages of the company's products of color TV
October22,2009	Meeting room of the Company	Field research	Shenyin & Wanguo Securities, China International Fund Management Co., Ltd., Baoying Fund, People's Livelihood Silver Fund, Penghua Fund , Hua An Fund, Lord Abbett Fund, Bank of China Investment Management co., Ltd., etc.	The core competitive power, and the development strategy of Color TV and mobile telephone business of the Company, the promotion of new products
October 23,2009	Meeting room of the Company	Field research	CICC, Da Cheng Fund, etc.	the situation about the market competition of LCD TV and the industry status of the Company
November 11,2009	Meeting room of the Company	Field research	Everbright Securities	The establishment of LCD module project, the sales statues in the project of home appliances to the countryside, the development strategy of the Company

November 12,2009	Meeting room of the Company	Field research	TX Investment Consulting Co., Ltd.	The market competitive power of Color TV and mobile telephone products of the company and expense reduction by the Company
November 13,2009	Meeting room of the Company	Field research	Yinhua Fund, Great Wall Securities, KBC GOLDSTATE Fund Management Co., Ltd	The development strategy of color TV, mobile telephone and white home electrical appliance business of the Company, the sales statues in the project of home appliances to the countryside
November 16,2009	Meeting room of the Company	Field research	China Universal Asset Management Co., Ltd.	The internal management status of the Company, the competitive power of the Company's products and the promotion of new products
November 20,2009	Meeting room of the Company	Field research	BeiJing HuaXinLiuHe Investment Co., Ltd., Congrong Investment management Co., Ltd.	The process of the LCD module project and the development trends of LED business
November 24,2009	Meeting room of the Company	Field research	UBS SDIC Fund Management Co., Ltd.	The market status of color TV, mobile telephone and white home electrical appliance industry and the development concepts of major business of the Company
December 3,2009	Meeting room of the Company	Field research	Greenwoods Asset Management Limited	The sales statues in the project of home appliances to the countryside, the development concepts of the Company and the situation about the internal management
December 3,2009	Meeting room of the Company	Field research	Soochow Asset Management Co., LTD	The development strategy of color TV, mobile telephone and white home electrical appliance business of the Company and the market prospect of new products
December 9,2009	Meeting room of the Company	Field research	Ping An Securities	The process of the LCD module project and the situation about the market competition of color TV and mobile telephone business
December 11,2009	Meeting room of the Company	Field research	BNP Paribas Securities Services	The development trends of color TV, mobile telephone and white home electrical appliance industry, the industry status of the Company and the promotion of new products
December 16,2009	Meeting room of the Company	Field research	Guosen Securities, Hai Tong Securities, Guoyuan Securities, ESSENCE SECURITIES , ICBC Credit Suisse Asset Management Co. Ltd. , Bank of Communications Schroder Fund, China Universal Asset Management Co., Ltd, CCB Principal Assets, Chang Xin Asset Management Co., Ltd., Fortis Haitong Investment Management Co., Ltd,	The competitive power, industry status and development strategy of LCD TV of the Company, the sales statues in the project of home appliances to the countryside

			Fullgoal Fund, etc.	
December 17,2009	Meeting room of the Company	Field research	Northeast Securities, Shenzhen Minsen Investment Co., Ltd.	The Development strategy of LCD TV, the promotion of new products, the situation about LCD TV industry and the process of LCD module project
December 18,2009	Meeting room of the Company	Field research	GUOTAI ASSET MANAGEMENT CO., LTD	The promotion of new products of LCD TV and the sales statues in the project home appliances to the countryside
December 25,2009	Meeting room of the Company	Field research	First Capital Securities Co., Ltd, China Southern Fund	the situation about the industry competition of LCD TV, the process of LCD module project and the promotion of the new products
December 28,2009	Meeting room of the Company	Field research	Hai Tong Securities, Shenzhen Wudang Asset Management Ltd.	The establishment of LCD module project and the market competition of color TV, mobile telephone and white home electrical appliance business

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

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

XI. Other significant events

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

() With Forecast Public Notice on Daily Associated Transactions, please refer to the public notice disclosed in *China Securities Journal*, *Shanghai Securities News*, *Securities Times* and *Ta Kung Pao*, as well as www.cninfo.com.cn on April 30, 2009 (public notice No. 2009-05).

() As for *Execution Notice on Equity Allocation 2008*, please refer to the public notice disclosed in *China Securities Journal*, *Shanghai Securities News*, *Securities Times* and *Ta Kung Pao*, as well as www.cninfo.com.cn on 14 May 2008 (public notice No. 2009-12).

Section XI. Financial Report

I. Auditor's Report

Auditor's Report

ZRYHS Zi [2010] No.005803

To the shareholders of Konka Group Co., Ltd.:

We have audited the accompanying financial statements of **Konka Group Co., Ltd.** ("Konka Group") which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and notes to these financial statements.

I. Management's Responsibility for the Financial Statements

The management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. Auditor's Responsibility

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

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

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

III. Opinion

In our opinion, the accompanying consolidated and the company financial statements present fairly, in all material respects, the financial position of Konka Group as of 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

Zhongrui Yuehua Certified Public Accountants Co., Ltd.

CPA

Shenzhen · China

CPA

28 Apr. 2010

II. Financial report (Attachment)

Section XII. Documents Available for Reference

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

**Board of Directors of
Konka Group Co., Ltd.**
30 April 2010

Konka Group Co., Ltd.
Auditors' Report
Year 2009

Contents

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Balance Sheet

Prepared by: Konka Group Co., Ltd.

Dec.31 2009

In Renminbi: yuan

Items	Ending balance		Beginning balance	
	Consolidated	Parent company	Consolidated	Parent company
Current assets:				
Monetary funds	3,624,480,380.25	2,920,787,369.99	2,066,252,494.08	1,475,666,531.16
Transaction settlement funds				
Loans to other banks				
Trading financial assets	3,673,164.00	2,781,054.00		
Notes receivable	2,807,539,700.27	2,679,933,632.86	2,602,862,135.40	2,490,683,124.51
Accounts Receivable	1,302,066,597.13	1,105,121,784.81	1,326,261,316.54	1,060,970,067.41
Prepayments	275,850,813.27	259,306,577.60	258,992,334.73	202,116,433.21
Insurance premium receivable				
Reinsurance premium receivable				
Reinsurance contract reserves receivable				
Interests receivable	32,529,920.96	29,442,469.13	19,905,867.09	17,616,624.79
Dividends receivable				
Other receivables	19,572,445.66	863,563,519.29	81,299,762.88	1,056,576,887.24
Buying and selling back financial assets				
Inventories	3,580,780,457.01	2,880,442,228.65	2,587,847,088.61	1,914,848,396.91
Non-current assets due within one year				
Other current assets				
Total current assets	11,646,493,478.55	10,741,378,636.33	8,943,420,999.33	8,218,478,065.23
Non-current assets:				
Loans and advances				
Available-for-sale financial assets	10,268,121.10	10,268,121.10	9,756,649.50	9,756,649.50
Held-to-maturity investments				
Long-term accounts receivable				
Long-term equity investment	57,800,445.23	1,278,602,169.87	21,610,338.75	1,149,511,669.87
Investment real estates				
Fixed assets	1,433,674,626.29	397,886,724.19	1,344,177,898.16	417,114,182.46
Construction In Progress	61,087,946.18	35,542,625.38	27,331,613.11	17,412,689.40
Project materials				
Disposal of fixed assets	20,851,110.89			
Productive biological assets				
Oil & gas assets				
Intangible assets	167,502,525.56	18,952,170.77	69,223,899.60	19,277,794.23
R&D expenses				
Goodwill	3,943,671.53		3,943,671.53	
Long-term prepaid expenses	15,774,783.95	6,011,778.39	19,897,124.12	5,970,948.27
Deferred income tax assets	150,686,419.10	139,410,896.12	110,860,799.08	109,920,610.94
Other non-current assets				
Total non-current assets	1,921,589,649.83	1,886,674,485.82	1,606,801,993.85	1,728,964,544.67
Total assets	13,568,083,128.38	12,628,053,122.15	10,550,222,993.18	9,947,442,609.90

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Balance Sheet (continued)

Prepared by: Konka Group Co., Ltd.

Dec.31 2009

In Renminbi: yuan

Current liabilities:				
Short-Term borrowings	2,770,014,060.00	2,553,412,550.00	1,346,375,610.78	1,094,765,111.29
Borrowings from central bank				
Receipt of deposits and deposits from other banks				
Loans from other banks				
Trading financial liabilities			12,481,880.16	10,623,434.10
Notes payable	2,884,697,072.42	2,546,131,169.12	2,637,681,947.36	2,441,813,730.21
Accounts payable	2,599,242,285.04	2,490,629,061.71	1,571,761,341.98	1,652,175,944.19
Advance receipts	279,331,464.38	162,177,552.53	179,376,510.50	110,769,256.44
Funds from selling out and repurchasing financial assets				
Fees and commissions payable				
Employee compensation payable	193,217,075.52	94,499,554.84	168,838,494.96	81,507,222.39
Taxes payable	-132,897,711.14	-74,701,335.32	14,263,975.12	27,855,510.51
Interests payable	23,633,016.78	21,675,319.92	8,247,223.62	5,511,794.93
Dividend payable	804,527.20		7,108,659.46	
Other payables	763,923,600.66	940,384,863.17	523,333,313.95	617,429,508.74
Reinsured accounts payable				
Reserves for insurance contract				
Funds from securities trading agency				
Funds from underwriting securities agency				
Non-current liabilities due within one year				
Other current liabilities				
Total current liabilities	9,381,965,390.86	8,734,208,735.97	6,469,468,957.89	6,042,451,512.80
Non-current liabilities				
Long-term loan				
Bonds payable				
Long-Term account payable				
Special payable				
Estimated liabilities				
Deferred income tax liabilities	1,308,715.59	611,831.88	563,067.21	
Other non-current liabilities	78,541,048.48	62,205,048.48	43,578,369.62	39,442,369.62
Total non-current liabilities	79,849,764.07	62,816,880.36	44,141,436.83	39,442,369.62
Total liabilities	9,461,815,154.93	8,797,025,616.33	6,513,610,394.72	6,081,893,882.42
Owners' equity (or shareholders' 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 public reserves	1,257,449,727.58	1,249,319,561.00	1,256,138,295.21	1,248,889,511.18
Less: Treasury stock				
Special reserves				
Surplus public reserves	809,307,995.80	809,307,995.80	806,783,259.43	806,783,259.43
General risk reserves				
Undistributed profits	613,778,898.84	568,427,245.02	525,424,980.23	605,903,252.87
Foreign currency translation differences	-9,141,464.66		9,397,273.34	
Total equity attributable to the parent company owners	3,875,367,861.56	3,831,027,505.82	3,801,716,512.21	3,865,548,727.48
Minority equity	230,900,111.89		234,896,086.25	
Total owners' equity	4,106,267,973.45	3,831,027,505.82	4,036,612,598.46	3,865,548,727.48
Liabilities and total owners' equity	13,568,083,128.38	12,628,053,122.15	10,550,222,993.18	9,947,442,609.90

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Income Statement

Prepared by: Konka Group Co., Ltd. January to December 2009 In Renminbi: yuan

Item	Current amount		Amount of previous year	
	Consolidated	parent company	Consolidated	parent company
1. Total revenues from operating activities	13,259,033,591.95	11,525,945,799.03	12,205,292,227.57	10,404,759,255.68
Including: operating income	13,259,033,591.95	11,525,945,799.03	12,205,292,227.57	10,404,759,255.68
Interest incomes				
Earned insurance premium				
Incomes from fees and commissions				
2. Total costs for operating activities	13,153,736,796.99	11,541,097,094.73	11,908,511,833.93	10,210,565,592.50
Including: Operating cost	10,769,730,028.66	9,627,435,803.69	9,868,386,494.64	8,578,370,891.22
Interest expenses				
Fee and commission expenses				
Refunded premiums				
Net claims paid				
Net change in insurance contract reserves				
Policy dividend payment				
Reinsured expenses				
Business taxes and extras	4,847,731.84	2,792,496.10	4,170,880.39	2,014,068.88
Marketing expenses	1,670,999,719.23	1,452,893,525.11	1,520,386,793.94	1,298,039,993.30
Administrative expenses	455,895,588.89	286,211,646.84	432,537,982.69	278,393,120.10
Financial Expenses	54,509,219.18	44,499,518.39	1,318,507.81	-5,457,859.94
Asset impairment losses	197,754,509.19	127,264,104.60	81,711,174.46	59,205,378.94
Add: Incomes from change in fair value ("-" for losses)	16,155,044.16	13,404,488.10	4,767,744.76	1,275,010.83
Investment Income ("-" for losses)	3,220,262.14	4,596,951.52	-20,958,164.63	35,518,252.53
Including: Investment income of joint-venture and partnership	-886,679.52		-690,035.55	
Foreign exchange gains("-" for losses)				
3. Operating Profit("-" for losses)	124,672,101.26	2,850,143.92	280,589,973.77	230,986,926.54
Add: Non-operating income	27,314,858.06	13,626,467.19	27,884,850.52	20,426,770.27
Less: Non-operating expenses	6,088,845.81	2,560,558.97	12,912,868.89	5,765,589.53
Including: disposal losses on non-current assets	3,814,873.37	922,222.62	6,652,412.36	786,967.07
4. Total Profits ("-" for total losses)	145,898,113.51	13,916,052.14	295,561,955.40	245,648,107.28
Less: Income tax expenses	-1,488,458.74	-11,331,311.58	17,766,067.10	8,631,616.63
5. Net profits ("-" for net losses)	147,386,572.25	25,247,363.72	277,795,888.30	237,016,490.65
Net profits attributable to the parent company owners	151,077,290.18	25,247,363.72	267,680,281.04	237,016,490.65
Minority interest income	-3,690,717.93		10,115,607.26	
6. Earnings per share:				
1)Basic earnings per share	0.1255		0.2223	
2)Diluted earnings per share	0.1255		0.2223	
7.Other Comprehensive Income	-18,108,688.18	430,049.82	-16,883,358.02	-18,481,415.11
8 Total comprehensive income.	129,277,884.07	25,677,413.54	260,912,530.28	218,535,075.54
Total comprehensive income attributable to the parent company owners	132,968,602.00	25,677,413.54	250,796,923.02	218,535,075.54
Total comprehensive income attributable to the minority shareholders	-3,690,717.93		10,115,607.26	

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Cash Flows Statement

Prepared by: Konka Group Co., Ltd. January to December 2009 In Renminbi: yuan

Item	Current amount		Amount of previous year	
	Consolidated	Parent company	Consolidated	Parent company
1.Cash flows from operating activities				
Cash received from selling commodities and providing labor services	15,133,741,038.91	12,334,021,394.68	13,416,342,914.29	11,822,441,609.73
Net increase of deposits from customers and other banks				
Net increase of borrowings from central bank				
Net increase in placements from other financial institutions				
Cash received from receiving insurance premium of original insurance contract				
Net cash received from reinsurance business				
Net increase of policy holder deposits and investment funds				
Net increase from disposal of tradable financial assets				
Cash received from interests, fees and commissions				
Net increase of loans from other banks				
Net increase in repurchase business capital				
Tax rebates received	87,084,976.74	16,034,237.41	77,849,353.60	335,272.97
Other cash received concerning operating activities	146,134,323.76	1,116,247,070.67	103,203,885.47	77,403,447.32
Sub total of cash inflows from operating activities	15,366,960,339.41	13,466,302,702.76	13,597,396,153.36	11,900,180,330.02
Cash paid for purchasing commodities and receiving labor service	12,072,565,468.07	10,753,988,727.66	10,236,431,232.19	9,296,806,289.76
Net increase of customer's loans and advances				
Net increase of deposits in central bank and other banks				
Cash paid for indemnity of original insurance contract				
Cash paid for interests, fees and commissions				
Cash paid for policy dividends				
Cash paid to and for employees	914,638,306.02	547,446,533.41	850,940,738.59	476,441,125.65
Cash paid for taxes	1,345,298,981.26	1,110,403,753.04	1,025,589,614.95	830,230,406.87
Cash paid for other operating activities	740,354,025.83	745,994,433.40	1,121,792,489.34	942,562,270.19
Sub total of cash outflows from operating activities	15,072,856,781.18	13,157,833,447.51	13,234,754,075.07	11,546,040,092.47
Net cash flows from operating activities	294,103,558.23	308,469,255.25	362,642,078.29	354,140,237.55
2.Net cash flows from operating activities				
Cash received from disposal of investments	197,820.00	197,820.00	47,065,893.48	32,897,970.86
Cash received from disposal of investments	54,354.16	1,404,354.16	5,460,641.00	50,832,140.42
Net cash received from the disposal of fixed assets, intangible assets and other long term assets	14,575,955.08	12,808,403.23	40,466,824.25	40,215,771.28
Net cash received from disposal of subsidiaries and other business units			24,150.00	24,150.00

other cash received concerning investing activities	43,622,774.50		29,198,806.33	29,032,353.91
Sub total of cash inflows from investment activities	58,450,903.74	14,410,577.39	122,216,315.06	153,002,386.47
Cash paid for the purchase and construction of fixed assets, intangible assets and other long term assets	348,264,933.03	38,405,118.57	160,001,413.50	18,619,141.20
Cash paid for investments	37,370,546.00	200,446,760.00	84,360.00	350,584,360.00
Net increase in pledge loans				
Net cash received from payment of subsidiaries and other business units				
Cash paid for other investing activities	11,462,345.89	44,010.00	20,269,150.00	22,547,102.10
Sub total of cash outflows from investing activities	397,097,824.92	238,895,888.57	180,354,923.50	391,750,603.30
Net cash flows from investing activities	-338,646,921.18	-224,485,311.18	-58,138,608.44	-238,748,216.83
3.Cash flows from financing activities				
Cash received from capital contributions	6,093,075.82			
Including: Cash received from minority shareholder investment by subsidiary	6,093,075.82			
Borrowings received	2,777,811,335.00	2,559,657,550.00	2,449,996,862.25	2,160,291,902.78
Cash received from bond issue				
Other cash received concerning financing activities	1,557,658,931.78	1,117,035,032.02	1,036,141,024.71	855,513,489.19
Sub total of cash inflows from financing activities	4,341,563,342.60	3,676,692,582.02	3,486,137,886.96	3,015,805,391.97
Cash repayments of amounts borrowed	1,354,172,885.78	1,104,055,945.05	2,375,918,008.59	2,138,083,790.03
Cash paid for distribution of dividends or profits, or cash payments for interests	97,290,061.35	84,815,772.25	108,561,447.16	88,329,554.34
Including: Dividend and profit paid to minority shareholders by subsidiary	11,821,060.28		17,466,556.78	
Cash paid for other financing activities	2,930,409,561.75	2,579,347,250.00	1,204,946,154.12	1,100,051,307.54
Sub total of cash outflows from financing activities	4,381,872,508.88	3,768,218,967.30	3,689,425,609.87	3,326,464,651.91
Net cash flows from financing activities	-40,309,166.28	-91,526,385.28	-203,287,722.91	-310,659,259.94
4.Foreign exchange rate fluctuation consequences on cash and cash equivalents	-10,222,921.54	-9,648,937.94	-8,747,294.35	-2,184,250.16
5.Net increase in cash and cash equivalents	-95,075,450.77	-17,191,379.15	92,468,452.59	-197,451,489.38
Add: Cash and cash equivalents at the beginning of the period	845,026,867.06	358,631,499.14	752,558,414.47	556,082,988.52
6.Cash and cash equivalents at the ending of the period	749,951,416.29	341,440,119.99	845,026,867.06	358,631,499.14

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Consolidated Statement of Changes in Owners' Equity

Prepared by: Konka Group Co., Ltd.

FY2009

In Renminbi: yuan

Items	Current amount									
	Equities attributable to the parent company owner								Minority equity	Total owner's equity
	Paid-in capital (or share capital)	Capital public reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk reserves	Undistributed Profits	Others		
1. Ending balance of last year	1,203,972,704.00	1,256,138,295.21			806,783,259.43		525,424,980.23	9,397,273.34	234,896,086.25	4,036,612,598.46
Add: Changes in accounting policies										
Correction of prior period errors										
Others										
2. Beginning balance of this year	1,203,972,704.00	1,256,138,295.21			806,783,259.43		525,424,980.23	9,397,273.34	234,896,086.25	4,036,612,598.46
3. Increase or decrease of this year ("-" for decreases)		1,311,432.37			2,524,736.37		88,353,918.61	-18,538,738.00	-3,995,974.36	69,655,374.99
1) Net profits							151,077,290.18		-3,690,717.93	147,386,572.25
2). Other comprehensive income		430,049.82						-18,538,738.00		-18,108,688.18
Sub total of 1) and 2)		430,049.82					151,077,290.18	-18,538,738.00	-3,690,717.93	129,277,884.07
3) Capital contributed and reduced by owners		881,382.55							5,211,671.59	6,093,054.14
a. Capital invested by owners		881,382.55							1,468,799.00	2,350,181.55
b. Amounts of share-based payments recognized in owners' equity										
c. Others									3,742,872.59	3,742,872.59
4) Profits distribution					2,524,736.37		-62,723,371.57		-5,516,928.02	-65,715,563.22
a. Appropriations to surplus reserves					2,524,736.37		-2,524,736.37			

b. Appropriations to general risk provisions										
c. Profit distribution to the owner (or shareholder)							-60,198,635.20		-5,516,928.02	-65,715,563.22
d. Others										
5) Internal carryover in the owner's equity										
a. Transferring capital public reserves into paid-in capital (or share capital)										
b. Transferring surplus public reserves into paid-in capital (or share capital)										
c. Surplus reserves for making up losses										
d. Others										
6) Special reserves										
a. Current appropriations										
b. Current usage										
4. Current ending balance	1,203,972,704.00	1,257,449,727.58			809,307,995.80		613,778,898.84	-9,141,464.66	230,900,111.89	4,106,267,973.45

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Consolidated Statement of Changes in Owners' Equity

Prepared by: Konka Group Co., Ltd.

FY2009

In Renminbi: yuan

Items	Current amount										
	Equities attributable to the parent company owner									Minority equity	Total owner's equity
	Paid-in capital (or share capital)	Capital public reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk reserves	Undistributed Profits	Others			
1. Ending balance of last year	601,986,352.00	1,876,606,062.32			781,670,420.36		273,047,084.22	7,799,216.25	238,161,627.35	3,779,270,762.50	
Add: Changes in accounting policies											
Correction of prior period errors					1,411,190.00		8,399,264.04		7,857,528.91	17,667,982.95	

Others										
2. Beginning balance of this year	601,986,352.00	1,876,606,062.32			783,081,610.36		281,446,348.26	7,799,216.25	246,019,156.26	3,796,938,745.45
3. Increase or decrease of this year ("-" for decreases)	601,986,352.00	-620,467,767.11			23,701,649.07		243,978,631.97	1,598,057.09	-11,123,070.01	239,673,853.01
1) Net profits							267,680,281.04		10,115,607.26	277,795,888.30
2). Other comprehensive income		-18,481,415.11						1,598,057.09		-16,883,358.02
Sub total of 1) and 2)		-18,481,415.11					267,680,281.04	1,598,057.09	10,115,607.26	260,912,530.28
3) Owner's capital input and reduction										
a. Owner's capital input										
b. Amounts of share-based payments recognized in owners' equity										
c. Others										
4) Profits distribution					23,701,649.07		-23,701,649.07		-21,238,677.27	-21,238,677.27
a. Appropriations to surplus reserves					23,701,649.07		-23,701,649.07			
b. Appropriations to general risk provisions										
c. Profit distribution to the owner (or shareholder)									-21,238,677.27	-21,238,677.27
d. Others										
5) Internal carryover in the owner's equity	601,986,352.00	-601,986,352.00								
a. Transferring capital public reserves into paid-in capital (or share capital)	601,986,352.00	-601,986,352.00								
b. Transferring surplus public reserves into paid-in capital (or share capital)										

c. Surplus reserves for making up losses										
d. Others										
6) Special reserves										
a. Current appropriations										
b. Current usage										
4. Current ending balance	1,203,972,704.00	1,256,138,295.21			806,783,259.43		525,424,980.23	9,397,273.34	234,896,086.25	4,036,612,598.46

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Consolidated Statement of Changes in Owners' Equity

Prepared by: Konka Group Co., Ltd.

FY 2009

In Renminbi: yuan

Items	Current amount									
	Equities attributable to the parent company owner								Minority equity	Total owner's equity
	Paid-in capital (or share capital)	Capital public reserves	Less: Treasury stock	Special reserves	Surplus reserves	General risk reserves	Undistributed Profits	Others		
1. Ending balance of last year	1,203,972,704.00	1,248,889,511.18			806,783,259.43		605,903,252.87	3,865,548,727.48	1,203,972,704.00	1,248,889,511.18
Add: Changes in accounting policies										
Correction of prior period errors										
Others										
2. Beginning balance of this year	1,203,972,704.00	1,248,889,511.18			806,783,259.43		605,903,252.87	3,865,548,727.48	1,203,972,704.00	1,248,889,511.18
3. Increase or decrease of this year ("-" for decreases)		430,049.82			2,524,736.37		-37,476,007.85	-34,521,221.66		430,049.82
1) Net profits							25,247,363.72	25,247,363.72		
2). Other comprehensive income		430,049.82						430,049.82		430,049.82
Sub total of 1) and 2)		430,049.82					25,247,363.72	25,677,413.54		430,049.82
3) Owner's capital input and reduction										
a. Owner's capital input										
b. Amounts of share-based payments recognized in owners' equity										
c. Others										
4) Profits distribution					2,524,736.37		-62,723,371.57	-60,198,635.20		
a. Appropriations to					2,524,736.37		-2,524,736.37			

surplus reserves										
b. Appropriations to general risk provisions										
c. Profit distribution to the owner (or shareholder)							-60,198,635.20	-60,198,635.20		
d. Others										
5) Internal carryover in the owner's equity										
a. Transferring capital public reserves into paid-in capital (or share capital)										
b. Transferring surplus public reserves into paid-in capital (or share capital)										
c. Surplus reserves for making up losses										
d. Others										
6) Special reserves										
a. Current appropriations										
b. Current usage										
4. Current ending balance	1,203,972,704.00	1,249,319,561.00			809,307,995.80		568,427,245.02	3,831,027,505.82	1,203,972,704.00	1,249,319,561.00

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

equity										
c. Others										
4) Profits distribution					23,701,649.07		-23,701,649.07			
a. Appropriations to surplus reserves					23,701,649.07		-23,701,649.07			
b. Appropriations to general risk provisions										
c. Profit distribution to the owner (or shareholder)										
d. Others										
5) Internal carryover in the owner's equity	601,986,352.00	-601,986,352.00							601,986,352.00	-601,986,352.00
a. Transferring capital public reserves into paid-in capital (or share capital)	601,986,352.00	-601,986,352.00							601,986,352.00	-601,986,352.00
b. Transferring surplus public reserves into paid-in capital (or share capital)										
c. Surplus reserves for making up losses										
d. Others										
6) Special reserves										
a. Current appropriations										
b. Current usage										
4. Current ending balance	1,203,972,704.00	1,248,889,511.18			806,783,259.43		605,903,252.87	3,865,548,727.48	1,203,972,704.00	1,248,889,511.18

Legal representative: Hou Songrong

CFO: Yang Rong

CPA's Head: Ruan Renzong

Konka Group Co., Ltd.

Notes to Financial Statements

For Fiscal Year 2009

(In Renminbi: yuan, unless otherwise specified.)

I. Company Profile

1. Establishment

Konka Group Co., Ltd. (hereinafter referred to as “Company” or “the Company”), is a joint-stock limited company reorganized from the former Shenzhen Konka Electronic Co., Ltd. in August 1991 upon approval of the People’s Government of Shenzhen Municipality, and has its ordinary shares (A-share and B-share) listed on Shenzhen Stock Exchange with prior consent from the People’s Bank of China Shenzhen Special Economic Zone Branch. On August 29, 1995, the Company, renamed to “Konka Group Co., Ltd.”, obtained corporate business license (registration No.: 440301501121863) with its main business falling into electronic industry.

2. Share Capital Changes upon Establishment

On November 27, 1991, with approval from the SRYFZ No. 102 [1991] document as issued by the People’s Bank of China Shenzhen Special Economic Zone Branch, Shenzhen Konka Electronic Co., Ltd., during December 8—December 31, 1991, has issued 128,869,000 RMB ordinary shares (A-share) at a par value of RMB1.00 per share, of which the original net assets were converted into 98,719,000 state-owned institutional 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 of the Company.

On January 29, 1992, with approval from the SRYFZ No. 106 [1991] document as issued by the People’s Bank of China Shenzhen Special Economic Zone Branch, Shenzhen Konka Electronic Co., Ltd., during December 20, 1991— January 31, 1992, has issued to investors abroad 58,372,300 RMB special shares (B-share) at a par value of RMB1.00 per share, of which 48,372,300 shares held by the former foreign investor and founder—Hong Kong Ganghua Electronic Group Co., Ltd. are converted into 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 general meeting of shareholders of the Company. With approval from the SZBF No. 2 [1993] document as issued by Shenzhen Securities Regulatory Office, the Company began to perform dividend policy for FY 1992 as of April 30, 1993: distributing RMB 0.90 in cash plus 3.5 bonus shares for every 10

shares to all shareholders. The total capital stock reached 187,473,150 shares after this distribution.

On April 18, 1994, the *Proposal on Profit Distribution and Dividend Payout 1993* was adopted at the third general meeting of shareholders of the Company. With approval from the SZBF No. 115 [1994] document as issued by Shenzhen Securities Regulatory Office, the Company began to perform dividend policy for FY1993 as of June 10, 1994: distributing RMB 1.10 in cash plus 5 bonus shares (including 4.4 profit bonus shares and 0.6 bonus share capitalized from capital public reserve) for every 10 shares to all shareholders. The total capital stock reached 281,209,724 shares after this distribution and capitalization from capital public reserve.

On June 2, 1994, in accordance with the provisions that “staff shares could go public and be transferred six months after listing”, as jointly promulgated by the State Commission for Restructuring the Economic System and the State Council’s Securities Commission, the staff shares of the Company was planned to be listed on the flow on June 6, 1994, with the prior consent of Shenzhen Securities Regulatory Office and Shenzhen Stock Exchange.

On October 8, 1994, the *Proposal on Negotiable Bonus Shares of B-Share Corporate Shareholders 1992* was adopted at the 1994 interim general meeting of shareholders of the Company. With approval from the SZBF No. 224 [1994] document as issued by Shenzhen Securities Regulatory Office, the 16,930,305 bonus shares for FY 1992 granted to foreign legal persons were listed and negotiated at B-share market on October 26, 1994.

On February 6, 1996, the *Proposal on Share Allotment Modes 1996* was adopted at the 1996 interim general meeting of shareholders of the Company. With approval from the SZBF No. 5 [1996] document as issued by Shenzhen Securities Regulatory Office, and reexamination from the ZJPSZ No. 16 [1996] document and ZJGZ No. 2 [1996] document as issued by China Securities Regulatory Commission, on July 16, 1996 and October 29, 1996, all shareholders were respectively allotted three shares for every ten existing shares held at RMB 6.28/A-share and HKD 5.85/B-share. Corporate shareholders took their respective existing shares as bases for full subscription of the allocable shares. The total capital stock reached 365,572,641 shares after this allotment.

On January 25, 1998, the *Plan on Share Allotment 1998* was adopted at the 1998 interim general meeting of shareholders of the Company. With approval from the ZZBZ No. 29 [1998] document as issued by Shenzhen Securities Regulatory Office, and ZJSZ No.64 [1998] document as issued by China Securities Regulatory Commission, on July 15, 1998, negotiable A-shares were allotted in proportion of 3:10 at RMB 10.50/A-share. For such reasons as continued weakness in B-share secondary market (lower than share allotment price), B-share negotiation and allotment plan was canceled, and the corporate shareholders of the Company waived the preemptive right. The total capital stock reached 389,383,603 shares after this allotment.

On June 30, 1999, the *Proposal on Profit Distribution and Capitalization from Capital Public Reserve 1998* was adopted at the eighth general meeting of

shareholders of the Company. On August 20, 1999, the profit distribution for FY 1998 was carried out: all shareholders were presented RMB3.00 in cash for every 10 shares, plus 2 shares capitalized from capital public reserve. The total capital stock reached 467,260,323 shares after this capitalization.

On June 30, 1999, the *Plan on A-Share Issue for Capital Increase* was adopted at the eighth general meeting of shareholders of the Company. With approval from the ZJFXZ No.140 [1999] document as issued by China Securities Regulatory Commission, on November 1, 1999, 80,000,000 A-shares were additionally issued to the public at RMB15.50/share. The total capital stock reached 547,260,323 shares after this additional issue.

On May 30, 2000, the *Plan on Profit Distribution and Dividend Payout 1999* was adopted at the ninth general meeting of shareholders of the Company. On July 25, 2000, the profit distribution for FY 1999 was carried out: all shareholders were distributed RMB4.00 in cash plus 1 bonus shares for every 10 shares. The total capital stock reached 601,986,352 shares after this distribution.

On April 3, 2008, the 7th meeting of the sixth Board of Directors was convened, during which the following resolutions were discussed and adopted: based on the total capital stock of 601,986,352 shares for the year ended December 31, 2007, capitalization from capital public reserve was made to all shareholders at a proportion of 1:1, namely 10 new shares for every 10 existing shares. And the said resolution was subject to approval by the 2007 annual general meeting of shareholders convened on May 26, 2008. The Company, in June 2008, implemented the capitalization from capital public reserve and went through the formalities for transfer registration with China Securities Depository and Clearing Corporation Limited. On December 16, 2008, with approval from the SMGZF No. 2662 [2008] document as issued by Shenzhen Bureau of Trade and Industry, the Company was agreed to increase its share capital, and went through the formalities for registration of changes with the administration for industry and commerce on April 10, 2009. The total capital stock reached 1,203,972,704 shares after change.

3. Approved business scope: research and development, production and operation of such household appliances as televisions, refrigerators, washing machines, and personal electronic appliances; manufacturing and application of home AV, IPTV set-top boxes, digital TV receivers, digital products, mobile phones, mobile communication equipments and terminal products, daily-use electronic products, automotive electronic products, satellite navigation systems, intelligent transportation systems, fire-fighting and security systems, office equipments, computers, displays, large screen display systems; manufacturing and packaging of LED (OLED) back light, illumination and light-emitting devices; production and operation of electronic parts and components, moulds, plastic and rubber products, and packing materials, and technical consultancy and services of related products; wholesale, retail, import & export and relevant support services of the aforesaid products (including spare parts) (Commodities subject to state trading management are not involved. Products involved in quota, license management and other

specified management shall be subject to the relevant state provisions.); sale of self-developed technological achievements; provision of maintenance services for electronic products; domestic freight forwarding; warehousing services; consultancy on enterprise management; and self-owned property leasing and management services.

4. A check list of corporate names and their abbreviations mentioned in this Report

Corporate name	Abbreviations
Shenzhen Konka Telecommunications Technology Co., Ltd.	Telecommunication Technology
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.	Video & Communication Systems Engineering
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.	Precision Mold
Shenzhen Konka Electronic Co., Ltd.	Konka Electronic
Shenzhen Konka Information Network Co., Ltd.	Information Network
Shenzhen Konka Plastic Products Co., Ltd.	Plastic Products
Shenzhen Shushida Electronic Co., Ltd.	Shushida
Shenzhen Electronic Fittings Technology Co., Ltd.	Fittings Technology
Mudanjiang Konka Industrial Co., Ltd.	Mudanjiang Konka
Shaanxi Konka Electronic Co., Ltd.	Shaanxi Konka
Chongqing Konka Electronic Co., Ltd.	Chongqing Konka
Chongqing Konka Automotive Electronic Co., Ltd.	Chongqing Electronic
Chongqing Qingjia Electronics Co., Ltd.	Chongqing Qingjia
Anhui Konka Electronic Co., Ltd.	Anhui Konka
Anhui Konka Household Appliances Co., Ltd.	Anhui Household Appliances
Changshu Konka Electronic Co., Ltd.	Changshu Konka
Kunshan Konka Electronic Co., Ltd.	Kunshan Konka
Dongguan Konka Electronic Co., Ltd.	Dongguan Konka
Dongguan Konka Packing Materials Co., Ltd.	Dongguan Packing
Dongguan Konka Mould Plastic Co., Ltd.	Dongguan Mould Plastic
Boluo Konka PCB Co., Ltd.	Boluo Konka
Boluo Konka Precision Technology Co., Ltd.	Boluo Precision
Konka (Nanhai) Development Center	Nanhai Institute
Hongkong Konka Co., Ltd.	Hongkong Konka
Konka Household Appliances Investment & Development Co., Ltd.	Konka Household Appliances Investment
Konka Household Appliances International Trading Co., Ltd.	Konka Household Appliances International Trading
KONKA AMERICA, INC.	KONKA AMERICA
Konka (Europe) Co., Ltd.	Konka Europe
Konka (Kunshan) Real Estate Investment Co., Ltd.	Kunshan Real Estate
Dongguan Xutongda Mould Plastic Co., Ltd.	Xutongda

The financial statements of the Company were submitted upon approval of the board of directors on April 28, 2010.

II. Basis for the formulation of financial statements

The financial Statements of the Company have been prepared on a going concern basis in the light of actually occurred transactions and events, in accordance with *Accounting Standard for Business Enterprises - Basic Standard* promulgated in February 2006 by the Ministry of Finance and 38 specific accounting standards, guidelines, explanations and other relevant provisions promulgated subsequently (hereinafter referred to as “*Accounting Standards for Business Enterprises*”).

III. Declaration on compliance with the accounting standards for business enterprises

The financial statements of the Company prepared for FY 2009 are in conformity with the requirements of the accounting standards for business enterprises, presenting truthfully and completely the financial position for the year ended December 31, 2009, results of operations and cash flows for FY 2009 of the Company. In addition, the financial statements of the Company conform, in all material aspects, to the disclosure requirements regarding financial statements and notes to financial statements of the *Compilation Rules for information disclosures by Companies that Offer Securities to the Public No. 15 -General Provisions for Financial Reports* revised by China Securities Regulatory Commission in 2009.

IV. Significant accounting policies, accounting estimates and prior period errors

1. Accounting period

The accounting period of the Company includes both fiscal year and interim period. An interim period refers to a report period which is shorter than a full fiscal year. The fiscal year of the company begins on Jan. 1 and ends on Dec. 31 under the Gregorian calendar.

2. Recording currency

The Company adopts Renminbi as its recording currency.

3. Accounting methods of business combinations

Business combinations are classified into business combinations under the same control and business combinations not under the same control.

(1) Business combinations under the same control

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the share premium in capital surplus shall be adjusted. If the share premium is not sufficient to be offset, the retained

earnings shall be adjusted. The direct cost for the business combination of the combining party shall be recorded into the profits and losses at the current period.

(2) Business combinations not under the same control

For a business combination not under the same control, the combination costs shall be the fair value, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree, as well as all relevant direct costs incurred to the acquirer for the business combination. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs. The acquirer shall, on the acquisition date, measure all identifiable assets, liabilities and contingent liabilities it obtains from the acquiree in a business combination not under the same control in light of their fair value.

The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. For combination costs less than the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall reexamine the measurement of the fair value of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs; and if, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall record the balance into the profits and losses of the current period.

4. Basis for the formulation of consolidated financial statements

(1) Principle of Determining Consolidation Scope of Consolidated Financial Statements

The consolidation scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an invested enterprise so as to obtain benefits from its operating activities. Other entities, to which the Company occupies more than 50% of the total voting capital of the invested enterprise (excluding 50%) or occupies less than 50% of such capital but has actual control right, shall all be included into the scope of consolidation.

(2) Methods to work out consolidated financial statements

The consolidated financial statements are prepared on the basis of the financial statements of the parent company and subsidiaries included into the scope of consolidation with reference to other relevant materials, after adjusting long-term equity investment by equity method and offsetting equity capital investment of the parent company and shares held by the parent company in ownership interest of subsidiaries as well as significant internal transactions and inter-office accounts. Minority stockholder's interest is presented as "minority interest" under ownership interest item of the consolidated balance sheet. Minority interest income is presented

as “minority interest income” under the net profit item of consolidated income statement. Where the accounting policies adopted by a subsidiary are in conflict with those of the parent company in the preparation of consolidated financial statements, the subsidiary shall make necessary adjustments to its financial statements or prepare new financial statements in accordance with the accounting policies and accounting period of the parent company.

Where a subsidiary has been acquired through a business combination under the same control during the report period, adjustments shall be made to the beginning balance while preparing consolidated balance sheet. Where a subsidiary has been acquired through a business combination not under the same control, no adjustments shall be made to the beginning balance of consolidated balance sheet. For a subsidiary disposed of during the report period, no adjustments shall be made to the beginning balance while preparing consolidated balance sheet.

Where a subsidiary has been acquired through a business combination under the same control during the report period, the subsidiary’s proceeds, and costs and profits from the beginning of the current period till end of the report period shall be appropriately included in the consolidated income statement. Where a subsidiary has been acquired through a business combination not under the same control, the subsidiary’s proceeds, and costs and profits from the day of purchase of the subsidiary till end of the report period shall be appropriately included in the consolidated income statement. For a subsidiary disposed of during the report period, the subsidiary’s proceeds, and costs and profits from the beginning of the current period till the day of disposal shall be appropriately included in the consolidated income statement.

Where a subsidiary has been acquired through a business combination under the same control during the report period, the subsidiary’s cash flows from the beginning of the current period till end of the report period shall be appropriately included in the consolidated cash flow statement. Where a subsidiary has been acquired through a business combination not under the same control during the report period, the subsidiary’s cash flows from the day of purchase of the subsidiary till end of the report period shall be appropriately included in the consolidated cash flow statement. For a subsidiary disposed of during the report period, the subsidiary’s cash flows from the beginning of the current period till the day of disposal shall be appropriately included in the consolidated income statement.

5. Recognition criteria of cash and cash equivalents

The cash and cash equivalents of the Company comprise cash on hand, deposits that are available for payment at any time, and short-term (having been within three months of maturity at acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value,.

6. Foreign currency transactions and translation of foreign currency financial statements

(1) Translation methods of foreign currency transactions

The Company shall translate the amount in a foreign currency into amount in Renminbi at the spot exchange rate of the transaction date (generally, the middle rate of foreign exchange quotations on that day, promulgated by the People's Bank of China, the same below) at the time of initial recognition of a foreign currency transaction. For foreign currency exchange or transactions involving foreign currency exchange, the amount in a foreign currency shall be translated into amount in Renminbi at real exchange rate.

(2) Translation methods of foreign currency monetary items and foreign currency non-monetary items

The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or on the prior balance sheet date shall be recorded into the profits and losses at the current period, except capitalizing balance of exchange arising from foreign currency borrowings for the purchase and construction or production of qualified assets in accordance with the provisions of *Accounting Standards for Business Enterprises No. 17 - Borrowing Costs*. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of recording currency shall not be changed.

The foreign currency non-monetary items measured at fair value shall be translated at the spot exchange rate on the day of determining fair value, and the balance between the recording currency amount after translation and the original recording currency amount shall be treated as changes (including change in exchange rate) in fair value, and recorded into the profits and losses at the current period.

(3) Translation methods of foreign currency financial statements

When translating the financial statements in a foreign currency into financial statements in Renminbi, the Company shall comply with the following provisions:

The asset and liability items in the balance sheet shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "undistributed profits", others shall be translated at the spot exchange rate at the time when they are incurred.

The income and expense items in the profit statement shall be translated at the current average exchange rate of the transaction date. When disposing an overseas business, the Company shall shift the balance arising from the translation of foreign currency financial statements related to this overseas business, into the disposal profits and losses of the current period. If the overseas business is disposed of partially, the calculation shall be based on the disposal rate.

The balance arising from the translation of foreign currency financial statements in compliance with the aforesaid methods shall be presented separately under the owner's equity item of the balance sheet.

The cash flow statement in a foreign currency shall be translated at the current average exchange rate of the cash flow day. The amount of influence of exchange

rate change in cash shall be regarded as reconciling item and be presented separately under cash flow statement.

7. Financial instruments

(1) Recognition basis of financial instruments

Recognition basis of financial instruments: the Company has become a party to financial instruments.

(2) Classification of financial instruments

Financial assets shall be classified into the following four categories according to investment objectives and economic substance: the financial assets which are measured at their fair value and the variation of which is recorded into the profits and losses of the current period, including transactional financial assets and the financial assets which are measured at their fair value and of which the variation is included in the current profits and losses; the investments which will be held to their maturity; loans and the accounts receivable; and financial assets available for sale.

Financial liabilities shall be classified into the following two categories according to economic substance: the financial liabilities which are measured at their fair value and of which the variation is included in the current profits and losses, including transactional financial liabilities and the designated financial liabilities which are measured at their fair value and of which the variation is included in the current profits and losses; and other financial liabilities.

(3) Measurement of financial instruments.

Financial assets and liabilities measured at their fair value and of which the variation is recorded into the profits and losses of the current period

The financial assets and financial liabilities initially recognized by the Company shall be measured at their fair value (cash dividends declared to distribute but haven't been granted or due bond interest that hasn't been taken shall be deducted), and the transaction expenses thereof shall be directly recorded into the profits and losses of the current period. The interest or cash dividends obtained shall be recognized as investment yield during the holding period, and changes in fair value shall be recorded into the current profits and losses at the end of the period.

When disposing, the difference between fair value and initially recorded amount shall be recognized as investment yield, and adjustment shall be made to profits and losses on the changes in fair value.

Investments held until their maturity

The investments held until their maturity initially recognized by the Company shall be measured at their fair value (due bond interest that haven't been taken shall be deducted) plus the transaction expenses thereof.

The interest income shall be calculated and recognized on the basis of the post-amortization costs and actual interest rate (if the difference between actual interest rate and coupon rate is insignificant, the coupon rate shall be based), and recorded into the investment yield. The actual interest rate shall be determined while acquiring, and will maintain unchanged within the predicted term of existence or

within a shorter applicable term. The difference between proceeds and investment carrying amount shall be recorded into the investment yield.

Accounts receivable

For credit receivables formed for sale of commodities or rendering of services, and creditor's rights of other enterprises held by the Company excluding those of debt instruments for which there is quoted price in the active market, including accounts receivable, notes receivable, other receivables, and long-term receivables, the initially recognized amount shall be measured at their receivable prices stipulated in the contract or agreement from the buyer; for those of financing nature, the initially recognized amount shall be measured at their present value. The difference between proceeds and carrying amount of accounts receivable shall be recorded into the profits and losses at the current period while taking back or disposing.

Financial assets available for sale

The initially recognized amounts shall be measured at their fair value (cash dividends declared to distribute but haven't been granted or due bond interest that hasn't been taken shall be deducted) plus the transaction expenses thereof. The interest or cash dividends obtained shall be recognized as investment yield during the holding period. At the end of the period, measurement shall be made at fair value and changes in fair value shall be recorded into the capital surplus (other capital surplus). When disposing, the difference between proceeds and carrying amount of financial assets shall be recorded into the investment yield, and the amount of corresponding disposal part of the accumulative amount of the changes of the fair value originally recorded in the owner's equities shall be transferred out and recorded into the investment yield.

Other financial liabilities

The initially recognized amounts shall be measured at their fair value plus the transaction expense thereof. Subsequent measurement shall be made on the basis of the post-amortization costs.

(4) Recognition basis and measurement methods of the transfer of financial instruments

Where the Company has transferred nearly all of the risks and rewards related to the ownership of the financial assets to the transferee, it shall stop recognizing the financial assets. If it retained nearly all of the risks and rewards related to the ownership of the financial assets, it shall not stop recognizing the financial assets.

When the Company makes a judgment about whether the transfer of a financial asset can satisfy the aforesaid conditions for stopping the recognition of a financial asset, the Company shall pay more attention to the essential of the transfer of the financial asset. The Company shall differentiate the transfer of a financial asset into the entire transfer and the partial transfer of financial asset.

If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:

the carrying amount of the transferred financial asset;

the sum of consideration received from the transfer, and the accumulative amount

of the changes of the fair value originally recorded in the owner's equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire carrying amount of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped (under such circumstance, the service asset retained shall be deemed as a portion of financial asset whose recognition has not been stopped), be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period :

the carrying amount of the portion whose recognition has been stopped;

the sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has been stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale). If the transfer of financial asset does not satisfy the conditions to stop the recognition, the Company shall continue to recognize the financial asset and shall recognize the consideration it receives as a financial liability.

(5) Determination methods of fair value of financial instruments

As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair value thereof. The quotation shall be determined in accordance with the following principles:

A. In the active market, the quoted prices of the Company for the financial assets it holds or the financial liabilities it plans to assume shall be the present actual offer, while the quoted prices of the Company for the financial assets it plans to acquire or the financial liabilities it has assumed shall be the available charge.

B. Where there is no available offer or charge for a financial asset or financial liability, the Company shall adopt the market quoted price or the adjusted market quoted price of the latest transaction, unless the Company has adequate evidences to prove that the market quoted price is not a fair value.

Where there is no active market for a financial asset or financial liability, the Company shall adopt value appraisal techniques to determine its fair value.

(6) Impairment of financial assets

The Company shall carry out an inspection, on the balance sheet day, on the carrying amount of the financial assets. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. The expression "objective evidence proving that the financial asset has been impaired" refers to the actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the Company.

Financial assets available for sale.

Where an investment held until its maturity measured on the basis of post-amortization costs is impaired, the carrying amount of the said investment shall be written down to the current value (the discount interest rate shall be the original actual interest rate) of the predicted future cash flow (excluding the loss of future credits not yet occurred), and the amount as written down shall be recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period.

Accounts receivable

For provision methods for bad debts of accounts receivable, please refer to “8. Accounts receivable, Article IV, Notes to Financial Statements”.

Financial assets available for sale.

Where the fair value of a sellable financial asset drops significantly, or it is predicted that the down trend is non-temporal after a comprehensive consideration of all relevant factors, the impairment-related losses shall be recognized, and an impairment provision shall be made based on the difference between its fair value and carrying amount. When the impairment-related losses are recognized, the accumulative losses arising from the decrease of the fair value directly included into the owner’s equity shall be transferred out and recorded into the impairment-related losses.

8. Receivables

(1) Determination of provision for bad debts

The Company shall check the carrying amount of receivables on the balance sheet date, and withdraw the provision for impairment when the following objective evidences indicating the impairment of receivables: the debtor suffers from severe financial difficulties; the debtor violates the terms and conditions of contract (e.g. the reimbursement of interests or principal is breaching the contract or overdue); the debtor is probably bankrupt or subject to other financial reorganization; other objective evidences which can indicate the impairment of receivables.

(2) Withdrawal of provision for bad debts

Determination and withdrawal of provision for bad debts of receivables with significant individual amounts

A . Determination of provision for bad debts of receivables with significant individual amounts: the accounts receivable is the payment with the individual amount more than RMB 20 million, other receivable is the payment with the individual amount more than RMB 10 million.

B . Withdrawal of bad debts of receivables with significant individual amounts: the impairment test should be done separately. The provision for bad debts should be measured as per the balance between the carrying amount and the present value of the cash flow in future if there is an objective evidence for the impairment occurrence.

Determination and withdrawal of provision for bad debts of receivables with non-significant individual amounts with the high risk portfolio after combination upon the credit risk characteristics:

A . Basis for determination of portfolio of credit risk characteristics: the portfolio with non-significant individual amounts but with amount age more than three years.

B . Withdrawal method determined as per the portfolio of credit risk characteristics: the impairment test should be done separately. The provision for bad debts should be measured as per the balance between the carrying amount and the present value of the cash flow in future if there is an objective evidence for the impairment occurrence.

the method of withdrawal: for receivables which do not belong to individual amounts and receivables combined as per the credit risk characteristics after test, and has no impairment after being subject to the separate test, the estimated cash flow in future may not be discounted. The receivables shall be divided into several portfolios as per the amount age. The impairment loss shall be determined and the provision for bad debts shall be withdrawn as per the certain proportion of balance of receivables portfolio (the balance of related parties shall not be withdrawn as the provision for bad debts). The proportion of withdrawal proportion of provision for bad debts of receivables generally shall be:

Amount age	Withdrawal proportion of accounts receivable (%)	Withdrawal proportion of other receivables (%)
Within 1 year (including 1 year, similarly hereinafter)	2	2
1-2 years	5	5
2-3 years	20	20
3-4 years	50	50
4-5 years	50	50
More than 5 years	50	50

Impairment of prepayment: The prepayment shall be subject to the individual impairment test on the balance sheet date. The provision for bad debts should be measured as per the balance between the carrying amount and the present value of the cash flow in future if there is an objective evidence for the impairment occurrence.

(3) Reversal of bad debt provision

If there is any objective evidence indicating the value of receivables is recovered and is objectively related to the issue occurring after the determination of such losses, the originally determined impairment losses shall be reversed, and shall be recorded into the current profit and loss. However, the reversed carrying amount shall not exceed the amortized cost of receivables at the date of reversal under the assumption of impairment provision uncalculated.

9. Inventories

(1) Classification of inventories

Inventories of the Company mainly include raw materials, semi-finished products, commodity stocks, delivered commodities, materials on cyclic use, low-value consumables etc.

(2) Valuation of acquired and delivered inventories

The inventories shall be valued at the actual cost when being acquired. The

inventory costs include purchase cost, processing cost, and other cost. The inventories shall be valued as per the weighted moving average method on issuance and delivery. The commodity stocks shall be calculated as per the planned cost. The difference between the planned cost and actual cost of commodity stocks shall be calculated as per the cost variance. The cost variance caused by delivered inventories shall be accounted periodically. The planned cost shall be adjusted into actual cost.

(3) Determination and withdrawal of provision for inventory write-down

On the balance sheet date, the inventories of the Company shall be measured at the lower of cost and net realizable value.

The net realizable value refers to the amount after the estimated selling price of the inventories deducting the cost to occur at the completion of project, estimated sales expenses and relevant taxes. Including: for the salable inventories like finished products, salable materials etc, during the normal production and operation process, the net realizable value is the amount after the estimated selling price of the inventories deducting the salable inventories and relevant taxes; for the material stocks to be processed, during the normal production and operation process, the net realizable value is the amount after the estimated selling price of the finished products deducting the cost to occur at the completion of project, estimated sales expenses and relevant taxes; for the inventories held for implementing the sales contract or labor contract, the net realizable value shall be calculated on the basis of contract price. If the quantity of inventories held by the Company is more than the ordered quantity of the sales contract, the net realizable value of the excessive inventories shall be calculated on the basis of general sales price.

On the balance sheet date, if the cost of inventories is higher than the net realizable value, the provision for inventory write-down shall be withdrawn, and recorded into the current profit and loss. If the influencing factor of the previous written-down value of inventories has vanished, the written-down amount shall be recovered and be reversed within the previous amount of provision for inventory write-down. The reversed amount shall be recorded into the current profit and loss.

(4) The inventory system shall be the perpetual inventory system.

(5) Amortization of low-value consumables and packaging

Low-value consumables and packaging shall be amortized in full amount on issuance;

10. Long-term equity investment

(1) Ascertainment of initial cost of the long-term equity investment

For the merger of enterprises under the same control, it shall regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The long-term equity investment obtained from the merger under different control shall be measured as per the ascertained merger costs. For the long-term equity investment obtained by other means, the initial cost shall be ascertained in accordance with cash which is actually paid, fair value of issuing equity securities, value stipulated in the investment contract or agreement etc. The initial investment costs include the expenses, taxes and other necessary expenditures directly related to the obtaining of long-term equity investment.

(2) Subsequent measurement and recognition of profit and loss for long-term equity investment

The cost method should be used to account for long-term equity investment where the Company is able to control the invested enterprise but does not do joint control or does not have significant influences on the invested enterprise, and has no offer in the active market, and its fair value cannot be reliably measured.

The long-term equity investment calculated by the cost method shall be valued at its initial investment cost. If there are additional investments or disinvestment, the cost of long-term equity investment shall be adjusted. The cash dividends or profits declared to be distributed by the invested enterprise shall be recognized as investment income in the current period.

The equity method is used for long-term equity investments where the Company can jointly control or has significant influence over the invested enterprise. The initial investment cost of the long-term equity investment, when is more than the fair value of the identifiable net assets of the invested enterprise during the investment, shall not be adjusted. The initial investment cost of the long-term equity investment, when is less than the fair value of the identifiable net assets of the invested enterprise during the investment, shall has its balance recorded into the current profit and loss. The cost of long-term equity investment shall also be adjusted.

The Company should, after acquisition of the long-term equity investment, recognize the investment profits and losses and adjust the carrying amount of the long-term equity investment according to its attributable share of the invested enterprise's net profit or losses. The Company should reduce the carrying amount of the long-term equity investment by its attributable share of the invested enterprise's profit or cash dividend declared to be distributed.

The Company recognizes the net losses of the invested enterprise to the extent that the carrying amount of the long-term equity investment and other actual long-term equity which substantially form the net investment of invested enterprise are reduced to zero. The investment to which the Company has the obligation to bear the additional losses shall be excluded. If the invested enterprise realizes net profits in subsequent periods, the Company shall recover to recognize its attributable share of profits after the share of profit offsetting against its attributable share of the unrecognized losses.

The Company should, when recognizing the share of net profits and losses of the invested enterprise, recognize the adjusted net profit of the invested enterprise on the basis of the fair value of identifiable assets of the invested enterprise when obtaining the investment, as per the accounting policy and accounting period of the Company, and offset the profits and losses of the internal transaction of the Company (the losses of internal transaction which belong to the losses of assets impairment shall be recognized in full amount) occurring between the associated enterprise and joint-venture enterprise calculated as per the share proportion.

For other changes of owner's equity of the invested enterprise except the net profits and losses, the Company shall adjust the carrying amount of the long-term equity investment and record it into the owner's equity. When disposing the investment, the

Company shall transfer the originally part recorded in the owner's equity (only refers to the part recorded in the capital surplus) in to the current profits and losses as per the relevant proportion.

(3) Basis for determination of joint control and significant influence of the invested enterprise

Basis for determining the joint control mainly includes: any joint-venture party can not solely control the production and operation activities of the joint-venture enterprise; decision related to the basic operation activities of the joint-venture enterprise shall be subject to the unanimous consent of joint-venture parties.

Basis for determining the significant influences mainly includes: the Company directly or indirectly (through its subsidiary) holds 20% or more but less than 50% of the voting capital of the invested enterprise (unless there is any specific evidence indicating that the Company can not participate in the decision of production and operation of the invested enterprise, and produces insignificant influences), shall be determined as the company produces significant influence over the invested enterprise. The Company holds less than 20% of the voting capital of the invested enterprise shall generally be regarded as the company produces insignificant influences over the invested enterprise.

However, under the following circumstances, the Company can be regarded as producing significant influences over the invested enterprise: A. assigning representatives in the board of directors or similar authority of the invested enterprise; B. participating in the policy-making process of the invested enterprise; C. having significant transactions with the invested enterprise; D. assigning managers to the invested enterprise; E. providing critical technical materials to the invested enterprise.

(4) Impairment test and withdrawal of provision for impairment

The Company shall determine whether the long-term equity investment has impairment on the balance sheet date. If there is any impairment, the Company should estimate the recoverable amount, and conduct the impairment test.

When the recoverable amount of the asset group of single long-term equity investment or long-term equity investment is lower than the carrying value, the Company shall reduce the carrying value to the recoverable amount, record the written-down amount into the current profits and losses, and withdraw the relevant provision for impairment of long-term equity investment.

The losses of impairment of long-term equity investment will not be reversed in the following accounting periods once they are recognized.

11. Fixed assets

(1) Recognition of fixed assets

The fixed assets of the Company refer to the tangible assets which held for the production, service offering, lease or management over one accounting year service life. The fixed assets can be recognized only when the following conditions are satisfied: the economic interests related to the fixed assets probably flow into the enterprise; the costs of the fixed assets can be reliably measured.

(2) Depreciation of fixed assets

The fixed assets should be depreciated by the straight-line method. The followings are the service life, rate of estimated net residual value and annual depreciation rate of the fixed assets:

Category	Service life	Rate of estimated net residual value %	Annual depreciation rate %
Buildings and structures	20-40	10.00	2.25-4.50
Machinery equipment	10	10.00	9.00
Transportation equipment	5	10.00	18.00
Electronic devices	5	10.00	18.00
Other equipment	5	10.00	18.00

The Company should record the depreciation of the fixed assets with the provision for impairment recorded as per the amount after original price of fixed assets deducting the estimated net residual value and withdrawn provision of depreciation and impairment, and the residual service life. The Company shall determine the costs of a fixed asset which has reached its working condition for intend use but the final cost of construction has not yet been ascertained, and record the depreciation. The previously estimated value shall be adjusted as per the actual costs after the final cost of construction is ascertained. The recorded depreciated amount shall not be adjusted.

The Company shall review the service life, estimated net residual value and depreciation method of the fixed assets, and adjust them when necessary.

(3) Impairment test and withdrawal of provision for impairment

The Company shall determine whether the fixed assets have impairment on the balance sheet date. If there is any impairment, the Company should estimate the recoverable amount, and conduct the impairment test.

The recoverable amount can be ascertained as per the higher between the net amount after the fair value deducting the disposal expense and the present value of estimated cash flow in future of the fixed assets. The Company shall estimate the recoverable amount on the basis of single fixed asset. When the recoverable amount of the single fixed asset is lower than its carrying value, the Company shall reduce the carrying value to the recoverable amount, record the written-down amount into the current profits and losses, and record the relevant provision for impairment of long-term equity investment. The losses of impairment of fixed assets will not be reversed in the following accounting periods once they are recognized.

12. Construction in progress

The constructions in progress of the Company include the preparatory work before the commencement of the construction, work under construction, installation, technological improvement project, capital maintenance project, etc. The constructions in progress shall be valued as per the actual costs.

The construction in progress shall be transferred to fixed assets when it reaches its working condition for intend use.

The Company shall determine whether the construction in progress has impairment on the balance sheet date. If there is any impairment, the Company should estimate the recoverable amount, and conduct the impairment test.

The recoverable amount can be ascertained as per the higher between the net amount after the fair value of the construction in progress deducting the disposal expense and the present value of estimated cash flow in future of the construction in progress. The Company shall estimate the recoverable amount on the basis of single construction in progress.

When the recoverable amount of the single construction in progress is lower than its carrying value, the Company shall reduce the carrying value to the recoverable amount, record the written-down amount into the current profits and losses, and record the relevant provision for impairment of the relevant construction in progress. The losses of impairment of construction in progress will not be reversed in the following accounting periods once it is recognized.

13. Borrowing costs

The borrowing costs refer to any interest incurred and other relevant costs of the company arise from borrowings, which including the interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

(1) Recognition of capitalization of borrowing costs

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

The asset disbursements have already incurred.

The borrowing costs have already incurred.

The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) Period of capitalization

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. The borrowing costs incurred after the qualified asset under acquisition and

construction or production is ready for the intended use or sale shall be recognized as expenses at the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period.

(3) Calculation of capitalized amount of borrowing costs

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization of discounts or premiums) in each accounting period shall be determined according to the following provisions:

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 deducting 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 borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements deducting 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.

14. Intangible assets

(1) Initial Measurement of intangible assets

The intangible assets shall be initially measured according to its cost. The actual cost shall be determined as per the following principles:

The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, 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 recorded into profit or loss for the credit period, unless it shall be capitalized under the Accounting Standards for Enterprises No. 17 - Borrowing Cost.

The cost invested into intangible assets by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement.

Self-developed intangible assets

The cost of self-developed intangible assets shall include the total expenditures incurred during the period from the time when it meets the provisions of Articles 4 to 9 of these Standards to the time when the expected purposes of use are realized, except that the expenditures which have already been treated prior to the said period shall not be adjusted.

The costs of intangible assets acquired from non-monetary assets transaction, debt recombination, government subsidies, and merger of enterprises shall be determined respectively according to the Accounting Standard for Business Enterprises No. 7

-Exchange of non-monetary assets, Accounting Standard for Business Enterprises No. 12 - Debt Restructurings, Accounting Standard for Business Enterprises No. 16 - Government Grants and Accounting Standard for Business Enterprises No. 20 -Business Combinations.

(2) Subsequent measurement of intangible assets

The Company will determine the service life of the intangible asset during the acquirement. If it is unable to forecast the period when the intangible asset can bring economic benefits to the Company, it shall be regarded as an intangible asset with uncertain service life.

With regard to intangible assets with limited service life, its amortization amount shall be amortized within its service life systematically and reasonably. The intangible assets shall be amortized by the straight-line method.

Category	Estimated service life
Software	5 years
Patent right	5 years
Right to use a trademark	5 years
Land use right	50 years

The reasonable amortization amount of intangible assets shall be its cost deducting the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision shall be deducted from the cost as well. The amortized amount of intangible assets shall be recorded into profit or loss for the current period. Intangible assets with uncertain service life may not be amortized.

The Company shall, at least at the end of each year, check the service life and the amortization method of intangible assets with limited service life, and shall adjust them when necessary.

(3) Expenditures for the internal research and development stages

The expenditures for the internal research and development stages of the Company shall be classified into research expenditures and development expenditures. The research expenditures for its internal research and development stages of an enterprise shall be recorded into the profit or loss for the current period. The development expenditures for its internal research and development stages of an enterprise may be capitalized when they satisfy the following conditions simultaneously:

- A . It is feasible technically to finish intangible assets for use or sale.
- B . It is intended to finish and use or sell the intangible assets.
- C . The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally.
- D . It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources.
- E . The development expenditures of the intangible assets can be reliably measured.

Expenditures for development stages which fail to meet the foresaid conditions shall all be recorded into the profit or loss for the current period. The development expenditures recorded in the profits and losses in the previous periods shall not be reconfirmed as assets in the following periods. The capitalized expenditures for development stages shall be listed as the development expenditures on the balance sheet. Such item can be transferred to intangible assets when it reaches its working condition for intend use.

(4) Impairment test and withdrawal of provision for impairment

The Company shall determine whether the intangible assets with limited service life have impairment on the balance sheet date. If there is any impairment, the Company should estimate the recoverable amount, and conduct the impairment test. The Company should conduct the impairment test for the intangible asset with uncertain service life no matter whether there is any impairment.

The recoverable amount can be ascertained as per the higher between the net amount after the fair value of the intangible assets deducting the disposal expense and the present value of estimated cash flow in future of the intangible assets. The Company shall estimate the recoverable amount on the basis of single intangible asset. When the recoverable amount of the single intangible asset is lower than its carrying value, the Company shall reduce the carrying value to the recoverable amount, record the written-down amount into the current profits and losses, and record the relevant provision for impairment of intangible assets. The losses of impairment of intangible assets will not be reversed in the following accounting periods once they are recognized.

15. Long-term prepayments

Long-term prepayments are expenditures incurred by the Company that should be amortized over one year. Long-term prepayments shall be recorded as per the actual expenditures, and shall be amortized by the straight-line method within five years.

16. Estimated debts

(1) Recognition of estimated debts

The debts shall be recognized when the business related to contingencies like foreign guarantee, pending litigation or arbitration, product quality assurance, plan of staff reduction, loss contract, restructuring obligations, retirement obligation of fixed assets etc. simultaneously meet the following requirements:

The 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.

(2) Measurement of estimated debts

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. The Company shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. The Company shall check the book value of the estimated debts on the balance sheet date. If there is any exact evidence indicating that the book value cannot really reflect the current best

estimate, the enterprise shall adjust the book value in accordance with the current best estimate.

17. Income

Operating incomes of the Company include income from commodities sales, revenue from providing labor services and income from abalienating the right to use assets. The revenue principles and specific periods are as follows:

(1) 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 nor effective control over the sold commodities; The relevant amount of revenue is collected or relevant receipts are received; and the revenue can be recognized when the relevant costs incurred or to be incurred is measured in a reliable way. Recognition of incomes from exporting commodities: For FOB export, revenue can be recognized after commodities are delivered to the carriers entrusted by buyers; For CIF export, revenue can be recognized when commodities are delivered to the docks of buyers.

(2) Labor services of the Company have been provided and the relevant amount has been collected or can be recognized when relevant receipts are received. Income from providing property management services: Property management services have been provided; the relevant economic benefits may flow into the enterprise; and the income from providing property management services can be recognized when the relevant costs incurred or to be incurred is measured in a reliable way.

(3) The economic benefits related to transactions may flow into the enterprise and the income from abalienating the right to use assets can be recognized when the relevant amount revenue is measured in a reliable way.

18. Government grants

The government grants of the Company include government grants related to assets and government grants related to profits.

(1) Recognition of government grants

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

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

(2) Measurement of government grants

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

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 incomes shall be treated respectively in accordance with the circumstances as follows:

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

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

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

19. Deferred income tax assets/Deferred income tax liabilities

The deferred income tax of the Company is calculated in the balance sheet approach based on the temporary difference between the carrying amount of an asset or liability and its tax base and the temporary difference between the tax base and its carrying amount of items that have not been recognized as assets or liabilities on the balance sheet date.

(1) Recognition of deferred income tax assets

For deductible temporary differences and deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax assets are determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained unless:

The deductible temporary difference is produced in the following transactions: the transaction does not involve in business combination and the transaction neither affects the accounting profits nor affects the amount of the taxable income or deductible loss.

The relevant deferred income tax assets are recognized where the amounts of deductible temporary differences related to the investments of the subsidiary companies, associated enterprises and joint enterprise simultaneously meet the following

- a. conditions: temporary differences are likely to be reversed in the expected future; and
- b. it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

(2) Recognition of deferred income tax liabilities

Deferred income tax liabilities are recognized based on temporary differences of taxable income taxes, unless:

Temporary differences of taxable income taxes incur under the following circumstances:

- a. The initial recognition of business reputation;
- b. The initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following:
 - a) The transaction is not business combination; 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.

The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises shall recognize corresponding deferred income tax liabilities where:

- a. The investing enterprise can control the time of the reverse of temporary differences; and
- b. The temporary differences are unlikely to be reversed in the excepted future.

20. Leases

A lease that has transferred in substance all the risks and rewards related to the ownership of an asset is called finance lease. Other leases are called operating leases. The rents from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term.

21. Assets held for sale

Assets that meet the following conditions are classified as non-current assets (excluding financial assets, deferred income tax assets):

- (1) Resolution on disposal of the non-current asset has been made by the Company;
- (2) An irrevocable transfer agreement has been signed with the transferee; and
- (3) The transfer will be completed within one year.

Individual assets and asset group (referring to a group of assets that are sold as a whole or disposed in other ways) that are classified as assets held for sale are measured as their fair values minus the amount after disposal. But the values should not exceed the original carrying amount when the assets meet the criteria for being held for sale. The difference between the amount that the carrying amount is higher than the fair value and the disposal expenses is recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period.

22. Change of significant accounting policies and accounting estimate

- (1) Change of accounting policies

No change has been made to the accounting policies within the reporting period of the Company.

- (2) Change of accounting estimate

No change has been made to the accounting estimate within the reporting period of the Company.

23. Accounting error corrections at early stage

- (1) Contents of accounting error corrections at early stage

No retroactive adjustment was made to the temporary differences between the tax base and the warranty expenses and the carrying amount of government grants related to assets when the Company completely implemented the accounting standards for enterprises in 2007 and made retroactive adjustment to the effect of the temporary difference between the carrying amount of an asset or liability and its tax base on income tax in accordance with the provisions of the Accounting Standards for Enterprises No. 18 - Income Tax on the date of initial implementation. The Company has corrected the error this year, reduced the income tax of the year 2008

by renminbi 4,755,356.08 yuan, increased the deferred income tax assets by December 31, 2008 by renminbi 18,867,256.07 yuan and increased the surplus reserves by December 31, 2008 by renminbi 1,886,725.61 yuan, and the undistributed profits of renminbi 16,980,530.46 yuan attributed to the Company.

The Company failed to offset the owner's equity of the parent company with the balance between the current loss borne by the minority shareholders of the subsidiaries and the shares enjoyed by the minority shareholders in the owner's equity of the subsidiaries in according with provisions in Clause 2 of Article 21 in the Accounting Standards for Enterprises No. 33 - Consolidated Financial Statements. The Company has corrected this error and increased the profit or loss of the minority shareholders by renminbi 2,608,290.27 yuan in 2008, increased the shares enjoyed by the minority shareholders by renminbi 10,465,819.18 yuan by December 31, 2008 and reduced the undistributed profits of the parent company by renminbi 10,465,819.18 yuan.

The Company re-classifies the receivables of the parent company from subsidiary companies of the previous period as other receivables with the amount of renminbi 13,337,860.04 yuan and reclassifies payables of the parent company to subsidiary companies as other payables with the amount of renminbi 11,278,449.11 yuan according to the nature debits and loans. The adjustment affects neither the business combinations and the net assets nor retained earnings of the parent company.

The company re-classifies the profit and losses on the changes in fair value of the parent company in the previous period as the investment profits with the amount of renminbi 11,898,444.92 yuan and the profit and losses on the changes in fair value of the subsidiary company Konka Telecommunication Technology Co., Ltd as the investment profits with the amount of renminbi 5,351,180.00 yuan according to the nature of transactions of transactional financial assets. The total re-classified amount is renminbi 17,249,624.92 yuan. The adjustment affects neither the business combinations and the net assets nor retained earnings of the parent company.

(2) Name of items that affected by the reports in the comparable period and the cumulative effects

Item	Unadjusted	Adjustment	Adjusted
Amount of the balance sheet by December 31, 2008			
Deferred income tax asset	91,993,543.01	18,867,256.07	110,860,799.08
Surplus reserves	804,896,533.82	1,886,725.61	806,783,259.43
Undistributed profits	500,638,125.11	6,514,711.28	507,152,836.39
Owners' equity attributed to the parent company	3,775,042,931.48	8,401,436.89	3,783,444,368.37
Equity of the minority shareholders	224,430,267.07	10,465,819.18	234,896,086.25
Amount of the income statement of 2008			
Income tax	22,521,423.18	-4,755,356.08	17,766,067.10
Net income / loss	258,324,471.34	4,755,356.08	263,079,827.42
Net income / loss attributed to the parent	250,817,154.35	2,147,065.81	252,964,220.16

company			
Income/loss of the minority shareholders	7,507,316.99	2,608,290.27	10,115,607.26

I. Taxes

1. Main Tax Categories and Tax Rate

Tax	Tax Base	Tax Rate
Value-added tax	Income from selling commodities	17%
Business tax	Taxable income	5%
Urban maintenance and construction tax	Paid VAT and business tax	1%, 5%, 7%
Educational Surtax	Paid VAT and business tax	3%, 4%
Corporate income tax	Income tax payable	In the year of 2009, 20% for the companies incorporated in Shenzhen except Konka Telecommunication Technology with the income tax of 5%; 25% for the companies incorporated in other places; 17.5% for the companies incorporated in Hong Kong; and 15% for Chongqing Qingjia and Dongguan Konka Mould Plastic.

Remark: 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.

2. Tax preference and approved document

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%.

The company and subsidiary companies incorporated in Shenzhen except Konka Telecommunication Technology Co., Ltd gradually implemented the legal tax rate five years after the implementation of the new tax law and implemented the tax rate of 20% in 2009 according to the relevant regulations in GF No. 39 (2007) *Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law*.

The subsidiary company Chongqing Qingjia of the Company was levied at the preferential income tax rate of 15% from year 2001 to year 2010 according to the regulations in YGSH No. (2002) 488 of Chongqing Office of State Administration of Taxation.

On November 10, 2009, the subsidiary company Dongguan Konka Mould Plastic of the Company was filed for the high-tech enterprise certification by Ministry of Science and Technology, valid for three years. According to relevant taxation regulations, Dongguan Konka Mould Plastic would enjoy relevant preferential policies for high-tech enterprises for successive three years since 2009 and was levied at the preferential corporate income tax rate of 15%.

On October 8, 2008, Guangdong Boluo Office of State Administration of Taxation approved the application of Bokang Precision Electronics for tax preferential in BGSB No. (2008) 94 and thus Bokang Precision Electronics was exempted from the corporate income tax in year 2008 and 2009 and will be levied at 50% of the corporate income tax rate from year 2010 to year 2012.

II. Business Combination and Consolidated Financial Statements

1. Subsidiaries

Subsidiaries obtained through establishment or investment

Note: The Company holds 46.31% of shares of Dongguan Konka Mould Plastic Co., Ltd. Konka Household Appliances Investment & Development Co., Ltd, a subsidiary company of the Company, is entrusted to manage 6.18% shares held by Shenzhen Dingshengxin Mould Technology Consultation Co., Ltd. After the entrustment, the percentage of voting rights of the Company increases to 52.49%. Therefore, the financial statements of Dongguan Konka Mould Plastic Co., Ltd are combined into the consolidated financial statements. Xutongda is a wholly funded subsidiary of Dongguan Konka Mould Plastic Co., Ltd and is also combined into the consolidated financial statements.

Senior managers of Chongqing Qingjia Electronic Co., Ltd are appointed and dismissed by the Company. 70 to 80% of its products are sold to the Company and thus the Company has absolute influence and control over the production and operation of Chongqing Qingjia Electronic Co., Ltd.

2. Subsidiary companies that are combined into the consolidated financial statements in the current period

Name	Establishing Method	End. Net Assets	Net Profit of the Current Period
Konka (Kunshan) Real Estate Investment Co., Ltd	Newly founded	199,962,986.59	-37,013.41
Xutongda	Newly founded	5,000,000.00	-

III. Notes to Items in the Consolidated Financial Statements

Unless otherwise specified, in the following notes to the items in the consolidated financial statements (including notes to main items in the financial statements of the parent company), the end of the period refers to the day of December 31, 2009; the beginning of the period refers to the day of January 1, 2009; the current period refers to year 2009; and the previous period refers to year 2008.

1. Monetary funds

Item	End. balance			Beg. balance		
	Translated		Amount in renminbi (yuan)	Translated		Amount in renminbi (yuan)
	Amount in foreign currency	exchange rate		Amount in foreign currency	exchange rate	
Cash	-	-	78,085.59	-	-	10,396.35
RMB	8,820.37	1.00	8,820.37	10,028.46	1.00	10,028.46
HKD	292.76	0.88	257.77	366.67	0.88	323.29
USD	27.65	6.83	188.8	6.53	6.83	44.6
EUR	7,024.39	9.80	68,818.65	-	9.66	-
Bank deposit:	-	-	749,873,330.70	-	-	838,012,870.96
RMB	499,987,018.08	1.00	499,987,018.08	730,184,096.80	1.00	730,184,096.80
HKD	31,503,342.66	0.88	27,738,686.76	18,782,416.22	0.88	16,580,634.12
USD	32,465,512.99	6.83	221,685,758.32	12,919,282.50	6.83	88,294,678.57
JPY	1,836,287.61	0.07	135,481.30	6,572,519.00	0.08	497,062.47
EUR	12.61	9.80	123.54	74,163.27	9.66	716,353.76
GBP	-	-	-	1.32	9.86	13.01
CAD	-	-	-	310,491.74	5.60	1,740,032.23
Others	50,001.18	6.53	326,262.70	-	-	-
Other monetary funds:	-	-	2,874,528,963.96	-	-	1,228,229,226.77
RMB	2,874,508,857.93	1.00	2,874,508,857.93	1,228,229,226.77	1.00	1,228,229,226.77
HKD	22,834.79	0.88	20,106.03	-	-	-
Total			3,624,480,380.25			2,066,252,494.08

Remark: The balance of other monetary funds at the end of the period includes marginal deposits that cannot be withdrawn freely, totaling renminbi 2,874,528,963.96 yuan, of which renminbi 2,788,560,750.00 yuan is used as USD loan pledge for NDF service; renminbi 81,632,065.23 yuan is used as fixed deposits that are deposited for banker's acceptance bill; and renminbi 4,336,148.73 yuan is used as engineering margins.

2. Transactional financial assets

Item	Beg. fair value	End. fair value
Derivative financial instruments (NDF)	3,673,164.00	-

Remark: The balance of derivative financial instruments at the end of the period is the fair value of NDF service at the end of the period, which is carried out by the Company and Shenzhen Telecommunication Technology Co., Ltd to dodge exchange risks through long-term irrevocable contracts.

3. Notes receivable

(1) Category of notes receivable

Category	End. balance	Beg. balance
Banker's acceptance bill	2,781,539,700.27	2,600,112,135.40
Commercial acceptance bill	26,000,000.00	2,750,000.00
Total	2,807,539,700.27	2,602,862,135.40

(2) The balance of notes used as pledge in the accounts receivable at the end of the period amounts to renminbi 1,216,990,000.00 yuan.

(3) Notes that are endorsed but not due at the end of the period

Issuing entity	Issuing date	Maturity date	Amount
Sichuan Dujiangyan Machinery Co., Ltd	2009.10.22	2010.04.22	1,500,000.00
Taizhou Fucheng Home Appliance Co., Ltd	2009.11.02	2010.05.02	1,000,000.00
Anhui Ankai Foton Shuguang Driving Axles Co., Ltd	2009.10.29	2010.04.29	800,000.00
Chenzhou Daming Home Appliance Shop	2009.11.06	2010.05.06	500,000.00
Shantou Chenghai Chaojiang Home Appliance Shop	2009.11.25	2010.05.25	500,000.00
Total			4,300,000.00

(4) Commercial acceptance bills that cannot be discounted and pledged at the end of the period by the Company.

(5) For accounts of related parties, see No. 6 in Note 8.

4. Accounts receivable

(1) Accounts receivable are listed below as per category

Category	End. balance	
	Book balance	Bad debt reserves

	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount	494,067,023.84	32.60	12,982,059.48	6.08
The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	183,909,929.64	12.13	175,031,593.99	81.93
Other insignificant accounts receivable	837,715,531.71	57.27	25,612,234.59	11.99
Total	1,515,692,485.19	100.00	213,625,888.06	100.00

(Continued)

Category	Beg. balance			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount	438,800,687.41	28.77	8,776,013.75	4.41
The portfolio with insignificant individual amount has a greater risk after combined on the credit risk basis	169,741,255.65	11.13	159,610,940.00	80.30
Other insignificant accounts receivable	916,499,935.74	60.10	30,393,608.51	15.29
Total	1,525,041,878.80	100.00	198,780,562.26	100.00

Remark: Recognition basis of accounts receivable with significant individual amount: the account receivable with the balance at the end of the period greater than renminbi 20,000,000 yuan.

(2) Bad debt reserves

The accounts receivable with significant individual amount or with insignificant amount but independently impairment tested amount to renminbi 494,067,023.84 yuan. The allotted bad debt reserves amount to renminbi 12,982,059.47 yuan.

The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis

Age	End. balance			Beg. balance		
	Book balance		Bad debt reserves	Book balance		Bad debt reserves
	Amount	Proportion		Amount	Proportion	

		(%)			(%)	
Three to four years	26,211,573.41	1.73	17,384,039.07	17,768,648.08	1.17	10,668,710.51
Four to five years	4,654,579.43	0.31	4,603,778.12	6,060,756.17	0.40	3,030,378.09
Five years or longer	153,043,776.80	10.10	153,043,776.80	145,911,851.40	9.57	145,911,851.40
Total	183,909,929.64	12.14	175,031,593.99	169,741,255.65	11.14	159,610,940.00

Remark: The recognition basis of the account receivables with insignificant individual amount but with a greater risk after portfolio on the credit risk basis: the balance of the account receivable is less than renminbi 20,000,000 yuan with the age of three or longer years.

Accounts receivable that have been tested without impairment in independent tests can be classified into combinations with accounts receivable with insignificant individual amounts as per similar credit risk characters. The bad debt reserves are allotted on the basis of the combinations of credit risks.

(3) The Company allotted bad debt reserves by 100% for accounts receivable that have long periods and disputes from ICBC Shixing County Branch, Dalian Jinlong and Luokeng Hotel before this reporting period and the amount is renminbi 4,653,086.49 yuan. The accounts receivable have been collected in this period through negotiations by the Company.

(4) In the reporting period, no shareholder entity that holds 5% or more shares of the Company owes debts to the Company.

(5) The amount of the top five accounts receivable totals renminbi 444,301,812.19 yuan, taking up 29.31% of the total account receivable.

(6) For accounts of related parties, see No. 6 in Note 8.

5. Advance Payment

(1) The advance payment is listed on the basis of account age

Age	End. balance			Beg. balance		
	Amount	Proportion (%)	Bad debt reserves	Amount	Proportion (%)	Bad debt reserves
Within one year	255,109,000.62	91.14	1,061,507.33	241,568,633.96	93.27	-
One to	20,970,483.	7.49	427,723.4	545,713.77	0.21	-

Age	End. balance			Beg. balance		
	Amount	Proportion (%)	Bad debt reserves	Amount	Proportion (%)	Bad debt reserves
two years	54		0			
Two to three years	482,960.55	0.17	7,377.45	11,879,806.39	4.59	-
Three years or longer	3,356,862.30	1.20	2,571,885.56	4,998,180.61	1.93	-
	279,919,307		4,068,493	258,992,334		
Total	.01	100.00	.74	.73	100.00	-

(2) Five entities with the highest amount of advance payments

Name	Relationship with the Company	Amount	Age
ONTIMTECHNOLOGIESLTD	Non-related party	16,324,490.65	Within one year
Bailong Technology Co., Ltd	Non-related party	11,991,711.74	Within one year
Changsha LG-Philips Shuguang Electronic Co., Ltd	Non-related party	5,638,171.04	Within one year, one to two years
Runying-Nigara (Shenyang) Machinery Co., Ltd	Non-related party	5,282,093.00	Within one year
Yantai Wanhua Polyurethanes Co., Ltd	Non-related party	4,990,434.41	Within one year
Total		44,226,900.84	

(3) In the advance payment in the reporting period, no shareholder entity that holds 5% or more shares of the Company owes debts to the Company.

6. Interest receivable

Item	Beg. balance	End. balance
Income from NDF renminbi pledge deposits	19,905,867.09	32,529,920.96

Other receivables

(1) Other receivables are listed below as per category

Category	End. balance
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	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with significant individual amount	-	-	-	-
Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis	13,462,777.33	40.68	11,948,643.53	88.37
Other insignificant receivables	19,631,075.06	59.32	1,572,763.20	11.63
Total	33,093,852.39	100.00	13,521,406.73	100.00

(Continued)

Category	Beg. balance			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with significant individual amount	-	-	-	-
Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis	18,140,475.47	19.47	9,367,264.16	78.88
Other insignificant receivables	75,034,212.62	80.53	2,507,661.05	21.12
Total	93,174,688.09	100.00	11,874,925.21	100.00

Remark: Recognition basis of accounts receivable with significant individual amount: the account receivable with the balance at the end of the period is greater than renminbi 10,000,000 yuan.

(2) Bad debt reserves at the end of the period

No other receivable with significant individual amount at the end of the period

Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis

Age	End. balance			Beg. balance		
	Book balance		Bad debt reserves	Book balance		Bad debt reserves
	Amount	Proportion (%)		Amount	Proportion (%)	
Three to four years	2,682,026.35	8.10	1,471,789.20	5,070,197.55	5.44	2,543,998.81
Four to five	585,793.30	1.77	281,896.65	6,483,473.48	6.96	4,329,694.92

Age	End. balance			Beg. balance		
	Book balance		Bad debt reserves	Book balance		Bad debt reserves
	Amount	Proportion (%)		Amount	Proportion (%)	
years						
Five years or longer	10,194,957.68	30.81	10,194,957.68	6,586,804.44	7.07	2,493,570.43
Total	13,462,777.33	40.68	11,948,643.53	18,140,475.47	19.47	9,367,264.16

Remark: The recognition basis of the account receivables with insignificant individual amount but with a greater risk after portfolio on the credit risk basis: the balance of the account receivable is less than renminbi 10,000,000 yuan with the age of three or longer years.

(3) In other receivables in the reporting period, no shareholder entity that holds 5% or more shares of the Company owes debts to the Company.

(4) Nature and content of other receivables with larger amount

Name	Amount	Nature or content
PICCP&C Shenzhen Branch	2,352,000.00	Compensation
ICBC Beijing Branch	2,100,000.00	Margin of safety
Shenzhen OCT Real Estate Co., Ltd	1,212,178.86	Advance payment
Shenzhen Finance Bureau	1,140,309.00	Margin of safety
Shenzhen OCT Water and Electricity Supply Co., Ltd	1,033,314.68	Advance payment for water and electricity expenses
Total	7,837,802.54	

(5) For other receivables from related parties in the report period, see No. 6 in Note 8.

8. Inventories

(1) Categories of inventories

Item	End. balance		
	Book balance	Falling price reserves	Book value
Raw materials	1,403,142,683.27	110,687,062.97	1,292,455,620.30
Semi-finished products	286,601,129.93	77,749,670.27	208,851,459.66
Stock	2,382,906,650.66	339,096,205.02	2,043,810,445.64
Goods in transit	8,486,406.30	-	8,486,406.30
Turnover materials	9,565,635.07	661,253.80	8,904,381.27

Total	4,090,702,505.23	528,194,192.06	3,562,508,313.17
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(Continued)

Item	Beg. balance		
	Book balance	Falling price reserves	Book value
Raw materials	944,343,127.15	74,688,994.93	869,654,132.22
Semi-finished products	140,177,151.13	1,845,797.44	138,331,353.69
Stock	1,834,413,311.73	281,740,143.16	1,552,673,168.57
Goods in transit	2,667,697.02	-	2,667,697.02
Turnover materials	10,641,253.45	190,737.82	10,450,515.63
Total	2,932,242,540.48	358,465,673.35	2,573,776,867.13

(2) Inventory falling price reserves

Item	Beg. balance	Allotment of the period	Decrease of the period		End. balance
			Recovered amount	Write-off amount	
Raw materials	74,688,994.93	42,889,976.13	690,515.41	6,201,392.68	110,687,062.97
Semi-finished products	1,845,797.44	76,094,610.65	190,737.82		77,749,670.27
Stock	281,740,143.16	59,578,396.49	134,168.23	2,088,166.40	339,096,205.02
Turnover materials	190,737.82	470,515.98	-	-	661,253.80
Total	358,465,673.35	179,033,499.25	1,015,421.46	8,289,559.08	528,194,192.06

9. Financial assets available for sale

Item	Beg. fair value	End. fair value
Stock investment	10,268,121.10	9,756,649.50

10. Investment on affiliated enterprises

The investments on affiliated enterprises of the Company are as follows:

Invested entity	Nature of enterprise	Registration place	Legal representative	Business nature	Registered capital (Renminbi: yuan)	Proportion of shares held by the Company (%)	Percentage
							of voting rights of the Company in the invested enterprise (%)
Chongqing Jingkang Plastic Products Co., Ltd	Company of limited liability	Chongqing	Wang Xiaoyong	Manufacturing and processing mold products	12,000,000.00	31.25	31.25

Invested entity	Nature of enterprise	Registration place	Legal representative	Business nature	Registered capital (Renminbi: yuan)	Proportion of shares held by the Company (%)	Percentage of voting rights of the Company in the invested enterprise (%)
Shenzhen Refond Optoelectronics Co., Ltd	Company of limited liability	Shenzhen	Gong Weibin	Manufacturing and selling LEDs	35,566,667.00	25.87	25.87
Shenzhen Konka Energy Technology Co., Ltd	Company of limited liability	Shenzhen	Dong Yaping	New energy products for mobile equipment	20,000,000.00	30.00	30.00

(Continued)

Invested entity	Total assets at the end of the period	Total liabilities at the end of the period	Total net assets at the end of the period	Total operating income of the period	Net Profit of the Current Period
Chongqing Jingkang Plastic Products Co., Ltd	7,174,321.58	2,248,121.54	4,926,200.04	177,991.27	-2,837,374.45
Shenzhen Refond Optoelectronics Co., Ltd	207,478,804.71	54,892,812.19	152,585,992.52	183,576,222.25	21,991,476.26
Shenzhen Konka Energy Technology Co., Ltd	13,792,442.90	1,643,585.59	12,148,857.31	-	-16,902.95

11. Long-term equity investment

(1) Category of long-term equity investment

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Investment on subsidiary companies	-	-	-	-
Investment on jointly funded enterprises	-	-	-	-
Investment on affiliated enterprises	13,125,338.75	36,923,786.00	886,679.52	49,162,445.23
Other equity investments	9,885,000.00	153,000.00	-	10,038,000.00

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Less: provisions for depreciation of long-term equity investments	1,400,000.00	-	-	1,400,000.00
Total	21,610,338.75	37,076,786.00	886,679.52	57,800,445.23

(2) List of long-term equity investment

Invested entity	Accounting method	Initial investment costs	Beg. balance	Increase/decrease amounts	End. balance
Chongqing Jingkang Plastic Products Co., Ltd	Equity method	3,750,000.00	2,338,185.84	-886,679.52	1,451,506.32
Shenzhen Refond Optoelectronics Co., Ltd	Equity method	36,923,786.00	-	36,923,786.00	36,923,786.00
Shenzhen Konka Energy Technology Co., Ltd	Equity method	5,983,965.19	3,649,728.08		3,649,728.08
Shenzhen Dekon Electronic Co., Ltd	Cost method	3,000,000.00	7,137,424.83		7,137,424.83
Feihong Electronics Co., Ltd	Cost method	1,300,000.00	1,300,000.00	-	1,300,000.00
Shenzhen Association of Enterprises with Foreign Investment	Cost method	100,000.00	100,000.00	-	100,000.00
Shenzhen Make-plan Investment Development Co., Ltd	Cost method	485,000.00	485,000.00	-	485,000.00
IGRS Information Technology Engineering Center Co., Ltd	Cost method	5,000,000.00	5,000,000.00	-	5,000,000.00
Shenzhen Julong Optoelectronics Co., Ltd	Cost method	2,000,000.00	2,000,000.00	-	2,000,000.00
Shenzhen CTU Hi-tech Ltd	Cost method	1,153,000.00	1,000,000.00	153,000.00	1,153,000.00
Total			23,010,338.75	36,190,106.48	59,200,445.23

(Continued)

Invested entity	Proportion of shares held in the invested entity (%)	Percentage of voting rights in the invested entity (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested entity		Impairment provision	Cash dividends of the current period
Chongqing Jingkang Plastic Products Co., Ltd	31.25	31.25	-	-	-	-
Shenzhen Refond Optoelectronics Co., Ltd	25.87	25.87	-	-	-	-
Shenzhen Konka Energy Technology Co., Ltd	30.00	30.00	-	-	-	-

Invested entity	Proportion of shares held in the invested entity (%)	Percentage of voting rights in the invested entity (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested entity	Impairment provision	Impairment provision allotted of the current period	Cash dividends of the current period
Shenzhen Dekon Electronic Co., Ltd	30.00	-	-	-	-	-
Feihong Electronics Co., Ltd	8.33	8.33	-	1,300,000.00	-	-
Shenzhen Association of Enterprises with Foreign Investment	-	-	-	100,000.00	-	-
Shenzhen Julong Optoelectronics Co., Ltd	10.00	10.00	-	-	-	-
Shenzhen Make-plan Investment Development Co., Ltd	1.00	1.00	-	-	-	-
IGRS Information Technology Engineering Center Co., Ltd	9.62	9.62	-	-	-	-
Shenzhen CTU Hi-tech Ltd	11.50	11.50	-	-	-	-
Total				1,400,000.00	-	-

(3) Long-term equity investments without restrictions on selling

12. Fixed assets

(1) Details of fixed assets

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
I. Total original book value	2,702,986,216.35	276,777,871.75	186,317,802.68	2,793,446,285.42
Including: housings and buildings	1,086,191,578.62	151,337,034.83	52,146,314.50	1,185,382,298.95
Mechanical equipment	1,061,349,807.80	98,036,082.01	103,760,296.93	1,055,625,592.88
Vehicles	50,235,903.86	5,096,373.34	5,465,156.83	49,867,120.37
Electronic equipment	329,072,650.13	15,420,151.43	15,253,452.89	329,239,348.67
Other equipment	176,136,275.94	6,888,230.14	9,692,581.53	173,331,924.55
II. Total accumulated depreciation	1,350,522,284.10	112,825,031.97	131,021,194.10	1,332,326,121.97
Including: housings and buildings	237,161,250.72	26,643,735.69	14,804,551.44	249,000,434.97
Mechanical equipment	695,743,858.31	51,408,178.16	87,878,426.99	659,273,609.48
Vehicles	39,111,193.99	5,634,709.61	4,871,942.31	39,873,961.29
Electronic equipment	239,363,007.10	21,873,249.60	15,029,003.46	246,207,253.24
Other equipment	139,142,973.98	7,265,158.91	8,437,269.90	137,970,862.99

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
III. Total net book value	1,352,463,932.25			1,461,120,163.45
Including: housings and buildings	849,030,327.90			936,381,863.98
Mechanical equipment	365,605,949.49			396,351,983.40
Vehicles	11,124,709.87			9,993,159.08
Electronic equipment	89,709,643.03			83,032,095.43
Other equipment	36,993,301.96			35,361,061.56
IV. Total provisions for depreciation	8,286,034.09	19,969,581.21	810,078.14	27,445,537.16
Including: housings and buildings	1,247,805.91		-	1,247,805.91
Mechanical equipment	4,270,167.58	17,463,602.55	511,187.38	21,222,582.75
Vehicles	863,868.59	173,814.65	39,097.60	998,585.64
Electronic equipment	554,364.05	2,148,972.96	250,133.08	2,453,203.93
Other equipment	1,349,827.96	183,191.05	9,660.08	1,523,358.93
V. Total book value	1,344,177,898.16			1,433,674,626.29
Including: housings and buildings	847,782,521.99			935,134,058.07
Mechanical equipment	361,335,781.91			375,129,400.65
Vehicles	10,260,841.28			8,994,573.44
Electronic equipment	89,155,278.98			80,578,891.50
Other equipment	35,643,474.00			33,837,702.63

Remark: The amount of depreciation of the current period is renminbi 112,825,031.97 yuan. The original book value of fixed assets that are transferred from construction in progress in the current period is renminbi 172,239,013.14 yuan.

(2) Details of fixed assets whose certificates of title are not prepared

Company	Reason for the absence of certificate of title	Estimated time for winding up the certificate of title	Book value
Dongguan Konka Electronic Co., Ltd	In progress	Year 2010	38,852,298.35
Mudanjiang Konka Electronics Co., Ltd	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	The winding up time cannot be estimated	16,783,361.13

Company	Reason for the absence of certificate of title	Estimated time for winding up the certificate of title	Book value
Kunshan Konka Electronic Co., Ltd	The project is just finished and the settlement has not been completed.	Year 2010	113,852,953.75
Changshu Konka Electronic Co., Ltd	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	The winding up time cannot be estimated	2,014,361.44
Konka Group	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	The winding up time cannot be estimated	68,912,496.94
Total			240,415,471.61

(3) For pledges with fixed assets, see No. 20 in Note 7.

(4) The warehouse of Anhui Konka Household Appliance Co., Ltd, a subsidiary of the Company, whose original book value was renminbi 11,850,496.89 yuan, in the new factory area partially collapsed due to the snow hazard. The construction entity, China MCC17 Group Co., Ltd, promised to compensate the direct loss thereof and rebuild the warehouse for discretionary.

13. Construction in progress

(1) Information about construction in progress

Item	End. balance			Beg. balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
R&D building of Konka Group	33,159,935.64	-	33,159,935.64	11,939,757.83	-	11,939,757.83
Warehouse of Anhui Konka Household Appliance Co., Ltd	3,493,776.32	-	3,493,776.32	3,428,106.00	-	3,428,106.00
Factory buildings and other infrastructures of Baidian Industrial Park Phase II	18,282,170.80	-	18,282,170.80	39,353.03	-	39,353.03
LCM15-32 module testing line	-	-	-	2,916,000.00	-	2,916,000.00
Purifying engineering of	-	-	-	398,100.00	-	398,100.00

Item	End. balance			Beg. balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
LCM testing line						
SMT equipment	17,584.00	-	17,584.00	257,255.90	-	257,255.90
Other projects	6,134,479.42	-	6,134,479.42	8,353,040.35	-	8,353,040.35
Total	61,087,946.18	-	61,087,946.18	27,331,613.11	-	27,331,613.11

(2) Change of significant construction in progress

Name	Budget	Beg. balance	Increase of the current period	Amount of		End. balance
				construction-in-progress transferred to fixed assets in the current period	Other decrease	
R&D building of Konka Group	566,565,800.00	11,939,757.83	21,220,177.81	-		33,159,935.64
Warehouse of Anhui Konka Household Appliance Co., Ltd	22,743,100.00	3,428,106.00	16,849,345.56	16,742,745.24	40,930.00	3,493,776.32
Factory buildings and other infrastructures of Baidian Industrial Park Phase II	-	39,353.03	18,242,817.77	-	-	18,282,170.80
Main building of the factory of Kunshan Konka production base	99,570,000.00	-	82,409,753.27	82,409,753.27		-
Dust free room engineering for secondary machinery of Kunshan Konka production base	29,000,000.00	-	26,099,999.72	26,099,999.72	-	-
Pile foundation and curtain wall engineering of Kunshan Konka production base	14,488,000.00	-	12,099,200.00	12,099,200.00	-	-
Power distribution and module signal system engineering of Kunshan Konka	20,504,500.00	-	17,772,586.41	17,772,586.41	-	-

Name	Budget	Beg. balance	Increase of the current period	Amount of construction-in-progress transferred to fixed assets in the current period	Other decrease	End. balance
Electronics Co., Ltd Module assembly line engineering of Kunshan Konka Electronics Co., Ltd LCM15-32 module testing lines Purifying engineering of LCM testing line SMT equipment Other projects Total	12,000,000.00 9,720,000.00 1,327,000.00 - - <u>775,918,400.00</u>	- 2,916,000.00 398,100.00 257,255.90 8,353,040.35 <u>27,331,613.11</u>	3,596,884.42 2,705,811.92 862,550.00 - 4,195,749.33 <u>206,054,876.21</u>	3,596,884.42 5,621,811.92 1,260,650.00 239,671.90 6,395,710.26 <u>172,239,013.14</u>	- - - - 18,600.00 <u>59,530.00</u>	- - - 17,584.00 6,134,479.42 <u>61,087,946.18</u>

Construction in progress of the Company uses self-owned capital and no loan is capitalized.

(3) By December 31, 2009, the book value of construction in progress of the Company is not higher than the amount that can be recovered.

(4) Progress of significant construction in progress

Item	Progress	Fund source
R&D building of Konka Group	6%	Self-owned funds

14. Disposal of fixed assets

Item	Beg. Book value	End. Book value	Reason for disposal
Transferring and dismantling to be handled	-	20,851,110.89	Transferring of factory of Anhui Konka Household Appliance Co., Ltd, see remark.

Remark: Fixed assets of Anhui Konka Household Appliance Co., Ltd, a subsidiary company of the Company, are disposed in the form of net book value of fixed assets and net book value of intangible assets and labor service expenses, installation and commissioning expenses and shutdown loss caused by equipment transferring. Because the government grants are not completed provided, not all fixed assets are carried forward. For details, see No. 3 in Note 12.

15. Intangible assets

Item	Beg. Book balance	Increase of the period	Decrease of the period	End. Book balance
I. Total original book value	112,408,709.26	110,282,760.11	4,460,204.01	218,231,265.36
Land use right	71,223,144.62	108,479,557.00	4,460,204.01	175,242,497.61
Trademark registration costs in foreign countries	3,037,299.61	-	-	3,037,299.61
Patents and proprietary technologies	31,708,543.74	247,732.58	-	31,956,276.32
Others	6,439,721.29	1,555,470.53	-	7,995,191.82
II. Total accumulated amortization	40,283,727.05	8,391,555.20	847,625.06	47,827,657.19
Land use right	12,070,941.21	3,058,430.65	847,625.06	14,281,746.80
Trademark registration costs in foreign countries	2,374,704.40	194,292.52	-	2,568,996.92
Patents and proprietary technologies	21,981,142.21	3,673,068.70	-	25,654,210.91
Others	3,856,939.23	1,465,763.33	-	5,322,702.56
III. Total net book value	72,124,982.21			170,403,608.17
Land use right	59,152,203.41			160,960,750.81
Trademark registration costs in foreign countries	662,595.21			468,302.69
Patents and proprietary technologies	9,727,401.53			6,302,065.41
Others	2,582,782.06			2,672,489.26
IV. Total provisions for depreciation	2,901,082.61	-	-	2,901,082.61
Land use right	-	-	-	-
Trademark registration costs in foreign countries	-	-	-	-
Patents and proprietary technologies	2,901,082.61	-	-	2,901,082.61
Others	-	-	-	-
V. Total book value	69,223,899.60			167,502,525.56
Land use right	59,152,203.41			160,960,750.81
Trademark registration costs in foreign countries	662,595.21			468,302.69
Patents and proprietary technologies	6,826,318.92			3,400,982.80

Item	Beg. Book balance	Increase of the period	Decrease of the period	End. Book balance
Others	2,582,782.06			2,672,489.26

(1) The amortized amount of the current period is renminbi 8,391,555.20 yuan.

(2) The increase of intangible assets of the Company in the current period is caused by the purchase of land use rights by Kunshan Konka Electronics Co., Ltd, a subsidiary of the Company.

(3) For pledges with intangible assets, see No. 20 in Note 7.

16. Goodwill

Name of invested entity or items forming goodwill	Beg. balance	Increase of the period	Decrease of the period	End. balance	Impairment provision at the end of the period
Purchase of shares of subsidiary companies	3,943,671.53	-	-	3,943,671.53	-

(3) By December 31, 2009, the book value of the goodwill of the Company is not higher than the amount that can be recovered.

17. Long-term expenses to be apportioned

Item	Beg. balance	Increase of the period	Amortization of the current period	Other decrease	End. balance
Decoration	8,212,792.36	3,289,536.98	2,896,669.44	-	8,605,659.90
Shoppe	868,232.52	360,837.27	916,060.22	-	313,009.57
Software license	1,785,006.32	45,000.00	693,860.42	-	1,136,145.90
Development platform expenses	5,539,130.07	205,056.00	1,872,983.52	-	3,871,202.55
Mould expenses	601,110.83	-	192,053.28	-	409,057.55
Model machine	905,788.61	-	786,135.88	-	119,652.73
Others	1,985,063.41	4,139,056.62	4,804,064.28	-	1,320,055.75
Total	19,897,124.12	8,039,486.87	12,161,827.04	-	15,774,783.95

18. Deferred income tax assets/Deferred income tax liabilities

(1) Recognized deferred income tax assets and deferred income tax liabilities

Item	End. balance	Beg. balance
Deferred income tax asset:		
Asset impairment reserves	115,897,984.71	91,521,453.30
Warranty expenses	11,498,859.90	10,978,782.15
Deferred income	17,760,110.67	7,888,473.92
Unrealized internal profits	4,766,405.86	-
Change of the fair value of the financial assets that are recorded into the capital reserves and available for sale	229,597.93	311,019.71
Others	533,460.03	161,070.00
Subtotal	150,686,419.10	110,860,799.08
Deferred income tax liabilities		
Estimation by transactional financial instruments and derivative financial instruments	745,648.38	-
Appreciation of fixed asset estimation	563,067.21	563,067.21
Subtotal	1,308,715.59	563,067.21

(2) Temporary differences corresponding to assets or liabilities that may cause temporary differences

Item	Amount of temporary difference
Deductible temporary differences	
Accounts receivable	187,053,516.58
Other receivables	12,685,888.88
Advance payments	195,841.84
Inventory - Unrealized internal profits	21,665,481.19
Inventory - Falling price reserves	318,533,228.89
Financial assets available for sale	1,043,626.97
Long-term equity investment	1,400,000.00
Fixed assets	7,475,955.95
Long-term expenses to be apportioned	469,560.10
Accrued payroll	1,664,280.00
Other payables – Warranty expenses	52,267,545.00
Other non-current liabilities – Deferred income	77,305,048.48
Subtotal	681,759,973.88
Taxable temporary differences	
Transactional financial assets	3,673,164.00
Subtotal	3,673,164.00

19. List of provisions for impairment of assets

Item	Beg. balance	Allotment of the current period	Decrease of the period		End. balance
			Recovered amount	Write-off amount	
I. Bad debt reserves	210,655,487.47	25,075,191.35	3,442,279.45	1,072,610.84	231,215,788.53

Item	Beg. balance	Allotment of the current period	Decrease of the period		End. balance
			Recovered amount	Write-off amount	
Including: Accounts receivable	198,780,562.26	18,533,562.11	2,674,933.28	1,013,303.03	213,625,888.06
Other receivables	11,874,925.21	2,473,135.50	767,346.17	59,307.81	13,521,406.73
Advance payments	-	4,068,493.74	-	-	4,068,493.74
II. Inventory falling price reserves	358,465,673.35	179,033,499.25	1,015,421.46	8,289,559.08	528,194,192.06
Including: Raw materials	74,688,994.93	42,889,976.13	690,514.41	6,201,392.68	110,687,062.97
Stock	281,740,143.16	59,578,396.49	134,168.23	2,088,166.40	339,096,205.02
Semi-finished products and other	2,036,535.26	76,565,126.63	190,737.82	-	78,410,924.07
III. Provisions for depreciation of long-term equity investments	1,400,000.00	-	-	-	1,400,000.00
IV. Provision for impairment of fixed assets	8,286,034.09	19,969,581.21	-	810,078.14	27,445,537.16
Including: Housings and buildings	1,247,805.91	-	-	-	1,247,805.91
Machinery equipment	4,270,167.58	17,463,602.55	-	511,187.38	21,222,582.75
Vehicles	863,868.59	173,814.65	-	39,097.60	998,585.64
Electronic equipment	554,364.05	2,148,972.96	-	250,133.08	2,453,203.93
Other equipment	1,349,827.96	183,191.05	-	9,660.08	1,523,358.93
V. Provision for impairment of intangible assets	2,901,082.61	-	-	-	2,901,082.61
Including: Patent rights	2,901,082.61	-	-	-	2,901,082.61
Total	581,708,277.52	224,078,271.81	4,457,700.91	10,172,248.06	791,156,600.36

Remark: The difference between the amount of the bad debt reserves of the current period and the recovered amount of the bad debt reserves of the current period is renminbi 3,593,917.87 yuan more than the loss of bad debt in the asset impairment loss in No. 38 of Note 7. The reasons are as follows:

The written-off bad debt reserves of renminbi 4,653,086.49 yuan of the previous period is recovered in the current period;

The effects of exchange profit/loss of the bad debt reserves of Hong Kong Konka International Electronics Co., Ltd, Konka America Inc. and Konka Household Appliances International Trading Co., Ltd amount to renminbi 1,059,169.62 yuan.

20. Assets with restricted proprietary rights or use rights

Item	End. Book value	Reason of restriction
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Subtotal of assets for guarantee	229,337,231.10	
Including: Fixed assets	216,907,063.56	Loan guarantee
Intangible assets	12,430,167.54	Loan guarantee
Subtotal of assets with restricted proprietary rights of use rights caused by other reasons	4,091,518,963.96	
Including: Notes receivable	1,216,990,000.00	Pledge for credit-extension contracts
Bank deposit	2,874,528,963.96	Pledge for NDF service, banker's acceptance bills and engineering margins of safety
Total	4,320,856,195.06	

21. Short-term loads

Item	End. balance	Beg. balance
Pledged borrowings (remark 1 and 2)	8,000,000.00	11,500,000.00
Collateral borrowings (remark 3)	2,762,014,060.00	1,197,352,457.29
Guarantee borrowings	-	137,523,153.49
Total	2,770,014,060.00	1,346,375,610.78

Remark 1: For pledges for pledge borrowings, see No. 4 and 5 in Note 12.

Remark 2: Collateral borrowings are USD loans obtained with the pledge of bank deposit to develop NDF service. For details about pledged renminbi deposits, see No. 1 of Note 7.

22. Transactional financial liabilities

Item	Beg. fair value	End. fair value
Derivative financial liabilities (NDF)	-	12,481,880.16

23. Notes payable

Category	End. balance	Beg. balance
Banker's acceptance bill	2,884,697,072.42	2,637,681,947.36
Commercial acceptance bill	-	-
Total	2,884,697,072.42	2,637,681,947.36

Remark: The amount due in the next accounting period is renminbi 2,884,697,072.42 yuan.

For accounts payable to related parties, see No. 6 in Note 8.

24. Accounts payable

(1) List of accounts payable

Item	End. balance	Beg. balance
Within one year	2,563,334,270.00	1,512,183,441.36
One to two years	22,046,559.29	4,758,006.47
Two to three years	4,758,006.47	14,876,183.29
Three years or longer	9,103,449.28	39,943,710.86
Total	2,599,242,285.04	1,571,761,341.98

(2) In the accounts payable in the current reporting period, no account is payable to shareholder entity that holds 5% or more voting shares of the Company.

(3) For information about accounts payable to related parties, see No. 6 of Note 8.

25. Advance receipts

(1) List of advance receipts

Item	End. balance	Beg. balance
Within one year	238,818,585.41	147,487,078.08
One to two years	11,140,698.63	4,929,858.27
Two to three years	2,412,606.19	3,773,449.44
Three years or longer	26,959,574.15	23,186,124.71
Total	279,331,464.38	179,376,510.50

(2) In the advance receipts in the current reporting period, no advance payment is received from shareholder entity that holds 5% or more voting shares of the Company.

(3) For information about advance receipts from other related parties in the current reporting period, see No. 6 of Note 8.

26. Accrued payroll

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
I. Payroll, bonus, allowance and subsidies	130,898,023.19	780,113,661.94	743,654,424.37	167,357,260.76
II. Welfare expenses	8,424,616.20	48,688,438.11	48,762,064.12	8,350,990.19
III. Social insurance	16,946,381.77	100,670,888.28	108,895,435.51	8,721,834.54

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
expenses				
Endowment insurance	4,126,099.86	60,177,298.17	61,339,769.49	2,963,628.54
Medical insurance	11,088,408.24	30,409,630.42	36,928,716.16	4,569,322.50
Insurance against injuries at work	976,481.77	3,872,906.15	4,041,995.48	807,392.44
Unemployment insurance	541,926.29	4,780,408.99	4,993,942.71	328,392.57
Maternity insurance	213,465.61	1,430,644.55	1,591,011.67	53,098.49
IV. Public reserve for housing construction	1,471,228.22	4,740,943.63	4,857,158.66	1,355,013.19
V. Labor union expenditure and expenses for education of employees	6,641,064.35	7,742,110.00	9,256,998.72	5,126,175.63
VI. Welfare for dismissing	1,215,207.80	5,430,742.35	6,277,628.12	368,322.03
Others	3,241,973.43	2,278,683.99	3,583,178.24	1,937,479.18
Total	168,838,494.96	949,665,468.30	925,286,887.74	193,217,075.52

Remark: No payroll payable is unpaid.

27. Tax payable

Item	End. balance	Beg. balance
Value-added tax	-148,759,705.82	-4,626,297.30
Business tax	756,110.65	587,222.55
Income tax	11,973,283.20	16,615,583.47
Urban maintenance and construction tax	467,744.82	314,342.02
Educational Surtax	153,294.23	151,855.59
Personal income tax	859,826.28	521,258.50
Flood control fund, fund for embankment, fund for water conservancy and fund for river management	185,392.48	-
Others	1,466,343.02	700,010.29
Total	-132,897,711.14	14,263,975.12

28. Interest payable

Item	End. balance	Beg. balance
Expense for interest on NDF USD loans	23,633,016.78	8,247,223.62

29. Dividends payable

Name	End. balance	Beg. balance	Reasons for dividends unpaid for more than one year
Shenzhen Shangyongtong Investment Development Co., Ltd	804,527.20	2,208,659.46	Temporarily unpaid
Dongyangyi Industry Co., Ltd	-	4,900,000.00	
Total	804,527.20	7,108,659.46	

30. Other payables

(1) List of other payables

Item	End. balance	Beg. balance
Within one year	652,813,276.95	479,418,431.91
One to two years	68,292,388.68	16,383,775.50
Two to three years	11,084,906.13	12,252,086.44
Three years or longer	31,733,028.90	19,480,942.46
Total	763,923,600.66	527,535,236.31

(2) In other payables in the current reporting period, no account is payable to shareholder entity that holds 5% or more voting shares of the Company.

(3) Other payables more than one year are mainly guarantees payable.

(4) For other payables to related parties, see No. 6 in Note 8.

31. Other non-current liabilities

Item	End. balance	Beg. balance
Subsidies for supporting equipment of Kunshan liquid crystal module project	15,100,000.00	-
Fund for flat panel display industry in year 2008	10,000,000.00	7,000,000.00
Development of new type display technologies such as liquid crystal module (Ministry of Industry and Information Technology)	10,000,000.00	-
R&D and industrialization of large size liquid crystal display module	7,000,000.00	-
Government grants for industrialization of split digital television receiver	-	7,150,000.00

Item	End. balance	Beg. balance
Others	36,441,048.48	29,428,369.62
Total	78,541,048.48	43,578,369.62

32. Share capital

Item	Beg. balance		Increase/decrease of the current period (+/-)					End. balance	
	Amount	Proportion (%)	Newly issued shares	Share repurchases	Share conversions	Others	Subtotal	Amount	Proportion (%)
I. Shares with restrictions on selling									
1. Founder's shares	198,388,174.00	16.48	-	-	-	-	-	198,388,174.00	16.48
Including: State-owned shares	198,381,940.00	-	-	-	-	-	-	198,381,940.00	-
2. Shares held by employees	6,234.00	-	-	-	-	-1,284.00	-1,284.00	4,950.00	-
Subtotal of shares with restrictions on selling	198,388,174.00	16.48	-	-	-	-1,284.00	-1,284.00	198,386,890.00	16.48
II. Shares without restrictions on selling									
1. Common stock (renminbi denominated)	599,908,726.00	49.83	-	-	-	1,284.00	1,284.00	599,910,010.00	49.83
2. Domestically-listed shares held by foreign investors	405,675,804.00	33.69	-	-	-	-	-	405,675,804.00	33.69
Subtotal of shares without restrictions on selling	1,005,584,530.00	83.52	-	-	-	1,284.00	1,284.00	1,005,585,814.00	83.52
III. Total shares	1,203,972,704.00	100.00	-	-	-	-	-	1,203,972,704.00	100.00

33. Capital surplus

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Capital premium				
Other capital surpluses				

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Total				

Remark: The capital premium is the premium of capital increase by the minority shareholders of Dongguan Konka Mould Plastic Co., Ltd.

The increase of other capital surpluses in the current period is mainly caused by change of the fair value of transactional financial assets.

34. Surplus reserves

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Statutory surplus public reserves				
Discretionary surplus public reserves				
Total				

35. Undistributed profits

(1) Change of undistributed profits

Item	Amount	Remark
Undistributed profits at the end of the previous period before adjustment		
Total of undistributed profits at the beginning of the adjustment period (+/-)		For details, see Accounting error corrections of the previous period in No. 23 of Note 4.
Undistributed profits at the beginning of the period after adjustment		
Add: Net income attributed to the parent company		
Making up losses with surplus public reserves		
Other transfer-ins		
Less: Allotted statutory surplus public reserve		Allotted 10% of the profit of the parent company
Allotted discretionary surplus public reserves		
Payable dividends for common stocks		
Dividends of common stock that are converted into capital shares		
Undistributed profits at the end of the period		

(2) Allotment of surplus public reserves of subsidiary companies in the current year

Name of subsidiary	Amount of allotted surplus	Amount attributed to the parent
	reserve	company
Shenzhen Electronic Fittings Technology Co., Ltd	283,740.91	283,740.91
Shaanxi Konka Electronic Co., Ltd	242,932.12	145,759.27
Chongqing Qingjia Electronic Co., Ltd	403,892.19	161,556.88
Anhui Konka Electronic Co., Ltd	1,228,264.14	958,046.03
Dongguan Konka Mould Plastic Co., Ltd	4,905,537.58	2,930,165.49
Total	7,064,366.94	4,479,268.58

36. Revenues and operating costs

(1) Revenues and operating costs

Item	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Revenues from main operations				
Revenues from other operations				
Total revenues				
Costs of main operations				
Costs of other operations				
Total operating costs				

(2) Main operations (by industries)

Industry	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Electronic industry				

(3) Main operations (by products)

Product category	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Color television				
business				
Mobile				

phone				
business				
White				
goods				
business				
Others				
Total				

(4) Main operations (by regions)

Region	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Domestic sales				
Overseas sales				
Total				

(5) Revenues from the top five customers

The revenues from the top five customers amount to renminbi 2,413,848,049.88 yuan, taking up 18.21% of the total revenues.

37. Taxes and surtax

Item	Amount of the current period	Amount of the previous period	Allotment criteria
Business tax	971,396.97	222,094.52	5%
Urban maintenance and construction tax	2,752,027.24	2,719,223.55	1%、5%、7%
Educational Surtax	761,118.52	951,285.57	3%、4%
Others	363,189.11	278,276.75	
Total	4,847,731.84	4,170,880.39	

38. Loss of asset impairment

Item	Amount of the current period	Amount of the previous period
Loss of bad debts	18,038,994.03	15,452,159.77
Loss of inventory falling price	178,018,077.79	66,259,014.69
Loss of impairment of fixed assets	19,969,581.21	-
Total	216,026,653.03	81,711,174.46

39. Income from change of fair value

Source of income from change of fair value	Amount of the current period	Amount of the previous period
Derivative financial instruments (NDF)	16,155,044.16	4,767,744.76

40. Investment income

(1) List of investment income items

Invested entity	Amount of the current period	Amount of the previous period
Income from long-term equity investment measured by employing the cost method	-	-
Income from long-term equity investment measured by employing the equity method	-886,679.52	-690,035.55
Investment income from disposing long-term equity investments	-	2,795,299.78
Investment income from disposing transactional financial assets (NDF)	4,052,587.50	-28,493,873.03
Investment income from financial assets available for sale	54,354.16	5,430,444.17
Total	3,220,262.14	-20,958,164.63

(2) Income from long-term equity investment measured by employing the equity method

Invested entity	Amount of the current period	Amount of the previous period
Chongqing Jingkang Plastic Products Co., Ltd	-886,679.52	-676,711.10
Shenzhen Konka Energy Technology Co., Ltd	-	-13,324.45
Total	-886,679.52	-690,035.55

Remark: No significant restriction is imposed on repatriation of the investment income of the Company.

41. Non-operating revenues

(1) List of non-operation revenues

Item	Amount of the current period	Amount of the previous period
Total revenue from disposing non-current assets	3,692,603.96	6,316,997.35
Including: Revenue from disposal of fixed assets	3,692,603.96	4,035,136.59
Revenue from disposal of intangible assets	-	2,281,860.76
Government grants	13,193,331.14	9,944,243.96
Revenue from penalty	3,620,102.26	3,660,523.07
Revenue from compensation	2,352,000.00	-
Revenues from accounts payable that cannot be paid	-	3,502,833.13
Others	4,456,820.70	4,460,253.01
Total	27,314,858.06	27,884,850.52

(2) List of government grants

Item	Amount of the current period	Amount of the previous period
------	---------------------------------	----------------------------------

Item	Amount of the current period	Amount of the previous period
Grants for R&D of digital television	2,000,000.00	-
Government grants for industrialization of split digital television receiver	-	1,850,000.00
National debt for technological reform projects	-	1,625,000.00
Subsidy of 50% of the actual paid land use tax	-	1,204,493.00
Grants to enterprises for scientific and technological R&D	1,000,000.00	-
Establishment of the development center for digital television receivers	1,600,000.00	1,600,000.00
Grants of Ministry of Industry and Information Technology for IPv6 high-definition multi-functional displays	1,500,900.00	1,200,000.00
Grants of Infrastructure Office of Shenzhen Finance Bureau for IPv6 high-definition displays	851,363.84	2,346,098.77
Others	6,241,067.30	118,652.19
Total	13,193,331.14	9,944,243.96

42. Non-operating expenses

Item	Amount of the current period	Amount of the previous period
Total loss of disposing non-current assets	3,814,873.37	6,652,412.36
Including: Loss of disposal of fixed assets	3,814,873.37	6,652,412.36
Expenses of donations	1,334,514.13	4,065,370.15
Expenses for penalty	458,498.00	1,048,636.70
Others	480,960.31	1,146,449.68
Total	6,088,845.81	12,912,868.89

43. Income tax expenses

Item	Amount of the current period	Amount of the previous period
Income tax of the current period calculated as per the tax law and relevant regulations	37,672,934.68	50,795,455.38
Adjustment of deferred income tax	-39,161,393.42	-33,029,388.28
Total	-1,488,458.74	17,766,067.10

44. Basic earnings per share and diluted earnings per share

	Amount of the current period		Amount of the previous period	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Profits in the reporting period				

Net profits attributed to shareholders of common shares of the Company

Net profits of non-recurring gains and losses attributed to shareholders of common shares

Remark: The earnings per share is calculated as follows:

(1) Basic earnings per share corresponding to the net profits attributed to shareholders of common shares of the Company

= Net profits attributed to shareholders of common shares of the Company / weighted mean of issued common share =

(2) Basic earnings per share corresponding to the net profits of non-recurring gains and losses attributed to shareholders of common shares of the Company

= Net profits of non-recurring gains and losses attributed to shareholders of common shares of the Company / weighted mean of issued common share

(3) The diluted earnings per share is calculated by dividing the consolidated net profits attributed to shareholders of common shares of the company adjusted according to the dilutive potential common share by the weighted mean of the adjusted issued common shares of the Company. In year 2009, no dilutive potential common share exists in the company; thus the diluted earnings per share is equal to the basic earnings per share.

45. Other comprehensive income

Item	Amount of the current period	Amount of the previous period
1. Amount of profit/loss from financial assets available for sale	511,471.60	-
Less: income tax of the financial assets available for sale	81,421.78	-
Net book value that was measured as other comprehensive income in the previous period and is converted to profit and loss in the current period	-	18,481,415.11
Subtotal	430,049.82	18,481,415.11

Item	Amount of the current period	Amount of the previous period
		1
2. Shares enjoyed in the other comprehensive income of the invested entity measured by employing the equity method	-	-
Less: Income tax from shares enjoyed in the other comprehensive income of the invested entity measured by employing the equity method	-	-
Net book value that was measured as other comprehensive income in the previous period and is converted to profit and loss in the current period	-	-
Subtotal	-	-
3. Foreign currency capital	-18,538,738.00	1,598,057.09
Less: Net book value of profit/loss that is converted in the current period by disposing oversea operations	-	-
Subtotal	-18,538,738.00	1,598,057.09
4. Other		
Less: Income tax from other that is recorded into the other comprehensive income	-	-
Net book value of other that was measured as other comprehensive income in the previous period and is converted to profit and loss in the current period	-	-
Subtotal	-	-
Total	-18,108,688.18	-16,883,358.02

46. Notes to the cash flow statements

(1) Other cash receipts relating to operating activities

Item	Amount
Revenues from interests of bank deposits	49,553,696.13
Foregift and deposits	8,237,699.50
Revenue from penalty and fine for breach of contract	2,649,314.43
Revenues from grants	53,753,887.00
Insurance compensations	9,538,101.30
Other accounts receivable and payable	22,401,625.40
Total	146,134,323.76

(2) Other cash payments relating to operating activities

Item	Amount
Cash payments	662,942,040.34
Payment for the interest of discounted notes	41,427,648.21
Payment for pledges, guarantee and warranty	15,152,438.50

Payment for handling fees of banks	13,480,688.61
Others	7,351,210.17
Total	740,354,025.83

(3) Other cash receipts relating to investment activities

Item	Amount
Compensation to the transferring of Anhui Konka Household Appliance Co., Ltd	30,000,000.00
Payment of engineering guarantee	1,500,030.50
Guarantee for contract performance	12,122,744.00
Total	43,622,774.50

(4) Other cash payments relating to investment activities

Item	Amount
Payments for relocation	10,894,845.60
Engineering guarantee	567,500.29
Total	11,462,345.89

(5) Other cash receipts relating to financing activities

Item	Amount
Payment of pledged renminbi fixed deposits	988,134,858.64
Pledged guarantees	282,780,945.44
Discounted notes	283,955,046.29
Other	2,788,081.41
Total	1,557,658,931.78

(6) Other cash payments relating to financing activities

Item	Amount
Guarantee for long-term exchange contract combinations	2,579,347,250.00
Guarantee for discounted notes	135,214,408.66
Deposits for pledges	211,813,500.00
Discount interest	3,402,339.32
Other	632,063.77
Total	2,930,409,561.75

47. Supplementary information about the cash flow statements**(1) Information about converting net profits into cash for operating activities**

Supplementary information	Amount of the current period	Amount of the previous period
1. Information about converting net profits into cash for operating activities:		
Net income / loss	147,386,572.25	263,079,827.42
Add: Asset impairment reserves	216,026,653.03	81,711,174.46
Depreciation of fixed assets, oil and gases and production materials	112,825,031.97	102,179,511.43
Amortization of intangible assets	8,391,555.20	7,612,625.27
Amortization of long-term expenses to be apportioned	12,161,827.04	8,858,922.85
Loss on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	-1,785,020.69	-3,712,595.86
Losses on scrapping of fixed assets (or deduct: gains)	1,907,290.10	4,048,010.87
Losses on change of fair value (or deduct: gains)	-16,155,044.16	-4,767,744.76
Financial expenses (or deduct: gains)	49,818,043.93	20,351,662.68
Investment losses (or deduct: gains)	-3,220,262.14	20,958,164.63
Decrease in deferred income tax assets (or deduct: increase)	-39,907,041.80	-33,029,388.28
Increase of deferred income tax liabilities (or deduct: decrease)	745,648.38	-
Decrease in inventories (or deduct: increase)	-1,158,459,964.75	294,822,037.07
Decrease in operating receivables (or deduct: increase)	-450,849,914.52	-58,977,415.23
Increase of operating payables (or deduct: decrease)	1,415,218,184.39	-340,492,714.26
Other	-	-
Net cash flows from operating activities	294,103,558.23	362,642,078.29
2. investing and financing activities that do not involve cash receipts and payments:		
Conversion of debt into capital	-	-
Convertible bonds to be expired within one year	-	-
Fixed assets under finance lease	-	-
3. Net increase in cash and cash equivalents		
Cash at the end of the period	749,951,416.29	845,026,867.06
Less: Cash at the beginning of the period	845,026,867.06	752,558,414.47
Add: Cash equivalents at the end of the period	-	-
Less: Cash equivalents at the beginning of the period	-	-
Net increase in cash and cash equivalents	-95,075,450.77	92,468,452.59

(2) Composition of cash and cash equivalents

Item	End. balance	Beg. balance
I. Cash	749,951,416.29	845,026,867.06
Including: Inventory cash	78,085.59	10,396.35
Bank deposits that can be used for payments at any time	749,873,330.70	845,016,470.71
Other currency funds that can be used for payment at any time	-	-
Deposits in the central bank that can be used for payments	-	-
II. Cash equivalents	-	-
Including: Bond investment due within three months	-	-
III. Balance of cash and cash equivalents at the end of the period	749,951,416.29	845,026,867.06

VIII. Related Parties and Associated Transactions

1. Information about the parent company

Name of the parent company	Relationship	Nature of enterprise	Registration place	Legal representative	Business nature
OCT Enterprises Co.	The parent of the Company	State-owned holdings	Shenzhen	Ren Kelei	Tourism, real estate and electronic industry

(Continued)

Name of the parent company	Registered capital	Proportion of shares held by the parent company (%)	Proportion of voting shares held by the parent company (%)	The final holding party of the Company	Organization code
OCT Enterprises Co.	RMB 2,000,000,000	19.00	19.00	OCT Enterprises Co.	19034617-5

2. For information about subsidiary companies of the Company, see No. 1 of Note 6.

3. For information about joint ventures and affiliated enterprises of the Company, see No. 10 of Note 7.

4. Information about other related parties of the Company

Name of other related party	Relationship with the Company	Organization code
Shenzhen OCT East Co., Ltd	Subsidiary company of the final holding company	75252879-9
Shanghai OCT Investment Development Co., Ltd	Subsidiary company of the final holding company	78589775-0
Chengdu Tianfu OCT Industrial Development	Subsidiary company of the final	78012858-1

Name of other related party	Relationship with the Company	Organization code
Co., Ltd	holding company	
Beijing Century OCT Industrial Co., Ltd	Subsidiary company of the final holding company	74005033-7
Taizhou OCT Co., Ltd	Subsidiary company of the final holding company	79457788-X
Shanghai Tianxiang OCT Investment Co., Ltd	Subsidiary company of the final holding company	74805502-8
Guangzhou Panyu Huali Youde Printing and Packing Co., Ltd	Subsidiary company of the final holding company	72378549-7
Anhui Huali Packaging Co., Ltd	Subsidiary company of the final holding company	76276957X
Chongqing Machinery & Electronics Holding (Group) Co., Ltd	Shareholder of Chongqing Qingjia	
OCT Hotel Group	Subsidiary company of the final holding company	71524077-X
Shenzhen OCT Water and Electricity Supply Co., Ltd	Subsidiary company of the final holding company	19217869-7

5. Transactions among related parties

(1) Transactions of buying and selling commodities, providing and accepting labor services

Related party	Transaction type	Transaction content	Pricing principle	Amount of the current period		Amount of the previous period	
				Amount	Percentage in the same transactions (%)	Amount	Percentage in the same transactions (%)
Shenzhen OCT East Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	7,034,950.00	0.05	5,294,188.03	0.04
Shanghai OCT Investment Development Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	11,056,300.00	0.08	-	-
Chengdu Tianfu OCT Industrial Development Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	4,980,700.00	0.04	17,487,179.49	0.15
Taizhou OCT Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	1,500,000.00	0.01	-	-
Shanghai Tianxiang OCT Investment Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	385,200.00	-	-	-
Beijing Century OCT Industrial Co., Ltd	Selling commodities	Selling LCDs	Negotiated prices	-	-	1,068,376.07	0.01
Shenzhen Dekon Electronic Co., Ltd	Purchasing goods	Buying component	Market price	-	-	44,871,754.44	0.37

Related party	Transaction type	Transaction content	Pricing principle	Amount of the current period		Amount of the previous period	
				Amount	Percentage in the same transactions (%)	Amount	Percentage in the same transactions (%)
		s					
Anhui Huali Packaging Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	24,067,965.82	0.18	37,770,736.55	0.31
Shanghai Huali Packaging Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	11,514,832.99	0.09	22,673,519.98	0.19
Shenzhen Huayou Packaging Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	12,096,288.30	0.09	13,355,685.20	0.11
Shenzhen Huali Packing and Trading Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	9,623,339.39	0.07	6,747,272.28	0.06
Guangzhou Panyu Huali Youde Printing and Packing Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	2,939,202.08	0.02	5,268,163.89	0.04
Huizhou Huali Packaging & Trading Co., Ltd	Purchasing goods	Buying packing materials	Negotiate d prices	4,373,339.46	0.03	-	-
OCT Hotel Group	Purchasing goods	Hotel guestroom, and catering	Market price	3,966,715.92	0.03	4,723,032.08	0.04
Shenzhen OCT Water and Electricity Supply Co., Ltd	Purchasing goods	Water and electricity supply	Negotiate d prices	9,006,052.37	0.07	9,176,985.25	0.08

(2) Salaries of key management personnel

Total pre-tax salary obtained from the Company in the reporting period (In Renminbi: 10,000 yuan)

	Salary, allowance and social insurance	Bonus	Total
Total amount	363.54	671.09	1,034.63

6. Amounts receivable from and amount payable to related parties

Item	Related party	End. balance	Beg. balance
Accounts receivable			
	Shenzhen OCT East Co., Ltd	3,807,962.00	6,269,712.00
	Beijing Century OCT Industrial Co., Ltd	62,500.00	875,000.00

Item	Related party	End. balance	Beg. balance
	Chengdu Tianfu OCT Industrial Development Co., Ltd	3,617,200.00	12,674,000.00
	Shanghai OCT Investment Development Co., Ltd	550,665.00	-
	Shenzhen Konka Energy Technology Co., Ltd	-	40,265.09
Total		8,038,327.00	19,858,977.09
Other receivables			
	Anhui Huali Packaging Co., Ltd	9,585.00	-
	Shenzhen OCT Gas Station Co., Ltd	80,000.00	80,000.00
	Shenzhen OCT Real Estate Co., Ltd	1,212,178.86	1,303,396.86
	Shenzhen OCT Property Management Co., Ltd	77,402.65	77,402.65
	Dongyangyi Industry Co., Ltd	490,000.00	-
	Shenzhen Shangyongtong Investment Development Co., Ltd	-	5,957,923.38
	Shenzhen OCT Water and Electricity Supply Co., Ltd	1,033,314.68	2,007,744.22
Total		2,902,481.19	9,426,467.11
Notes receivable			
	Shenzhen OCT East Co., Ltd	1,358,590.00	900,000.00
Total		1,358,590.00	900,000.00
Accounts payable			
	Chongqing Jingkang Plastic Products Co., Ltd	56,188.95	788,656.20
	Shenzhen Dekon Electronic Co., Ltd	356,545.32	3,311,410.85
	Anhui Huali Packaging Co., Ltd	627,399.63	380,283.77
	Shenzhen Huali Packing and Trading Co., Ltd	1,658,918.20	1,712,854.91
	Guangzhou Panyu Huali Youde Printing and Packing Co., Ltd	261,230.02	117,456.53
	Shenzhen Huayou Packaging Co., Ltd	169.91	2,608,821.88
	Huizhou Huali Packaging & Trading Co., Ltd	216,974.11	-
	Shanghai Huali Packaging Co., Ltd	-	1,644,331.44
Total		3,177,426.14	10,563,815.58
Advance receipts			
	Taizhou OCT Co., Ltd	684,000.00	-
Total		684,000.00	-

Item	Related party	End. balance	Beg. balance
Other payables			
	Guangzhou Panyu Huali Youde Printing and Packing Co., Ltd	800,000.00	-
	Chongqing Machinery & Electronics Holding (Group) Co., Ltd	129,179.23	129,179.23
	Anhui Huali Packaging Co., Ltd	50,000.00	-
	Shenzhen Dekon Electronic Co., Ltd	-	210,000.00
Total		979,179.23	339,179.23

IX. Contingencies

3. Contingent liabilities and financial effects caused by pending litigation or arbitration

As of December 19, 2007, the Design, Manufacture and Erection Contract for the Beijing Pangu Large-scale Outdoors Full-Color LED Display Screen (Turn-key Project) (hereinafter referred to as the “Contract Agreement”) was made by and between the subsidiary of Company-Shenzhen Konka Video & Communication Systems Engineering Co., Ltd., (hereinafter referred to as Shenzhen Konka Video & Communication) and Beijing Pangu Investment Co., Ltd. (hereinafter referred to as the “Pangu Company”), stipulating that the total project period shall be 120 days, the contracted budget price of total engineering payment shall be renminbi 103,357,500 yuan. With six apartments of 3,707.70m² at a total price of renminbi 103,357,500 yuan of “Beijing Mogan 7 Star Plaza” in pledge, Pangu Company and Konka Video & Communication entered into the *Advance Sale for Beijing Commercial Building* (hereinafter referred to as the “Advance Sale Contract”) numbered [Y581462], [Y581455], [Y581458], [Y581459], [Y581460] and [Y581461], and the receipt with equivalent purchase price shall be issued. Meanwhile, both parties have entered into the *Supplementary Agreement* concerning the payment time and payment mode. As agreed, Beijing Pangu, prior to March 30, 2009, shall pay the total construction cost amounting to renminbi 103,357,300 yuan in a lump sum to Shenzhen Konka Video & Communication.

2. Termination of the Advance Agreement: The agreement terminates automatically where Beijing Pangu deposits the payment of renminbi 103,357,300 yuan to the account of Shenzhen Konka Video & Communication prior

to March 30, 2009. Shenzhen Konka Video & Communication returns pledged apartments and receipts to Beijing Pangu and assists Beijing Pangu in canceling the Advance Agreement. The responsibilities and obligations of both parties arising from the Advance Agreement are terminated.

After the completion of the project, Shenzhen Konka Video & Communication delivered LED displays to Beijing Pangu in July 2008 prior to the start of Beijing Olympic Games. In March, 2009, the project was accepted after the joint acceptance inspection by the involved engineering supervision entity, design entity, Beijing Pangu and Shenzhen Konka Video & Communication and Shenzhen Konka Video & Communication delivered all engineering documents to Beijing Pangu. Shenzhen Konka Video & Communication performed all its responsibilities under the agreement, however Beijing Pangu failed to perform its responsibilities. As of the date of the reporting date, Shenzhen Konka Video & Communication did not receive the account receivable from Beijing Pangu amounting to renminbi 103,357,300 yuan and the Advance Agreement is not terminated.

Shenzhen Konka Video & Communication raised a civil litigation to Beijing Higher People's Court on July 13, 2009 to and submitted an application for attachment at the same day to seal up Apartments 1001, 1101, 1201, 1501, 1601 and 1701 in Unit 5 and Apartment 1001, 1101 and 901 in Unit 6 in Beijing Mogan 7 Star Plaza at Beisihuan M. Road, Chaoyang District, Beijing or freeze properties or assets of the respondent, amounting to renminbi 150,609,219 yuan.

On August 17, 2009, Beijing Higher People's Court issued GMCZ (2009) No. 4237 Civil Ruling Paper and sealed up the property amounting to renminbi 150,609,219 yuan owned by Beijing Pangu.

As of the reporting date of the financial statement, Beijing Higher People's Court did not make the first-instance judgment on the litigation.

(2) The Company had established long-term product purchase and sales contract relationship with LG-Philips-Shuguang Electronics Co., Ltd (hereinafter referred to as LG-Philips) since 1995 and signed a product purchase and sales contract with LG-Philips every year. Due to the default on advance payment amounting to renminbi 8,575,429.64 yuan by LG-Philips, the Company raised a civil litigation against

LG-Philips to Shenzhen Nanshan District People's Court on June 11, 2009, asking for ordering LG-Philips to pay up the amount of renminbi 8,575,429.64 yuan and undertake all expense in litigation. After arbitration, as of the reporting date of the financial statement, an amount of about renminbi 1,480,000 yuan is still not received. Upon the application of the Company, Shenzhen Nanshan District People's Court sealed up the property with the amount of renminbi 2,000,000 yuan owned by LG-Philips.

2. Use of letters of credit

In 2009, the Company issued letters of credit with the total amount of renminbi 3,300,000,000 yuan, of which an amount of renminbi 2,380,000,000 yuan has been paid and an amount of renminbi 922,000,000 yuan is not paid.

3. Other contingent liabilities and effects on financial affairs

As of December 31, 2009, the Company has no other significant contingencies that need to be disclosed.

X. Commitments

As of December 31, 2009, the Company has no significant commitments that need to be disclosed.

XI. Post Balance Sheet Date Events

1. Description to significant post balance sheet date events

(1) In March 2010, PICCP&C paid the compensation amounting to renminbi 2,352,000 yuan to the loss of Anhui Konka Household Appliance Co., Ltd caused by heavy rain on August 1, 2008 under policy No. PQYA200844039306000001 and to the loss of Anhui Konka Household Appliance Co., Ltd caused by heavy snow on November 16, 2009 under policy No. PQYA200944039306000009. In addition, according to the summary of minutes of the Administrative Committee of Chuzhou Economic Development Zone, China MCC17 Group Co., Ltd undertook the direct loss of Factory B that collapsed in the snow hazard of Anhui Konka Household Appliance Co., Ltd and was responsible for removing and rebuilding of the factory.

(2) In accordance with the document KJZ No. (2009) 36, the Company, through study on the 32nd meeting of the sixth board of directors, decided to set up two

wholly-funded subsidiary companies, Konka Optoelectronic Technology Co., Ltd (interim name) and Konka Software Technology Co., Ltd (interim name) and put New Technology Institute, Core Component Institute and Module Institute of Konka Color Television R&D Center under Konka Optoelectronic Technology Co., Ltd (interim name) and put Software Institute and Industrial Technology Institute of Konka Color Television R&D Center under Konka Software Technology Co., Ltd (interim name). The meeting approved the registered capitals with the amount of renminbi 10,000,000 yuan respectively of the two companies and that Konka Group held all shares of the two companies. As of the approval date of the financial statement, the capital has been deposited into the temporary deposit account of Konka Optoelectronic Technology Co., Ltd.

(3) In accordance with the document KJ No. (2010) 3, the sixth board of directors, through discussion on the 35th meeting, approved that the Company extended the production base of white goods with joint funding of the Administrative Committee of Chuzhou Economic Development Zone. The specific schemes are as follows:

Konka Group and the Administrative Committee of Chuzhou Economic Development Zone (with the carrier of companies under its administration) set up a joint venture in the economic development zone with the registered capital of renminbi 180,000,000 yuan. Both parties hold 50% shares of the joint venture. The Administrative Committee of Chuzhou Economic Development Zone contributes in cash and Konka Group contributes with its held shares of Anhui Konka Household Appliance Co., Ltd (the actual value is determined as per the net assets after evaluation, if the evaluated value exceeds the amount of subscribed capital of Konka Group, that is, renminbi 90,000,000 yuan, the evaluated value is adjusted to renminbi 90,000,000 yuan through profit distribution) and pay up in cash where the held shares are insufficient. The joint venture will set up two refrigerator production lines, three washing machine productions and one freezer production line. The investment on fixed assets is about renminbi 356,000,000 yuan. According to the meeting, the investment on fixed assets of the joint venture must be contributed in the future three years according to the market development and actual production capacity requirement of white goods service. The land for setting up the joint venture (about 250 to 300 mou) is provided by Chuzhou Economic Development

Zone. The benchmark land price is about renminbi 112,000 yuan/mou. The actual land price is subject to the land price determined by bidding. The joint venture sets up the board of directors with five members. The Company nominates three members of the board and Chuzhou Municipal Government nominates two members of the board. General Manager and financial manager of the joint venture are nominated by the Company.

2. Profit distribution proposal

On April 22, 2010, the board of directors of the Company reached the resolution on profit distribution proposal. The suggested profit distribution proposal for year 2009 is as follows: the Company pays cash dividend of renminbi 0.10 yuan for every 10 shares for all shareholders based on the total capital of 1,203,972,704 shares of the Company at the end of year 2009. The abovementioned profit distribution proposal shall be approved by the General Meeting of Shareholders of the Company.

XII. Description of Other Significant Matters

1、 Assets and liabilities measured in fair value

Item	Amount at the beginning of the period	Profit/loss from change of fair value of the current period	Change of fair value that is recorded into the equity in the current period	Change of accumulated fair value that is recorded into the equity	Allotted impairment in the current period	Amount at the end of the period
Derivative financial assets	-	3,673,164.00		-	-	3,673,164.00
Financial assets available for sale	9,756,649.50	-	511,471.60	-1,043,626.97	-	10,268,121.10
Subtotal of financial assets	9,756,649.50	3,673,164.00	511,471.60	-1,043,626.97	-	13,941,285.10
Derivative financial liabilities	12,481,880.16	12,481,880.16	-	-	-	-
Subtotal of financial liabilities	12,481,880.16	12,481,880.16	-	-	-	-

2. Losses has occurred in Chongqing Konka Automotive Electronic Co., Ltd, Chongqing Konka Electronic C., Ltd and Mudanjiang Konka Electronic Co., Ltd, subsidiary companies of the company, in successive years and their operating

activities are virtually stopped. As of the approval date of the financial statement, the Company has not made any decision to stop operating activities of these companies.

3. In accordance with the agreement on relocation and investment compensation of old factory of Anhui Konka Household Appliance Co., Ltd signed between Anhui Konka Household Appliance Co., Ltd, a subsidiary company of the Company, and the Administrative Committee of Chuzhou Economic Development Zone on March 27, 2009, the factory of Anhui Konka Household Appliance Co., Ltd at No. 42 Langya Gudao with an area of 54,620.40 square meters shall be relocated according to the urban planning of Chuzhou (CGYZ No. (2002) 01544 and CGYZ No. (2003) 00138). The Administrative Committee supported the strategic development, product upgrade and technical reform of Anhui Konka Household Appliance Co., Ltd and provided subsidies of renminbi 50,000,000 yuan for the losses on relocation, housings and buildings, equipment and relevant expenses. Meanwhile, to support the transformation from tradition color television to flat panel television, accelerate product upgrade and technical reform, the Administrative Committee provided a special subsidy of renminbi 30,000,000 yuan to Anhui Konka Household Appliance Co., Ltd. The agreement defines the terms and time of payment: Anhui Konka Household Appliance Co., Ltd starts the relocation from April 1, 2009 and the Administrative Committee pays an amount of renminbi 10,000,000 yuan to Anhui Konka Household Appliance Co., Ltd prior to March 30, 2009; Anhui Konka Household Appliance Co., Ltd starts factory and logistic planning and construction in August 2009 and the Administrative Committee tries to pay an amount of renminbi 10,000,000 yuan prior to September 30 and an amount of renminbi 20,000,000 yuan prior to December 20, 2009 (if the Administrative Committee fails to pay the amount of renminbi 10,000,000 yuan on time, it pays the amount of renminbi 30,000,000 prior to December 20, 2009). The Administrative Committee pays up all subsidies prior to June 30, 2010.

Anhui Konka Household Appliance Co., Ltd completed the relocation in 2009 and actually received the subsidy with actual amount of renminbi 30,000,000 yuan. As of the approval date of the financial statement, Anhui Konka Household Appliance Co., Ltd received cumulatively the subsidy on relocation of renminbi

50,000,000 yuan and special subsidy of renminbi 10,000,000 yuan.

4. The subsidiary of the Company-Anhui Konka Household Appliance Co., Ltd got a loan of renminbi 30,000,000 yuan from Chuzhou Branch of Bank of China. As of March 1, 2008, the Ceiling Amount of Mortgage Contract numbered 2008 CZYDIZ No. 021, was entered into by Anhui Electric and Chuzhou Branch of Bank of China. As stipulated, the business for loan, trade financing, Guarantee, financial and other credit business (collectively called “Single contract”) as well as the amended or supplemented parts were the main contracts under that contract. The maximum principal balance of the secured Debt of the contract was renminbi 25,000,000 yuan, with the following guaranties: the land tenancy numbering CGY (2007) No. 00144 at original carrying value of renminbi 3,357,100 yuan, net carrying value of renminbi 3,150,000 yuan and assessed value of renminbi 17,282,400 yuan; the land tenancy numbering CGY (2007) No. 00464 at original carrying value of renminbi 2,996,800 yuan, net carrying value of renminbi 2,842,000 yuan and assessed value of renminbi 15,593,700 yuan; the No.00886 building of 2008 Zi Property Right Certificate at original carrying value of renminbi 15,250,600 yuan, net carrying value of renminbi 14,443,900 yuan and assessed value of renminbi 23,151,800 yuan.

5. The subsidiary of the Company-Anhui Konka got a loan of renminbi 50,000,000 yuan from Chuzhou Branch of Bank of China. As stipulated, the land tenancy (CGY (2006) No. 00451 Land Certificate and CGY(2007) No.00476 Land Certificate) of the Company’s land of 93,946m² located in the east side of Nanqiao South Road, Chuzhou Development Zone, at original carrying value of renminbi 8,511,900 yuan and net carrying value of renminbi 6,438,200 yuan; and the Company’s house property right (Chu 2000 Zi No. 01194 Property Right Certificate, Chu 2002 Zi No. 02068 Property Right Certificate, Chu 2007 Zi No. 00357 Property Right Certificate) of the old factory, buildings A, B, D, E, substation, and warehouse F located in the east side of Nanqiao South Road, Chuzhou Development Zone, at original carrying value of renminbi 59,502,400 yuan and net carrying value of renminbi 44,803,200 yuan shall be jointly mortgaged and evaluated as renminbi 38,050,000 yuan to secure the loan amounting to renminbi 38,000,000 yuan

including the principal of renminbi 22,000,000 yuan extended before November 9, 2007 by Chuzhou Branch, Bank of China to Anhui Konka valid from November 20, 2007 to November 20, 2010, and the principal prior to November 9, 2007.

6. On July 28, 2008, Shenzhen Konka Communication Technology Co., Ltd. and Shenzhen Branch of Bank of China entered into the Credit Line Agreement numbered “2008 ZZYEX No. 000160”, stipulating that the loan amount valid from July 28, 2008 to July 31, 2010 shall not exceed the comprehensive credit line of renminbi 3,500,000,000 yuan. According to the Agreement, the Company shall be the accredited party, and Shenzhen Konka Communication Technology Co., Ltd. shall be the authorized withdrawer. As of July 28, 2008, the Ceiling Amount mortgage contract numbered ZZYSDE No. 0060 and the Ceiling Amount Pledge Contract numbered ZZYSZE No. 000018, 000019, 000020 and 000021 were made by the Company, the holding subsidiary- Shenzhen Konka Communication Technology Co., Ltd. and Shenzhen Branch of Bank of China. As stipulated, the bank’s acceptance bill of not less than renminbi 1,200,000,000 yuan, the margin accounts with A/C No. 82100364308401001 and 820100666008401001, shall be pledged to secure all liabilities incurred under the Credit Line Agreement, which shall be secured by the packing materials workshop of Dongguan Konka Electronic Co., Ltd. with the original carrying value of renminbi 19,073,800.00 yuan and net carrying value of renminbi 13,202,900.00 yuan and the assessed value of renminbi 10,435,200.00 yuan, No. 2 workshop of Dongguan Konka Electronic Co., Ltd. with the original carrying value of renminbi 48,254,900.00 yuan and net carrying value of renminbi 33,010,400.00 yuan and the assessed value of renminbi 33,455,200.00 yuan, the Phase II workshop of Dongguan Konka Electronic Co., Ltd. With the original carrying value of renminbi 132,735,700.00 yuan and net carrying value of renminbi 111,446,700.00 yuan and the assessed value of renminbi 187,061,600.00 yuan.

7. On July 8, 2007, Konka Group Co., Ltd. and Shenzhen Branch of China Construction Bank entered into the Comprehensive Financing Line Contract numbered “Loan 2008 No. Zong 0228007R”, stipulating that the loan amount valid from July 10, 2008 to July 9, 2009 shall not exceed the total amount of renminbi

300,000,000 yuan.

On July 2, 2009, the company and Shenzhen Branch of China Construction Bank entered into the Comprehensive Financing Line Contract numbered “Loan 2009 No. Zong 0743007R”, stipulating that the loan amount valid from July 15, 2009 to July 14, 2009 shall not exceed the total amount of renminbi 500,000,000 yuan (loan amount of current capital is renminbi 50,000,000.00 yuan, guarantee amount is renminbi 20,000,000 yuan, acceptance bill line of commercial bank is renminbi 200,000,000.00 yuan and the loan amount for trade financing is 180,000,000.00).

8. On September 5, 2008, the company signed a contract with Shenzhen Development Bank OCT (Overseas Chinese Town) Branch, a General Credit Contract, numbered as “SF OCT zongzidi 20080301001”, agreed that the total amount of load from 2008 to 2009 shall not exceed renminbi 500,000,000 yuan.

On March 26, 2009, the company signed a contract with Shenzhen Development Bank OCT Branch, a General Credit Limit Contract, numbered as “SF OCT zongzidi 20090325001”, agreed that the total amount of load from January 1, 2009 to December 28, 2009 shall not exceed renminbi 300,000,000 yuan.

9. On August 29, 2008, the company signed a one year contract dated from August 7, 2008 to August 7, 2009 with Bank of Communications Co., Ltd. OCT Branch, a General Credit Contract, numbered as “Jiaoyin C433302008000000300”, and agreed the total amount of credit degree is 200 million RMB (loan amount of RMB current capital is 15,000, acceptance bill line of issuing bank is 100 million, issuing import letter of credit of 200 million).

10. On May 14, 2009, the company signed a contract with Shenzhen Branch of China Minsheng Banking Corp., Ltd., a General Credit Contract, numbered as “2009 Shendianzi zonggezi 002”, agreed that the total amount of load from May 14, 2009 to December 31, 2009 shall not exceed 500 million RMB.

XIII. Note to the Financial Statements of the Parent Company

1. Accounts receivable

(1) Accounts receivable are listed below as per category

Category	End. balance	
	Book balance	Bad debt reserves

	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount	536,752,914.49	41.61	4,823,680.38	2.61
The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	172,145,130.14	13.35	167,680,448.26	90.78
Other insignificant accounts receivable	580,925,426.6	45.04	12,197,557.78	6.61
Total	1,289,823,471.23	100.00	184,701,686.42	100.00

(Continued)

Category	Beg. balance			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount	481,797,364.65	38.99	6,235,264.51	3.57
The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis	163,149,481.88	13.20	152,427,748.12	87.26
Other insignificant accounts receivable	590,702,626.25	47.81	16,016,392.74	9.17
Total	1,235,649,472.78	100.00	174,679,405.37	100.00

Remark: Recognition basis of accounts receivable with significant individual amount: the account receivable with the balance at the end of the period greater than renminbi 20,000,000.

(2) Bad debt reserves at the end of the period

The accounts receivable with significant individual amount or with insignificant amount but independently impairment tested amount to renminbi 536,752,914.49 yuan. The allotted bad debt reserves amount to renminbi 4,823,680.38 yuan.

The portfolio with insignificant single amount has a greater risk after combined on the credit risk basis

Age	End. balance			Beg. balance		
	Book balance		Bad debt reserves	Book balance		Bad debt reserves
	Amount	Proportion (%)		Amount	Proportion (%)	
Three to four years	21,372,480.60	1.66	11,733,415.02	12,989,135.62	1.05	6,494,567.81
Four to five	4,219,979.43	0.33	6,531,326.88	6,060,756.17	0.49	3,030,378.09

Age	End. balance			Beg. balance		
	Book balance		Bad debt reserves	Book balance		Bad debt reserves
	Amount	Proportion (%)		Amount	Proportion (%)	
years						
Five years or longer	146,552,670.11	11.36	149,415,706.36	144,099,590.09	11.66	142,902,802.22
Total	172,145,130.14	13.35	167,680,448.26	163,149,481.88	13.20	152,427,748.12

Remark: The recognition basis of the account receivables with insignificant individual amount but with a greater risk after portfolio on the credit risk basis: the balance of the account receivable is less than renminbi 20,000,000 yuan with the age of three or longer years.

(3) No accounts receivable are actually written off in the current reporting period.

(4) For information about accounts receivable that were written off in the previous period and are recovered in the current period, see 4(3) of Note 7.

(5) In the reporting period, no shareholder entity that holds 5% or more shares of the Company owes debts to the Company.

(6) The total amount of the top five accounts receivable at the end of the current period is renminbi 548,049,819.24 yuan, about 42.49% of the total accounts receivable.

(7) Accounts receivable from related parties

Name	Relationship with the Company	Amount	Percentage in the total accounts receivable (%)
Hong Kong Konka International Electronics Co., Ltd	Subsidiary company	239,659,679.26	18.58
Dongguan Konka Mould Plastic Co., Ltd	Subsidiary company	55,909,216.01	4.33
Shaanxi Konka Electronic Co., Ltd	Subsidiary company	13,941,112.68	1.08
Mudanjiang Konka Electronics Co., Ltd	Subsidiary company	10,483,946.66	0.81
Shenzhen Shushida Electronics Co., Ltd	Subsidiary company	1,196,787.87	0.09
Total		321,190,742.48	24.89

2. Other receivables

(1) Other receivables are listed below as per category

Category	End. balance	
	Book balance	Bad debt reserves

	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with significant individual amount	808,467,408.91	92.27	-	-
Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis	27,658,478.47	3.16	11,782,510.53	93.31
Other insignificant receivables	40,065,240.66	4.57	845,098.22	6.69
Total	876,191,128.04	100.00	12,627,608.75	100.00

(Continued)

Category	Beg. balance			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with significant individual amount	982,918,174.28	92.08	-	-
Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis	20,926,212.94	1.96	8,888,078.42	81.60
Other insignificant receivables	63,624,685.94	5.96	2,004,107.50	18.40
Total	1,067,469,073.16	100.00	10,892,185.92	100.00

Remark: Recognition basis of accounts receivable with significant individual amount: the account receivable with the balance at the end of the period is greater than renminbi 10,000,000 yuan.

(2) Bad debt reserves at the end of the period

Other receivables with significant individual amounts or with insignificant individual amounts but independently tested for impairment at the end of the period

Other receivables	Book value	Bad debt reserves	Allotment proportion	Reason
Accounts receivable and payable	808,467,408.91	-	-	In the consolidated range, related parties do no allot bad debt reserves.

Other receivables with insignificant single amount has a greater risk after combined on the credit risk basis

Age	End. balance		Beg. balance	
	Book balance	Bad debt reserves	Book balance	Bad debt reserves

	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Three to four years	3,050,552.67	0.35	1,346,789.20	4,870,232.62	0.46	2,435,116.31
Four to five years	373,008.42	0.04	255,763.65	13,932,713.11	1.31	4,329,694.90
Five years or longer	24,234,917.38	2.76	10,179,957.68	2,123,267.21	0.20	2,123,267.21
Total	27,658,478.47	3.15	11,782,510.53	20,926,212.94	1.96	8,888,078.42

(3) In other receivables in the reporting period, no shareholder entity that holds 5% or more shares of the Company owes debts to the Company.

(4) Accounts receivable from related parties

Name	Relationship with the Company	Amount	Percentage in total other receivables (%)
Anhui Konka Electronic Co., Ltd	Subsidiary company	8,502,907.51	0.97
Boluo Konka Precision Technology Co., Ltd	Subsidiary company	29,240,898.06	3.34
Boluo Konka Printed Board Co., Ltd	Subsidiary company	20,565,937.48	2.35
Changshu Konka Electronic Co., Ltd	Subsidiary company	735,872.24	0.08
Dongguan Konka Packing Material Co., Ltd	Subsidiary company	3,992,399.45	0.46
Dongguan Konka Electronic Co., Ltd	Subsidiary company	167,904,393.70	19.16
Dongguan Konka Mould Plastic Co., Ltd	Subsidiary company	140,509,555.77	17.09
Konka Household Appliances International Trading Co., Ltd	Subsidiary company	36,709,409.47	4.19
Konka Nanhai Institute	Subsidiary company	611,710.50	0.07
Konka Electric and Electronic Co., Ltd	Subsidiary company	14,534,967.14	1.66
Shenzhen Information Network Co., Ltd	Subsidiary company	44,943,991.70	5.13
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd	Subsidiary company	332,137,704.18	37.91
Chongqing Konka Electronic Co., Ltd	Subsidiary company	11,812,038.04	1.35
Chongqing Konka Automotive Electronic Co., Ltd	Subsidiary company	11,608,513.37	1.32
Chongqing Qingjia Electronic Co., Ltd	Subsidiary company	5,078,811.53	0.58
Total		828,889,110.14	94.60

Remark: The top five other receivables are all subsidiary companies of the Company.

3. Long-term equity investment

(1) List of long-term equity investment

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Investment on subsidiary companies	1,174,259,154.56	200,000,000.00	-	1,374,259,154.56
Investment on jointly funded enterprises	-	-	-	-
Investment on affiliated enterprises	-	-	-	-
Other equity investments	9,885,000.00	153,000.00	-	10,038,000.00

Item	Beg. balance	Increase of the period	Decrease of the period	End. balance
Less: provisions for depreciation of long-term equity investments	34,632,484.69	71,062,500.00	-	105,694,984.69
Total	1,149,511,669.87	129,090,500.00	-	1,278,602,169.87

(2) Long-term equity investment measured by employing the equity method

Invested entity	Accounting method	Initial investment costs	Beg. balance	Increase/decrease amounts	End. balance
Mudanjiang Konka Electronics Co., Ltd	Cost method	36,000,000.00	36,000,000.00	-	36,000,000.00
Shaanxi Konka Electronic Co., Ltd	Cost method	44,869,809.80	44,869,809.80	-	44,869,809.80
Anhui Konka Electronic Co., Ltd	Cost method	122,780,937.98	122,780,937.98	-	122,780,937.98
Dongguan Konka Electronic Co., Ltd	Cost method	274,783,988.91	274,783,988.91	-	274,783,988.91
Hong Kong Konka International Electronics Co., Ltd	Cost method	781,828.61	781,828.61	-	781,828.61
Chongqing Konka Electronic Co., Ltd	Cost method	27,000,000.00	27,000,000.00	-	27,000,000.00
Anhui Konka Household Appliance Co., Ltd	Cost method	74,981,122.07	74,981,122.07	-	74,981,122.07
Konka (Europe) Ltd	Cost method	261,482.50	261,482.50	-	261,482.50
Konka Nanhai Institute	Cost method	500,000.00	500,000.00	-	500,000.00
Kunshan Konka Electronic Co., Ltd	Cost method	350,000,000.00	350,000,000.00	-	350,000,000.00
Chongqing Jingkang Plastic Products Co., Ltd	Cost method	4,655,000.00	4,655,000.00	-	4,655,000.00
Konka Electric and Electronic Co., Ltd	Cost method	10,732,484.69	10,732,484.69	-	10,732,484.69
Shenzhen Konka Communication Technology Co., Ltd	Cost method	90,000,000.00	90,000,000.00	-	90,000,000.00
KONKA AMERICA, INC	Cost method	8,062,500.00	8,062,500.00	-	8,062,500.00
Shenzhen Information Network Co., Ltd	Cost method	22,500,000.00	22,500,000.00	-	22,500,000.00
Shenzhen Shushida Electronics Co., Ltd	Cost method	31,500,000.00	31,500,000.00	-	31,500,000.00
Shenzhen Konka	Cost method	9,000,000.00	9,000,000.00	-	9,000,000.00

Invested entity	Accounting method	Initial investment costs	Beg. balance	Increase/decrease amounts	End. balance
Video & Communication Systems Engineering Co., Ltd					
Chongqing Konka Automotive Electronic Co., Ltd	Cost method	17,100,000.00	17,100,000.00	-	17,100,000.00
Shenzhen Electronic Fittings Technology Co., Ltd	Cost method	48,750,000.00	48,750,000.00	-	48,750,000.00
Konka (Kunshan) Real Estate Investment Co., Ltd	Cost method	200,000,000.00		200,000,000.00	200,000,000.00
Shenzhen Julong Optoelectronics Co., Ltd	Cost method	2,000,000.00	2,000,000.00		2,000,000.00
Feihong Electronics Co., Ltd	Cost method	1,300,000.00	1,300,000.00	-	1,300,000.00
Shenzhen Association of Enterprises with Foreign Investment	Cost method	100,000.00	100,000.00	-	100,000.00
Shenzhen Make-plan Investment Development Co., Ltd	Cost method	485,000.00	485,000.00	-	485,000.00
IGRS Information Technology Engineering Center Co., Ltd	Cost method	5,000,000.00	5,000,000.00	-	5,000,000.00
Shenzhen CTU Hi-tech Ltd	Cost method	1,000,000.00	1,000,000.00	153,000.00	1,153,000.00
Total			1,184,144,154.56	200,153,000.00	1,384,297,154.56

(Continued)

Invested entity	Proportion of shares held in the invested entity (%)	Percentage of voting rights in the invested entity (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested entity	Impairment provision	Impairment provision allotted of the current period	Cash dividends of the current period
Mudanjiang Konka Electronics Co., Ltd	60.00	60.00		36,000,000.00	36,000,000.00	-
Shaanxi Konka	60.00	60.00		-	-	1,350,000.00

Invested entity	Proportion of shares held in the invested entity (%)	Percentage of voting rights in the invested entity (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested entity	Impairment provision	Impairment provision allotted of the current period	Cash dividends of the current period
Electronic Co., Ltd						
Anhui Konka Household Appliance Co., Ltd	96.46	97.45	Anhui Konka Electronic Co., Ltd indirectly holds 4.48% of shares of Anhui Konka Household Appliance Co., Ltd	-	-	-
Dongguan Konka Electronic Co., Ltd	100.00	100.00		-	-	-
Hong Kong Konka International Electronics Co., Ltd	99.00	100.00		-	-	-
Chongqing Konka Electronic Co., Ltd	60.00	60.00		27,000,000.00	27,000,000.00	-
Anhui Konka Electronic Co., Ltd	78.00	78.00		-	-	-
Konka (Europe) Ltd	100.00	100.00		-	-	-
Konka Nanhai Institute	100.00	100.00		-	-	-
Kunshan Konka Electronic Co., Ltd	100.00	100.00		-	-	-
Chongqing Jingkang Plastic Products Co., Ltd	100.00	100.00		-	-	-
Konka Electric and Electronic Co., Ltd	51.00	51.00		10,732,484.69	-	-
Shenzhen Konka Communication Technology Co., Ltd	75.00	100.00		-	-	-
KONKA AMERICA, INC	100.00	100.00		8,062,500.00	8,062,500.00	-
Shenzhen Information Network Co., Ltd	100.00	100.00		22,500,000.00	-	-
Shenzhen Shushida Electronics Co., Ltd	100.00	100.00		-	-	-
Shenzhen Konka	60.00	60.00		-	-	-

Invested entity	Proportion of shares held in the invested entity (%)	Percentage of voting rights in the invested entity (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested entity	Impairment provision	Impairment provision allotted of the current period	Cash dividends of the current period
Video & Communication Systems Engineering Co., Ltd						
Chongqing Konka Automotive Electronic Co., Ltd	57.00	57.00		-	-	-
Shenzhen Electronic Fittings Technology Co., Ltd	100.00	100.00		-	-	-
Konka (Kunshan) Real Estate Investment Co., Ltd	100.00	100.00		-	-	-
Feihong Electronics Co., Ltd	8.33	8.33		1,300,000.00	-	-
Shenzhen Julong Optoelectronics Co., Ltd	10.00	10.00		-	-	-
Shenzhen Association of Enterprises with Foreign Investment	-	-		100,000.00	-	-
Shenzhen Make-plan Investment Development Co., Ltd	10.00	10.00		-	-	-
IGRS Information Technology Engineering Center Co., Ltd	9.62	9.62		-	-	-
Shenzhen CTU Hi-tech Ltd	11.50	11.50		-	-	-
Total				105,694,984.69	71,062,500.00	1,350,000.00

4. Revenues and operating costs

(1) Revenues and operating costs

Item	Amount of the current period	Amount of the previous period
Revenues from main operations		
Revenues from other operations		
Total revenues		
Costs of main operations		

Item	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Costs of other operations				
Total operating costs				

(2) Main operations (by industries)

Industry	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Electronic industry				

(3) Main operations (by products)

Name	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Color television business				
White goods business				
Other				
Total				

(4) Main operations (by regions)

Region	Amount of the current period		Amount of the previous period	
	Revenues	Operating costs	Revenues	Operating costs
Domestic revenues				
Overseas revenues				
Total				

(5) Revenues from the top five customers

The revenues from the top five customers amount to renminbi 2,295,945,085.51 yuan, taking up 19.92% of the total revenues.

5. Investment income

(1) List of investment income items

Invested entity	Amount of the current period	Amount of the previous period
Income from long-term equity investment measured by employing the cost method	1,350,000.00	50,370,849.40
Investment income from disposing transactional financial assets	3,192,597.36	-20,283,041.04

Invested entity	Amount of the current period	Amount of the previous period
Investment income from financial assets available for sale	54,354.16	5,430,444.17
Total	4,596,951.52	35,518,252.53

Remark: No significant restriction is imposed on repatriation of the investment income of the Company.

(2) Income from long-term equity investment measured by employing the cost method

Invested entity	Amount of the current period	Amount of the previous period	Reason for increase/decrease of the current period by comparing with the previous period
Shaanxi Konka Electronic Co., Ltd	1,350,000.00	2,700,000.00	
Hong Kong Konka International Electronics Co., Ltd	-	39,621,199.15	
Total	1,350,000.00	42,321,199.15	

6. Supplementary information about the cash flow statements

Supplementary information	Amount of the current period
1. Information about converting net profits into cash for operating activities:	
Net income / loss	
Add: Asset impairment reserves	
Depreciation of fixed assets, oil and gases and production materials	
Amortization of intangible assets	
Amortization of long-term expenses to be apportioned	
Loss on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	
Losses on scrapping of fixed assets (or deduct: gains)	
Losses on change of fair value (or deduct: gains)	
Financial expenses (or deduct: gains)	
Investment losses (or deduct: gains)	
Decrease in deferred income tax liabilities (or deduct: increase)	
Increase of deferred income tax liabilities (or deduct: decrease)	
Decrease in inventories (or deduct: increase)	
Decrease in operating receivables (or deduct: increase)	
Increase of operating payables (or deduct: decrease)	

Supplementary information	Amount of the current period
Other	
Net cash flows from operating activities	

XIV. Supplementary information**1. Non-recurring gains and losses of the current period**

Item	Amount	Remark
Gains/losses on disposal of non-current assets	-122,269.41	
Government grants that are recorded into the gains and losses of the period (closely related to services of a company, excluding governments grants that are entitled in certain amount or quantity according to relevant regulations of the government)	13,193,331.14	
Gains and losses on change of fair value of transactional financial asserts and transactional financial liabilities	16,155,044.16	NDF
Investment revenues from selling financial assets that are available for sale	54,354.16	
Revenue from selling transactional financial assets and transactional financial liabilities	4,052,587.50	NDF cutover
Other operating revenues and expenses except the abovementioned items	8,154,950.52	
Subtotal	41,487,998.07	
Effect of amount of the income tax	8,520,698.01	
Effect on the amount of the equity of minority shareholders (post-tax)	1,571,017.68	
Total	31,396,282.38	

2. Rate of return on net assets and earnings per share

Profits in the reporting period	Weighted average rate of return on net assets	Earnings per share (renminbi yuan/share)	
		Basic earnings per share	Diluted earnings per share
Net profits attributed to shareholders of common shares of the Company			
Net profits of non-recurring gains and losses attributed to shareholders of common shares			

Calculation of weighted average rate of return on net assets

(1) Weighted average rate of return on net assets corresponding to the net profits attributed to shareholders of common shares of the Company = the net profits attributed to shareholders of common shares of the Company / Weighted average rate of return on net assets attributed to shareholders of common shares of the Company =

(2) Weighted average rate of return on net assets corresponding to the net profits of non-recurring gains or losses attributed to shareholders of common shares of the Company = the net profits of non-recurring gains or losses attributed to

shareholders of common shares of the Company / Weighted average rate of return on net assets attributed to shareholders of common shares of the Company =

(3) For calculation of basic earnings per share and diluted earnings per share, see 45 of Note 45: basic earnings per share and diluted earnings per share.

3. Abnormities of main items in the financial statements and explanation of relevant reasons (In renminbi: 10,000 yuan)

Item	Year 2009	Year 2008	Change	Rate of change (%)	Reasons for change
	a	b	a-b	(a-b)/b	
Monetary funds	362,448.04	206,625.25	155,822.79	75.41	Increase of guarantee for NDF loans
Transactional financial assets	367.32	-	367.32	New	Positive difference of the change NDF fair value is recognized as transactional financial assets and negative different of foreign exchange rate is recognized as transactional financial assets.
Interest receivable	3,252.99	1,990.59	1,262.41	63.42	Income from fixed deposits for pledges for derivative financial instruments
Other receivables	1,957.24	8,129.98	-6,172.74	-75.93	Funds for purchasing fixed assets was calculated as other receivables in the previous period and is transferred as fixed assets in the current period.
Inventory	409,070.25	293,224.25	115,846.00	39.51	(1) Stock for high season and increase of inventories; (2) Increase of demand on flat panel televisions on the market in year 2009 and increase of the proportions of flat panel materials and product stock; (3) The cost of materials required for flat panel televisions and cost of products are high.
Inventory falling price reserves	52,819.42	35,846.57	16,972.85	47.35	Allotment of falling price reserves as per discountable net value
Long-term equity investment	5,780.04	2,161.033	3,619.01	164.47	The Company invested in Shenzhen Refond Optoelectronics Co., Ltd
Construction in progress	6,108.79	2,733.16	3,375.63	123.51	An increase of renminbi 18,000,000 yuan is made to

Item	Year 2009	Year 2008	Change	Rate of change (%)	Reasons for change
	a	b	a-b	(a-b)/b	
					factory and other infrastructures of Baidian Industrial Park Phase II of Anhui Konka Household Appliance Co., Ltd and an increase of renminbi 20,000,000 yuan is made on the construction of the R&D building of the headquarters.
Net book value of intangible assets	16,750.25	6,922.39	9,827.86	141.97	The land use rights obtained by Kunshan Konka Electronic Co., Ltd, a wholly-funded subsidiary, in the current year
Deferred income tax asset	15,068.64	11,086.08	3,982.56	35.92	Deferred income tax assets are recognized for provisions for net value of inventories, bad debt reserves, prepaid warranty expenses and deferred income.
Short-term loans	277,001.41	134,637.56	142,363.84	105.74	The investment on NDF service and loans in foreign currencies are increased in the current period.
Accounts payable	259,924.22	157,176.13	102,748.09	65.37	The proportion of raw materials of LCD purchased in the current period is increased and the value of LCDs is high.
Tax payable	-13,289.77	1,426.4	-14,716.17	-1,031.70	The increase of purchased LCDs leads to increase of the input VAT at the end of the period.
Interest payable	2,363.30	824.72	1,538.58	186.56	Interests payable to NDF service in foreign currencies in the current period
Dividends payable	80.45	710.87	-630.41	-88.68	Dividends are paid to minority shareholders by subsidiary companies
Other payables	76,395.96	52,753.52	23,642.44	44.81	The bill of exchange (agency payment abroad) increases by renminbi 72,940,000 yuan. Promotion expenses of customers increase by renminbi 61,320,000 yuan and other promotion expenses increase by renminbi 36,100,000 yuan.
Deferred income tax liabilities	130.87	56.31	74.56	132.43	Deferred income tax liabilities are

Item	Year 2009	Year 2008	Change	Rate of change (%)	Reasons for change
	a	b	a-b	(a-b)/b	
					recognized for revenues from transactional financial assets.
Financial expenses	5,450.92	131.85	5,319.07	4034.16	The interest payment for NDF pledge loads is increased. The foreign currency loans of NDF pledge leads to the change of profits and losses of foreign exchange. The settlement on cash for purchasing flat panel materials is increased and the discounted notes receivable are increased.
Loss of asset impairment	21,602.67	8,171.12	13,431.55	164.38	Inventory falling price reserves and provisions for impairment of fixed assets of the Company and subsidiary companies are increased in the current period are increased.
Income from change of fair value	1,615.50	-1,248.19	2,863.69	-229.43	The contract NDF fair value signed in the current period is changed.
Investment revenues	322.03	-2,095.82	2,417.84	-115.37	The delivery of NDF increases the investment revenues.
Non-operating expenses	608.88	1,291.29	-682.40	-52.85	Expenses on donation in the current period decrease.
Income/loss of the minority shareholders	-369.07	1,011.56	-1,380.63	-136.49	Due to the shutdown of Mudanjiang Konka Electronic Co., Ltd and Chongqing Konka Electronic Co., Ltd, provisions for impairment of fixed assets except housings and buildings are allotted in the current period.