

Stock code: 000016, 200016

Stock abbreviation: SKJA, SKJB

Announcement No. : 2013-07

**KONKA 康佳**

KONKA GROUP CO., LTD.

2012 ANNUAL REPORT

April 2013

## Section I. Important Reminders, Catalogue & Explanation

The Board of Directors, the Supervisory Committee, 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 record or misleading statement or omit any material fact and shall hereby accept, individually and collectively, responsibility for the factuality, accuracy and completeness of the contents carried in this report.

Hou Songrong, company principal, Yang Rong, chief of the accounting work, and Xu Youshan, chief of the accounting organ (chief of accounting), hereby confirm that the Financial Report enclosed in this report is factual, accurate and complete.

All directors have attended the board session for reviewing this report.

The Company’s profit allocation preplan upon review and approval of this board session: Based on the total shares of the Company as at 31 Dec. 2012, a cash dividend of RMB 0.1 (tax included) will be distributed for every 10 shares held by shareholders. No bonus shares will be granted and no capital reserve will be turned into share capital.

The future plans and some other forward-looking statements involved in this report shall not be considered as virtual promises of the Company to investors. And investors are kindly reminded to pay attention to possible risks.

This report is prepared in both Chinese and English. Should there be any understanding discrepancy between the two versions, the Chinese version shall prevail.

## Catalogue

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## Explanation

Term	Refers to	Contents
Company, the Company	Refers to	Konka Group Co., Ltd.
Telecommunication Technology	Refers to	Shenzhen Konka Telecommunications Technology Co., Ltd.
Video & Communication Systems Engineering	Refers to	Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.
Precision Mold	Refers to	Shenzhen Konka Precision Mold Manufacturing Co., Ltd.
Konka Household Appliances	Refers to	Shenzhen Konka Household Appliances Co., Ltd.
Information Network	Refers to	Shenzhen Konka Information Network Co., Ltd.
Plastic Products	Refers to	Shenzhen Konka Plastic Products Co., Ltd.
Shushida	Refers to	Shenzhen Shushida Electronic Co., Ltd.
Fittings Technology	Refers to	Shenzhen Konka Electronic Fittings Technology Co., Ltd.
Mudanjiang Appliances	Refers to	Mudanjiang Arctic Ocean Appliances Co., Ltd.
Shaanxi Konka	Refers to	Shaanxi Konka Electronic Co., Ltd.
Chongqing Konka	Refers to	Chongqing Konka Electronic Co., Ltd.
Chongqing Electronic	Refers to	Chongqing Konka Automotive Electronic Co., Ltd.
Chongqing Qingjia	Refers to	Chongqing Qingjia Electronics Co., Ltd.
Anhui Konka	Refers to	Anhui Konka Electronic Co., Ltd.
Anhui Household Appliances	Refers to	Anhui Konka Household Appliances Co., Ltd.
Changshu Konka	Refers to	Changshu Konka Electronic Co., Ltd.
Kunshan Konka	Refers to	Kunshan Konka Electronic Co., Ltd.
Dongguan Konka	Refers to	Dongguan Konka Electronic Co., Ltd.
Dongguan Packing	Refers to	Dongguan Konka Packing Materials Co., Ltd.
Dongguan Mould Plastic	Refers to	Dongguan Konka Mould Plastic Co., Ltd.
Boluo Konka	Refers to	Boluo Konka PCB Co., Ltd.
Boluo Precision	Refers to	Boluo Konka Precision Technology Co., Ltd.
Nanhai Institute	Refers to	Konka (Nanhai) Development Center
Hongkong Konka	Refers to	Hongkong Konka Co., Ltd.
Konka Household Appliances Investment	Refers to	Konka Household Appliances Investment & Development Co., Ltd.
Konka Household Appliances International Trading	Refers to	Konka Household Appliances International Trading Co., Ltd.
Konka America	Refers to	Konka America, Inc.
Konka Europe	Refers to	Konka (Europe) Co., Ltd.
Kunshan Real Estate	Refers to	Konka (Kunshan) Real Estate Investment Co., Ltd.
Xutongda	Refers to	Dongguan Xutongda Mould Plastic Co., Ltd.
Konka Optoelectronic	Refers to	Shenzhen Konka Optoelectronic Technology Co., Ltd.
Wankaida	Refers to	Shenzhen Wankaida Science and Technology Co., Ltd.
Kunshan Kangsheng	Refers to	Kunshan Kangsheng Investment Development Co., Ltd.
Anhui Tongchuang	Refers to	Anhui Konka Tongchuang Household Appliances Co., Ltd.
Indonesia Konka	Refers to	Indonesia Konka Electronics Co., Ltd.
Shushida Logistics	Refers to	Shenzhen Shushida Logistics Service Co., Ltd.
Beijing Konka Electronic	Refers to	Beijing Konka Electronic Co., Ltd.
Jielunte	Refers to	Kunshan Jielunte Mould Plastic Co., Ltd.
CSRC	Refers to	China Securities Regulation Commission
SZSE	Refers to	Shenzhen Stock Exchange
CSRC Shenzhen Bureau	Refers to	Shenzhen Bureau of China Securities Regulation Commission
Yuan, Ten thousand Yuan, One Hundred Million Yuan	Refers to	RMB Yuan, RMB Ten thousand, RMB One Hundred Million Yuan

## Reminder of Major Risks

I. Securities Times, Ta Kung Pao (HK) and [www.cninfo.com.cn](http://www.cninfo.com.cn) have been designated by the Company as the media for information disclosure for 2013. All information of the Company shall be subject to what is disclosed by the Company on the said media. And Investors are kindly reminded to pay attention to possible investment risks.

II. The Company has described in detail possible risks in this report. Please refer to the possible risks and countermeasures in the discussion and analysis on the Company' s future development in “Section IV. Report of the Board of Directors” .

## Section II. Company Profile

### I. Basic information of the Company

Stock abbreviation	SKJA, SKJB	Stock code	000016, 200016
Stock abbreviation after change (if any)	N/A		
Stock exchange listed with	Shenzhen Stock Exchange		
Chinese name of the Company	康佳集团股份有限公司		
Abbr. of the Chinese name of the Company	康佳集团		
English name of the Company (if any)	KONKA GROUP CO., LTD		
Abbr. of the English name of the Company (if any)	KONKA GROUP		
Legal representative of the Company	Hou Songrong		
Registered address	Overseas Chinese Town, Nanshan District, Shenzhen, Guangdong Province, China		
Postal code for the registered address	518053		
Office address	Overseas Chinese Town, Nanshan District, Shenzhen, Guangdong Province, China		
Postal code for the office address	518053		
Internet website of the Company	www.konka.com		
Email address	szkonka@konka.com		

### II. For Contact

	Company Secretary	Securities Affairs Representative
Name	Xiao Qing	Wu Yongjun
Contact address	Secretariat to the Board of Directors, Konka Group Co., Ltd., Overseas Chinese Town, Nanshan District, Shenzhen, Guangdong Province, China	
Tel.	0755-26608866	
Fax	0755-26600082	
E-mail	szkonka@konka.com	

### III. About information disclosure and where this report is placed

Newspapers designated by the Company for information disclosure	Securities Times, etc.
Internet website designated by CSRC for disclosing this report	www.cninfo.com.cn
Where this report is placed	Secretariat to the Board of Directors, Konka Group Co., Ltd., Overseas Chinese Town, Nanshan District, Shenzhen, Guangdong Province, China

	Registration date	Registration place	Business license No.	Registration code of taxation	Organizational code
Initial registration	1 Oct. 1980	Shahe, Shenzhen, Guangdong Province, China	GSQYS No. 190806	440301618815578	-
At the end of the reporting period	29 Oct. 2011	Overseas Chinese Town, Nanshan District, Shenzhen, Guangdong Province, China	440301501121863	440301618815578	618815578
Change of the Company's main business since listing (if any)	N/A				
Changes of the controlling shareholder (if any)	<p>From incorporation till now, the controlling shareholder of the Company has not changed, but its name has changed:</p> <ol style="list-style-type: none"> <li>Initially, the Company was jointly incorporated by Guangdong Overseas Chinese Enterprises Co., Ltd. and Hong Kong Ganghua Electronic Enterprises Co., Ltd., with the two shareholders holding a 51% and 49% stake respectively.</li> <li>In 1986, Shenzhen S.E.Z. Overseas Chinese Town Economic Development Corporation was incorporated. Upon approval of the relevant governmental department, the Company's equity interests formerly held by Guangdong Overseas Chinese Enterprises Co., Ltd. were transferred to Shenzhen S.E.Z. Overseas Chinese Town Economic Development Corporation.</li> <li>In 1996, Shenzhen S.E.Z. Overseas Chinese Town Economic Development Corporation changed its name to "Overseas Chinese Town Economic Development Corporation".</li> <li>In 1997, Overseas Chinese Town Economic Development Corporation changed its name to "Overseas Chinese Town Enterprises Co.".</li> </ol>				

#### IV. Change of the registered information

#### V. Other information

The CPAs firm hired by the Company:

Name	RSM China Certified Public Accountants
Office address	8-9/F, Block A, International Enterprise Building, No. 35 Jinrong Street, Xicheng District, Beijing, China
Signing accountants	Liu Jianhua, Tang Qimei

Sponsor engaged by the Company to conduct consistent supervision during the reporting period

Applicable  Inapplicable

Financial consultant engaged by the Company to conduct consistent supervision during the reporting period

Applicable  Inapplicable

## Section III. Accounting & Financial Highlights

### I. Major accounting data and financial indicators

Does the Company adjust retrospectively or restate accounting data of previous years due to change of the accounting policy or correction of any accounting error?

Yes  No

	2012	2011	Increase or decrease of this year over last year (%)	2010
Operating revenues (RMB Yuan)	18,337,861,657.29	16,217,619,883.23	13.07%	17,111,454,066.34
Net profit attributable to shareholders of the Company (RMB Yuan)	45,829,234.02	24,972,838.12	83.52%	83,947,861.32
Net profit attributable to shareholders of the Company after extraordinary gains and losses (RMB Yuan)	-54,088,758.02	-111,552,447.73	51.51%	32,881,567.70
Net cash flows from operating activities (RMB Yuan)	-359,244,914.58	-1,370,486,165.70	73.79%	-432,799,347.02
Basic EPS (RMB Yuan/share)	0.0381	0.0207	84.06%	0.0697
Diluted EPS (RMB Yuan/share)	0.0381	0.0207	84.06%	0.0697
Weighted average ROE (%)	1.14%	0.62%	0.52%	2.13%
	As at 31 Dec. 2012	As at 31 Dec. 2011	Increase or decrease of this year-end than last year-end (%)	As at 31 Dec. 2010
Total assets (RMB Yuan)	16,562,917,198.06	16,906,453,313.31	-2.03%	16,466,895,565.00
Net assets/owners' equity attributable to shareholders of the Company (RMB Yuan)	4,043,591,538.85	4,009,723,963.82	0.84%	3,998,647,232.73

Did the share capital and the owners' equity change due to new issue, additional issue, share allotment, exercise of equity incentives, buy-back, etc. from the period-end to the disclosure date of this report?

Yes  No

## II. Differences between accounting data under domestic and overseas accounting standards

### 1. Differences of net profit and net assets disclosed in financial reports prepared under international and Chinese accounting standards

Unit: RMB Yuan

	Net profit attributable to shareholders of the Company		Net assets attributable to shareholders of the Company	
	2012	2011	Closing amount	Opening amount
According to Chinese accounting standards	45,829,234.02	24,972,838.12	4,043,591,538.85	4,009,723,963.82
Items and amounts adjusted according to international accounting standards				
According to international accounting standards				

### 2. Differences of net profit and net assets disclosed in financial reports prepared under overseas and Chinese accounting standards

Unit: RMB Yuan

	Net profit attributable to shareholders of the Company		Net assets attributable to shareholders of the Company	
	2012	2011	Closing amount	Opening amount
According to Chinese accounting standards	45,829,234.02	24,972,838.12	4,043,591,538.85	4,009,723,963.82
Items and amounts adjusted according to overseas accounting standards				
According to overseas accounting standards				

### 3. Explain reasons for the differences between accounting data under domestic and overseas accounting standards

No difference for 2012

## III. Items and amounts of extraordinary gains and losses

Unit: RMB Yuan

Items	2012	2011	2010	Notes
Gain/loss on the disposal of	6,267,350.97	50,838,279.57	14,450,464.04	

non-current assets (including the offset part of the asset impairment provisions)				
Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents				
Government grants recognized in the current period, except for those acquired in the ordinary course of business or granted at certain quotas or amounts according to the government's unified standards	79,452,692.05	41,725,984.17	26,116,883.06	
Capital occupation charges on non-financial enterprises that are recorded into current gains and losses				
Gains due to that the investment costs for the Company to obtain subsidiaries, associates and joint ventures are lower than the enjoyable fair value of the identifiable net assets of the investees when making the investments				
Gain/loss on non-monetary asset swap	71,191.44			
Gain/loss on entrusting others with investments or asset management				
Asset impairment provisions due to acts of God such as natural disasters				
Gain/loss on debt restructuring				
Expenses on business reorganization, such as expenses on staff arrangements, integration, etc.		-20,163,356.00	0.00	
Gain/loss on the part over the fair value due to transactions with distinctly unfair prices				
Current gains and losses of subsidies acquired from business combination under the same control as from period-begin to combination date				
Gain/loss on contingent events irrelevant to the Company's normal business				
Gains and losses on change in fair value from tradable financial assets and tradable financial liabilities, as well as investment income from disposal of tradable financial assets and tradable financial liabilities and financial assets available for sales except for effective hedging related with normal businesses of the Company	27,226,435.86	42,485,002.97	17,620,097.66	
Impairment provision reversal of accounts receivable on which the				

impairment test is carried out separately				
Gain/loss on entrustment loans				
Gain/loss on change of the fair value of investing real estate of which the subsequent measurement is carried out adopting the fair value method				
Effect on current gains/losses when a one-off adjustment is made to current gains/losses according to requirements of taxation, accounting and other relevant laws and regulations				
Custody fee income when entrusted with operation				
Non-operating income and expense other than the above	4,696,935.93	12,439,462.20	9,492,786.52	
Other gain and loss items that meet the definition of an extraordinary gain/loss		37,723,217.44		
Income tax effects	-11,106,708.03	-25,328,935.86	-13,726,735.19	
Minority interests effects (after tax)	-6,689,906.18	-3,194,368.64	-2,887,202.47	
Total	99,917,992.04	136,525,285.85	51,066,293.62	--

Explain the reasons if the Company classifies an item as an extraordinary gain/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Gains and Losses, or classifies any extraordinary gain/loss item mentioned in the said explanatory announcement as a recurrent gain/loss item

Applicable  Inapplicable

Item	Involved amount (RMB Yuan)	Reason

## Section IV. Report of the Board of Directors

### I. Overview

In 2012, the world economy remained weak. China's economy maintained a rational growth, but it still faced a grim test in macro-control. The household appliance industry encountered great challenges from industry reform, IT development and intelligent development caused by technology evolution. In such a macro background, according to the requirements of increasing the supply chain speed, seizing channels, pushing forward the quality product project and excellently carrying out the internet and healthy household appliance strategies, the Company forged ahead by innovation and input an all-out effort. As a result, it successfully accomplished all operating objectives for the year and achieved a sustained and stable development.

In face of a complex operating environment in 2012, all business units of the Company rose to various kinds of pressure and forged ahead by innovation. For the year, the Company achieved sales revenues of RMB 18.338 billion, up 13.07% over last year, representing a new high of the sales revenues. Meanwhile, all operating objectives set at the beginning of the year were successfully accomplished. The net profit attributable to owners of the Company recorded RMB 45,829,200, up 83.52% over last year. And EPS stood at RMB 0.0381 per share.

In 2012, the Company made the following efforts in its operation and management:

(I) Special attention to technical innovation to promote business development

In 2012, the main management concept of every business is to optimize products layout with technical innovation and to seize market share with products innovation. For color TV, the Company has first invented the Android 4.0-based synchronous intelligent cloud television before, and promoted two-channel intelligent television, all-in-one machine, 4K2K ultra-high definition television, intelligent control, sync wizard, touch-screen television and other differentiated products. For mobile phones, by the platform of MYcloud, the Company has combined intelligent search application experience for key enterprises on Internet and electronic commerce marketing to occupy market of intelligent mobile phones. For consumer appliance, the Company has centered on degradation of residues to divide market of healthy household appliances, which establishes the leading position for health and improves the brand influences

and reputation. The digital network has integrated live star, which brings new phase for development of live star. The video conferencing has achieved three technical breakthroughs in reducing energy consumption of system, adjusting intelligent dimming and dissipating heat for intelligent circulation. The household appliances with innovative products for home life have improved market image for the Company.

(II) Adjustment of management and control mode to improve operation efficiency

To further clarify performance-oriented management concept and pay attention to long-term sustainable development, the Company has integrated operation entities into KPI evaluation system for some functions on the basis of annual KPI index system and promoted internal transaction of independent management and sole responsibility for profit and losses. Moreover, it is to improve service levels and operation efficiency by improving personnel optimization and simplified professional abilities.

(III) Management improvement to strengthen quality

In accordance with requirements in *Guidance to Management Improvement Activities for Central Enterprises* issued by SASAC, the Company organized management improvement activities for development and leading panel and working teams. Also, it formulated *General Planning for Konka Group Management Improvement Activities* to determine responsibility system, regular conference system, monitoring system, and information submission system to clarify fundamental management, improve modernization levels, complete innovation system and perfect comprehensive performance to be general aims. Meanwhile, in accordance with main tasks and contents in each phrase for the two-year plan, the Company has formulated clear time nodes, detailed work arrangement, and clarified activity schedules for content requirements. Nowadays, management improvement activities have been promoted step by step.

Meanwhile, in 2012, the Company had completed following efforts: to promote standard activity for safe production of the third level, achieve no accident in the year and improve safe production management levels; to complete future three-year strategies for clear targets and plans; to start public welfare activities on the topic of caring stay-at-home children; to diversify public welfare marketing; to strengthen capital management and tax arrangement; and to seek capital support from all levels of governments as well as financial benefits.

Furthermore, operation management, human resources, financial management, auditing law works, party construction and enterprise culture have developed surrounding the business center, which plays an important role for the sustainable development.

## **II. Main business analysis**

### **(I) General**

1. Due to following reasons, in the reporting period, main business income of the Company has improve by 13.07% in the corresponding period.

(1) The Company adopts integration strategy of research, production, supply and marketing for color TV. Following the concept of technical and production innovation, the Company was guided by market occupation and production scale with adjustment of marketing strategies, emerging channels for development, promotion activities and maximum performance increase in recent years, which created maximum achievement for color TV in history and improved the position in industry.

(2) Export business has promoted the speed project. When the all-in-one machine appeared on the market, the Company had developed lead management and maintenance work to ensure the stability of sales revenue and reasonable sales structure.

(3) Consumer appliance in the Company has put forward the healthy strategy at the beginning of the year to determine differentiated product strategy by three business platforms of domestic sales, export sale and original production to overcome gliding

industry trend, allow full play of potentials of capacity and sales network and reduce product costs.

(4) Digital network, video conferencing and household appliances and other emerging businesses have improved rapidly for better performance.

2. Due to following reasons, in the reporting period, net profits of the Company has improve compared with that in the corresponding period of 2011.

(1) Color TV business, including 3D TV, intelligent TV, LED TV, has developed differentiated products to improve product structure. The operation efficiency and profitability have improved steadily compared that in the corresponding period of 2011.

(2) Export sales business has accelerated the speed project by improving current product structure for better gross margin and profitability.

(3) Cost reduction of consumer appliances has achieved great results. The operation efficiency and profitability have been improved.

## **(II) Development strategies in the pre-phrase before release and progress of operation plans in the reporting period**

### **1. Color TV**

Guided by “market occupation and scale” in 2012, the Company would adjust the marketing strategies for color TV to speed up emerging channels and develop promotion activities for maximum performance, which breaks the development bottleneck.

(1) Progressive up-gradation of product. Together with image up-gradation and popularity of synchro cloud concept for synchro cloud TV, the Company has issued the two channel television to occupy market and create sales miracle. Moreover, the Company has first launched 84 inch 4k2k ultra-definition TV to upgrade product image. The mobile cloud terminal of sync wizard launched in September, 2012 has achieved comprehensive leap in technology position, product image and function experience.

(2) Continuous breakthroughs in marketing. Activities of autograph of Olympic champions and torch bearers, students of the Voice of China, humanized policies for energy-saving helped the improvement and enhancement of performance index.

(3) Rapid promotion of distribution channel establishment. Facing the rapid reform in channel, the Company has stabilized urban market, strengthened county channel, promoted electronic business, planning and production and launched distribution channel establishment of B2B and B2C.

(4) Remarkable effects in brand construction. Guided by synchronic cloud strategy, operation concept of “Same wonders in different worlds”, and support of synchronic platform, synchronic cloud terminal and synchronic manipulation, the cloud time has strengthened the soft power of “same care” public welfare activities, improved brand influence by bi-directional development and ranked top in the market of differentiated products.

## 2. Export sales:

In 2012, under the background of severe competition and rising production costs, export sales had promoted the speed project taking the opportunity of all-in-one machine on market, which overcome all adverse factors for gliding performance. In order to ensure increasing development in Latin America, Middle East, East Europe, Africa, North America and other traditional areas, the Company has actively developed and maintained all customers to guarantee stable export sales revenue and reasonable sales structure and to improve risk control abilities.

## 3. Mobile phones:

On the basis of making breakthrough in operation and taking opportunity of rapid development in intelligent mobile phones, the Company has strengthened the product competition for W960 and W970 and issued Family Cloud strategy platform to achieve interconnection among family terminals, information share, brand resetting, new media marketing and MUSE introduction, transferring the hardware to the mode of hardware + application + service.

## 4. Consumer appliance:

According to the health household appliances strategy put forward in the beginning of the year, the Company has set differentiated product centered on health appliance to create efficient and stable domestic sales, export sales and original production platforms, which overcome severe gliding industry trend, gave full play of potentials of capacity and sales network and reduced product costs.

#### 5. Emerging businesses:

In the report period, the Company has been developing market for emerging industries, such as digital network, video conferencing and household appliance, to ensure stable improvement of operational performance.

**(III) State the reasons why the Company's actual business performance is 20% lower or higher than the earning forecast for the reporting period which has been publicly disclosed earlier**

Applicable  Inapplicable

#### (IV) Revenues

Major orders held:

Applicable  Inapplicable

Significant change or adjustment of the Company's products or services during the reporting period:

Applicable  Inapplicable

Major customers:

Total sales to the top 5 customers (RMB Yuan)	3,870,113,964.39
Ratio of the total sales to the top 5 customers to the annual total sales (%)	21.10%

#### (V) Costs

Classified by industry:

Unit: RMB Yuan

Industry	Item	2012		2011		YoY +/- (%)
		Amount	Proportion in operating costs (%)	Amount	Proportion in operating costs (%)	
Electronics	Raw materials	14,348,909,508.79	96.09%	12,916,549,404.19	96.31%	-0.22%
	Labor cost	527,599,977.96	3.53%	438,575,644.80	3.27%	0.26%
	Depreciation	55,789,737.38	0.37%	56,974,180.28	0.42%	-0.05%

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Classified by product:

Unit: RMB Yuan

Product	2012		2011		YoY +/- (%)
	Amount	Proportion in operating costs (%)	Amount	Proportion in operating costs (%)	
Color TVs	11,811,816,367.63	79.10%	10,548,621,462.46	78.65%	0.45%
Cellphones	1,217,298,414.04	8.15%	1,085,169,374.27	8.09%	0.06%
Consumer appliances	1,031,814,437.98	6.91%	1,033,014,718.40	7.70%	-0.79%
Other	871,370,004.48	5.84%	745,293,674.14	5.56%	0.28%

Major suppliers:

Total purchases from the top 5 suppliers (RMB Yuan)	7,837,713,094.82
Ratio of the total purchases from the top 5 suppliers to the annual total purchases (%)	50.71%

**(VI) Expense**

(1) Sales expenses in 2012 recorded RMB 2,316,627,717.67, up 8.71% over last year, which was mainly because of the new expenses on disposing useless appliances and electronics and the increase of labor cost.

(2) Administrative expenses in 2012 recorded RMB 655,654,771.02, up 12.75% over last year, which was mainly because the Company increased the R&D input.

(3) Financial expenses in 2012 recorded RMB 179,516,279.32, up 268.73% over last year, which was mainly because the borrowing interest increased the exchange loss increased due to exchange rate fluctuations.

**(VII) R&D expenses**

In the reporting period, the Company continued to enhance the R&D input and tried to lay a solid foundation for it to carry out product differentiation through constantly developing new products, studying new techniques, altering the existing equipment and continuously enriching the product varieties and series. Meanwhile, it constantly carried out technical innovation and rational suggestion to increase the production efficiency, improve the core competitiveness and continue to keep a leading position in the industry.

**(VIII) Cash flows**

Unit: RMB Yuan

Item	2012	2011	YoY +/- (%)
Subtotal of cash inflows from operating activities	18,510,554,120.60	16,781,755,502.70	10.3%
Subtotal of cash outflows from operating activities	18,869,799,035.18	18,152,241,668.40	3.95%
Net cash flows from operating activities	-359,244,914.58	-1,370,486,165.70	73.79%
Subtotal of cash inflows from investing activities	964,620,953.74	6,039,188.83	15,872.69%
Subtotal of cash outflows from investing activities	432,563,450.73	1,425,483,565.13	-69.65%
Net cash flows from investing activities	532,057,503.01	-1,419,444,376.30	-137.48%
Subtotal of cash inflows from financing activities	13,241,294,203.82	13,232,279,703.38	0.07%
Subtotal of cash outflows from financing activities	13,227,320,418.72	10,352,051,378.90	27.77%
Net cash flows from financing activities	13,973,785.10	2,880,228,324.48	-99.51%
Net increase in cash and cash equivalents	177,592,118.67	76,926,056.69	130.86%

Reasons for any over-30% YoY movement of the data above:

✓ Applicable  Inapplicable

1. Cash flows from operating activities increased 73.79% over last year mainly because the sales scale, profitability and operating cash flows improved.
2. Investing cash inflows increased mainly because the short-term structural wealth management deposits carried out last year were repaid with interest upon maturity in the reporting period.
3. Investing cash outflows decreased because there were no new short-term structural wealth management deposits in the reporting period.
4. Financing cash flows decreased because some short-term borrowings were repaid.

Reasons for a big difference between the operating cash flows and the net profit:

✓ Applicable  Inapplicable

The Company sold its products mainly in the domestic market. But the most important and valuable raw materials were imported. And the different conditions for payment making and receiving caused a slow turnover of operating cash flows. The Company

adopted some short-term financing ways such as note endorsement and paying by overseas parties on behalf of the Company to satisfy cash needed in operating activities. And the financing business had an influence on the operating cash flows in the year.

### III. Breakdown of main business

Unit: RMB Yuan

	Operating revenues	Operating costs	Gross profit rate (%)	Increase/decrease of operating revenues over last year (%)	Increase/decrease of operating costs over last year (%)	Increase/decrease of gross profit rate over last year (%)
Classified by industry:						
Electronics	18,189,759,356.68	14,932,299,224.13	17.91%	13.16%	11.33%	1.34%
Classified by product:						
Color TVs	14,429,624,144.21	11,811,816,367.63	18.14%	13.5%	11.97%	1.11%
Cellphones	1,397,315,544.60	1,217,298,414.04	12.88%	9.96%	12.18%	-1.72%
Consumer appliances	1,280,831,893.05	1,031,814,437.98	19.44%	-0.85%	-0.12%	-0.59%
Other	1,081,987,774.82	871,370,004.48	19.47%	35.52%	16.92%	12.82%
Classified by region:						
China	14,383,077,390.26	11,374,679,033.33	20.92%	15.97%	11.7%	3.02%
Other countries	3,806,681,966.42	3,557,620,190.80	6.54%	3.67%	10.2%	-5.54%

Where the Company's accounting standard of the main business data above changed during the reporting period, give the main business data of the latest year adjusted according to the accounting standard at the end of the reporting period:

Applicable  Inapplicable

### IV. Asset and liability analysis

#### 1. Major changes of asset items

Unit: RMB Yuan

	As at 31 Dec. 2012		As at 31 Dec. 2011		Proportion change (%)	Explain any major change
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)		
Monetary	1,728,946,511.11	10.44%	2,701,892,431.70	15.98%	-5.54%	Short-term borrowings were

funds						repaid.
Accounts receivable	1,975,605,771.07	11.93%	1,893,039,292.61	11.2%	0.73%	
Inventories	4,059,339,049.25	24.51%	2,829,591,759.41	16.74%	7.77%	More color TVs were sold and a stock was prepared for the peak season of the Spring Festival, resulting in an increase in inventories. In addition, some land prepayments by Kunshan Konka satisfied the conditions for being transferred into inventories (development costs).
Investing real estate	235,680,171.89	1.42%	241,105,035.18	1.43%	0%	
Long-term equity investment	472,423,533.19	2.85%	271,188,014.48	1.6%	1.25%	A new investment in the joint venture Shanghai Konka Green Technology Co., Ltd.
Fixed assets	1,887,836,271.02	11.4%	1,779,259,823.65	10.52%	0.87%	
Construction in process	50,682,893.85	0.31%	118,905,008.92	0.7%	-0.4%	Plants in the Tongchuang New District, Anhui and the module all-in-one machine production line were transferred to fixed assets.

## 2. Major changes of liability items

Unit: RMB Yuan

	2012		2011		Proportion change (%)	Explain any major change
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)		
Short-term borrowings	5,456,351,486.48	32.94%	6,835,265,235.56	40.43%	-7.49%	
Long-term borrowings	400,000,000.00	2.42%	610,000,000.00	3.61%	-1.19%	

## 3. Assets and liabilities measured at fair value

Unit: RMB Yuan

Item	Opening amount	Gain/loss on fair value change in the reporting period	Cumulative fair value change recorded into equity	Impairment provisions in the reporting period	Purchased amount in the reporting period	Sold amount in the reporting period	Closing amount
Financial assets							
1. Financial assets measured at fair value and of which changes are recorded into current gains/losses (excluding derivative financial assets)					0.00	0.00	
2. Derivative financial assets					0.00	0.00	
3. Available-for-sale financial assets	6,408,065.70	-5,220,888.50	-35,926.29		0.00	0.00	1,187,177.20
Subtotal of financial assets	6,408,065.70	-5,220,888.50	-35,926.29		0.00	0.00	1,187,177.20
Investing real estate					0.00	0.00	
Productive biological assets					0.00	0.00	
Other					0.00	0.00	
Total of the above					0.00	0.00	
Financial	22,101,173.97	22,101,173.97			0.00	0.00	

liabilities							
-------------	--	--	--	--	--	--	--

Did any significant change occur to the attribute of the Company's main asset measurement during the reporting period?

Yes  No

Explain the reasons for the significant change of the attribute of the Company's main asset measurement during the reporting period, as well as its influence on the operating results and financial status:

## V. Core competitiveness analysis

The Company's capability in R&D, the marketing network and manufacture constitutes its competitive edges. Through resource integration, the Company will vigorously try to make substantial breakthroughs in intelligent products, cloud computing, application of the internet technology, application software, etc.. It will also try to enhance the strength and thickness of technical innovations to increase its overall competitiveness.

## VI. Investment analysis

### 1. Investments in equities of external parties

#### (1) Investments in external parties

Investments in external parties		
Investment amount in 2012 (RMB Yuan)	Investment amount in 2011 (RMB Yuan)	+/-%
202,800,000.00	123,261,492.9	64.5%
Particulars about investees		
Name of investee	Main business	Proportion of the Company's investment in the investee's total equity interests (%)
Shanghai Konka Green Technology Co., Ltd.	Development of energy-saving and environment-friendly products and technologies	39%

#### (2) Equity-holdings in financial enterprises

Applicable  Inapplicable

Enterprise name	Enterprise variety	Initial investment	Opening equity-holding	Opening equity-holding	Closing equity-holding	Closing equity-holding	Closing book	Gain/loss in the	Accounting title	Equity source
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		Initial cost (RMB Yuan)	Holdings (share)	Ending ratio (%)	Holdings (share)	Ending ratio (%)	Value (RMB Yuan)	Reporting period (RMB Yuan)		
Total				--		--			--	--

**(3) Securities investments**

Variety of securities	Code of securities	Name of securities	Initial investment cost (RMB Yuan)	Number of shares held at period-begin	Shareholding percentage at period-begin	Number of shares held at period-end	Shareholding percentage at period-end	Closing book value (RMB Yuan)	Gain/loss for reporting period (RMB Yuan)	Accounting title	Source of stock
Stock	600891	QLJT	866,310.16	702,000	0	0	0	0	5,110,011.59	Available-for-sale financial assets	
Stock	000002	WKA	2,311,748.07	117,310	0.00	117,310	0	1,187,177.20	15,250.33	Available-for-sale financial assets	Subscription for additional issued shares
Other securities investments held at the period-end					--		--			--	--
Total			3,178,058.23	819,310.00	--	117,310	--	1,187,177.20	5,125,261.89	--	--
Disclosure date of the board announcement on approval of the securities investment			Inapplicable								
Disclosure date of the general meeting announcement on approval of the securities investment			Inapplicable								

Shareholdings in other listed companies:

In the reporting period, the Company sold the 702,000 tradable shares of QLJT,

generating an investment gain of RMB 5,110,011.59.

## 2. Wealth management entrustment, derivative investments and entrustment loans

### (1) Wealth management entrustment

Applicable  Inapplicable

At the end of the reporting period, the Company did not entrust others with wealth management.

### (2) Derivative investments

<p>Analysis on risks and control measures of derivative products held in the reporting period (including but not limited to market risk, liquidity risk, credit risk, operation risk, law risk, etc.)</p>	<p>Main risks of NDF portfolio are as follows:            1. Risk from closing of bank pledged deposit, in case the bank close downs, the pledged deposit is probably hard to call back in full.            2. Risk from foreign bank operated NDF portfolio being closed. In case the foreign bank closes down, it is not possible to receive income from NDF portfolio.            The Company always chooses large-sized bank similar as Bank of China to cooperate to start NDF portfolio. These banks chosen by the Company operated stably and healthily with good assets and credit, the probability of closing was small. It is basically out of consideration of loss from closing brought to the Company.</p>
<p>Changes of market prices or fair values in the reporting period of the invested derivatives. And the analysis on the fair value of the derivatives should include the specific use methods and the relevant assumptions and parameters.</p>	<p>Yield to maturity of NDF portfolio business operated by the Company is fixed.</p>
<p>Whether significant changes occurred to the Company's accounting policy and specific accounting principles of derivatives in the reporting period compared to the previous reporting period</p>	<p>Up to the public notice date, there is no special accounting method for NDF portfolio business and accounting principle was in accordance with Accounting Standards for Business Enterprises. No significant changes occurred to the Company's accounting policy and specific accounting principles of derivatives in the reporting period compared to the previous reporting period.</p>
<p>Specific opinion from independent directors on the Company's derivatives investment and risk control</p>	<p>Independent directors of the Company considered that NDF portfolio business is good for benefit from fluctuation of rate of RMB and get fixed income without risks, so it is necessary at some certain. The Company is gradually perfecting internal control for investment on</p>

	derivative products, and it is feasible to adopted directed measures for risk control.
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Position holdings of derivative investments at the end of the reporting period:

✓ Applicable □ Inapplicable

Type of contract	Opening contract amount (RMB Yuan)	Closing contract amount (RMB Yuan)	Gain or loss in the reporting period	Proportion of the closing contract amount in the closing net assets of the Company (%)
NDF portfolio contracts	2,155,905,808.20	0.00	15,785,598.68	0%
Total	2,155,905,808.20	0.00	--	0%

Explanation: The Company used its self-owned funds to carry out the NDF portfolio business.

### (3) Entrustment loans

Unit: RMB 0,000

Borrower	Related party or not	Amount of loan	Interest rate	Guarantor or pawn	Usage of loan by borrower	Extension, overdue loan or lawsuit	Countermeasures against risks of extension, overdue loan or lawsuit
Anhui Konka Tongchuang Household Appliances Co., Ltd.	No	25,000	6.00%	Naught	Turnover of working capital	Undue entrustment loan	Inapplicable
Kunshan Kangsheng Investment Development Co., Ltd.	No	3,000	6.56%	Naught	Turnover of working capital	Undue entrustment loan	Inapplicable
Kunshan Kangsheng Investment Development Co., Ltd.	No	11,500	6.00%	Naught	Turnover of working capital	Undue entrustment loan	Inapplicable
Total	--	39,500	--	--	--	--	--

Explanation: Anhui Konka Tongchuang Household Appliances Co., Ltd. and Kunshan Kangsheng Investment Development Co., Ltd. are both controlled subsidiaries in the consolidation scope of the Company.

### 3. Use of raised funds

(1) Overview of the use of raised funds

Applicable  Inapplicable

In the reporting period, the Company did not raise funds or use any funds raised in previous periods.

(2) Projects promised to be invested with raised funds

Applicable  Inapplicable

(3) Change of projects invested with raised funds

Applicable  Inapplicable

### 4. Analysis to main subsidiaries and stock-participating companies

Particulars about main subsidiaries and stock-participating companies:

Company name	Company variety	Industry	Registered capital	Main products/services	Total assets (RMB Yuan)	Net assets (RMB Yuan)	Operating revenues (RMB Yuan)	Operating profit (RMB Yuan)	Net profit (RMB Yuan)
Shenzhen Konka Telecommunications Technology Co., Ltd.	Wholly-funded subsidiary	Manufacture	RMB12,000.00	Production and sale of mobile communication products & sale of multimedia products	1,074,923,968.73	-27,587,711.34	2,458,501,643.30	-64,365,002.51	-51,014,582.61
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.	Controlled subsidiary	Manufacture	RMB1,500.00	Production and sale of LED display screens and lighting products	171,167,356.52	2,485,693.86	97,606,591.77	-20,257,329.01	-16,749,341.66
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.	Controlled subsidiary	Manufacture	RMB1,596.88	Production and sale of plastic products and molds	197,612,502.18	93,537,845.23	137,700,190.80	49,356,132.92	47,345,903.24
Shenzhen Konka Information Network Co., Ltd.	Wholly-funded subsidiary	Manufacture	RMB3,000.00	Production and sale of digital network products	278,181,879.67	2,153,861.75	463,423,463.50	14,260,307.75	16,933,042.84
Shaanxi Konka Electronic Co., Ltd.	Controlled subsidiary	Manufacture	RMB6,950.00	Production and sale of multimedia products	78,660,604.54	74,187,001.62	1,277,197.63	-9,838,885.19	-8,172,231.67
Anhui Konka Electronic	Controlled	Manufacture	RMB14,000.00	Production and sale of	444,543,404.02	241,056,299.21	2,562,323,572.46	23,294,591.86	38,330,306.82

Co., Ltd.	subsidiary	ure		multimedia products					
Kunshan Konka Electronic Co., Ltd.	Wholly-funded subsidiary	Manufacture	RMB35,000.00	Production and sale of liquid crystal modules and multimedia products	597,867,322.99	386,101,227.63	2,308,545,936.07	7,325,737.03	17,574,845.54
Dongguan Konka Electronic Co., Ltd.	Wholly-funded subsidiary	Manufacture	RMB26,667.00	Production and sale of multimedia products	590,271,001.55	361,047,814.60	293,257,928.74	21,929,275.10	20,786,161.28
Boluo Konka PCB Co., Ltd.	Controlled subsidiary	Manufacture	RMB4,000.00	Production and sale of one-sided and double-sided circuit board electronic products	33,333,233.74	7,922,219.65	1,490,711.58	-3,857,966.44	-5,021,089.31
Hongkong Konka Co., Ltd.	Wholly-funded subsidiary	International trade	HKD50.00	Import and export of electro-mechanical and electronic products	1,532,682,080.40	95,238,229.25	2,722,190,273.75	-7,760,265.51	-6,140,663.21
Konka Household Appliances Investment & Development Co., Ltd.	Wholly-funded subsidiary	Investment holdings	HKD50.00	Investment	200,154,230.58	61,317,679.72	-	7,798,758.13	7,762,636.68
Konka	Wholly-funded	International	HKD50.00	Import and export of	2,057,841,729.16	-36,977,279.74	5,009,093,645.62	-56,978,578.40	-56,978,324.79

Household Appliances International Trading Co., Ltd.	subsidiary	ional trade		electronics					
Dongguan Xutongda Mould Plastic Co., Ltd.	Controlled subsidiary	Manufacture	RMB500.00	Production and sale of molds and plastic products	56,559,636.15	11,944,939.78	92,448,118.03	6,791,404.94	5,719,649.42
Shenzhen Wankaida Science and Technology Co., Ltd.	Wholly-funded subsidiary	Software development	RMB1,000.00	Development and maintenance of software technology	148,665,712.77	138,493,412.51	80,115,972.20	29,364,407.09	39,290,412.37
Kunshan Kangsheng Investment Development Co., Ltd.	Wholly-funded subsidiary	Real estate	RMB35,000.00	Development, operation and investment of real estate	547,958,681.85	327,026,601.16	-	-16,528,979.96	-16,510,067.52
Anhui Konka Tongchuang Household Appliances Co., Ltd.	Wholly-funded subsidiary	Manufacture	RMB18,000.00	Production and sale of refrigerators, washing machines and other household appliances	790,616,835.10	148,327,757.79	1,098,624,164.81	262,561.61	9,808,097.02
Shenzhen Refond Optoelectronics Co.,	Associate	Manufacture	RMB107,000,000.00	Production and sale of LED	719,589,068.60	533,090,700.22	500,084,238.03		46,896,173.26

Ltd.									
EnRay Tek Optoelectronics (Shanghai) Co., Ltd.	Associate	Manu- facture	USD50,000,000.00	Production and sale of LED	452,935,671.97	274,404,243.11	11,090,129.82		-23,908,481.31

Subsidiaries acquired or disposed during the reporting period:

Applicable  Inapplicable

Name of subsidiary	Purpose for acquiring or disposing the subsidiary in the reporting period	Way of acquiring or disposing the subsidiary in the reporting period	Influence on the overall production and business performance
Chongqing Konka Electronic Co., Ltd.	To further clarify the positioning and business relation of the subordinate subsidiary and increase the operating efficiency of the color TV business	Transferred through listing in an equity exchange	The deal has not yet concluded, so its influence on the overall production and business results is unknown.

According to the “Announcement on Transferring through Listing the 60% Equity Interests of the Subsidiary Chongqing Konka Electronic Co., Ltd.” (announcement No. 2012-39) disclosed by the Company on 10 Nov. 2012 and based on the net asset assessed value of RMB 69,369,600 of the 60% equity interests of Chongqing Konka Electronic Co., Ltd., the Company planned to transfer the said equity interests through listing. Up until now, the said equity interests have not yet been listed in the equity exchange. Since the transferee is uncertain, whether the 60% equity interests of Chongqing Konka Electronic Co., Ltd. can be transferred at the listing price and when the transfer can be completed are also uncertain.

#### 5. Significant projects invested with non-raised funds

Applicable  Inapplicable

The Company did not have significant projects invested with non-raised funds.

Unit: RMB Ten thousand

Project name	Total investment	Input for this year	Cumulative actual input as at the period-end	Project progress	Project earnings
Notes to significant projects invested with non-raised funds					

#### VII. Entities controlled by the Company for special purposes

N/A

#### VII. Outlook of the Company's future development

##### (I) Situation analysis of the year 2013

From the macroscopic view, in 2013, due to continuous influence of financial crisis, global economy has stepped in adjustment phase with depressed economic trend.

Emerging economic entity would be the main force in leading global economic growth. Meanwhile, development countries have taken re-manufacturing strategy with representatives of Internet and new energy resources in the third industrial reform and new trend in global structure adjustment.

Advantages: under the promotion of steady economic growth in China, great demands are required for domestic color TV. Due to influences of tense housing policy, TV market would not achieve explosive growth. Competition of domestic intelligent mobile phones has been more and more serious. Growth of consumer appliances is increased. Sales of refrigerator are a little down but export sales are expected to increase. Sales of air conditioner are expected to increase and sales of washing machine to be stable.

Disadvantages: due to the falling in domestic economy, pressure of prices and costs is still high. Consumer demands could not be satisfied. The subsidy policies for household appliances and energy-saving have not existed. Charges of manpower, logistics, patent, copyright and old appliances recycle have been increasing to press more pressure for profits.

From the domestic situation, the 18<sup>th</sup> Congress Conference held in November, 2012 is the important one in critical period for China economy and society. For the Company, its meaning lies in the stressed healthy and sustainable economic development, which would be major development concept for future challenge. Especially, the doubling-income project in future ten years would be realistic for the Company. Two direct influences caused by doubling-income project are: 1. Increased labor cost for enterprises, 2. Increased purchasing power for residents. It has forced the Company to keep increasing speed in future. And the products would be transferred from low end to high end to ensure profitability. Under the guidance, each business of the

Company requires continuous optimization of product structure to improve operation quality and keep growth rate for the whole businesses.

In general, the year of 2013 is extremely complicated and severe. However, new opportunities have been brought by new technologies, new market and new policies. Meanwhile, the year of 2013 witnesses more opportunities and expectations than challenges.

## **(II) Business development philosophy of the year 2013**

### 1. Overall operation idea

General management concept in the year 2013: under the national macroscopic economic trend and policy guidance, the Company would grasp the opportunity of industry adjustment centered on IT, intelligence and health. By narrowing differences between major business and benchmarking enterprise, the Company would search for a suitable emerging business development mode to achieve synchronous development of market scale, management benefit and business layout.

### 2. Direction of business growth

In 2013, all businesses of the Company are expected to achieve growth and breakthroughs for important links.

(1) Color TV: around the operational strategy of brand, scale, structure and potentials, the Company would make deep research on consumption trend of ultra-definition and OLED for multiplied growth in electronic businesses, breakthroughs in performance and shares improvement for high-end products. Power of product and marketing has formed to establish advantages and improve brand position and influences for Konka.

(2) International business: on one hand, the Company should grasp market to subdivide and select global market for market development and greater breakthroughs. On the other hand, the Company should search a suitable sustainable development path

for its international business with guidance in global strategy position and business plans.

(3) Mobile phone: the Company would analyze and study market for intelligent mobile phones for market segment according to its own targets. Meanwhile, the Company would insist channel innovation, promote integration of channel, distributor and electronic commerce channel, and achieve successful transfer for mobile phones in intelligent internet period on the basis of break even.

(4) Consumer appliances: the Company would clear up its development concept with guidance of product, price, channel and promotion to seek breakthrough and achieve large scale for consumer appliances.

(5) Digital network business and household appliances: on the basis of full knowledge of industry characteristics, the Company would seek the business mode for its development and improve its profitability and management levels.

(6) Video conferencing: the Company should grasp the opportunity of industry up-gradation, develop LED green lighting, and improve the business scale and brand influence.

### **3. Focal work in the year 2013**

In the year 2013, the Company would promote following work following the requirements of “seeking survival by reform, creating future by talents, making development by layout” with guidance of its business growth.

#### **1. Operation strategy positioning**

The economic development method in the 18<sup>th</sup> Congress Conference puts forward clear industry developmental direction for the Company. After fully review and summary of self development for all businesses, the Company would combine market competitive characteristics and its business growth direction, and formulate practical, realistic, and sustainable operation strategy to promote rapid breakthrough in scale and improvement in quality. The management authorities would pay attention on following essential points: e-commerce for color TV, business transformation of

mobile phones, self-owned brand construction for overseas business, profitability mode for digital network, scale enlargement of consumer appliance and household appliances, etc.

## 2. Great efforts in product development

In the IT and intelligentized days, the development company would pay more attention to user experience. As the core index of product evaluation, user experience would draw more attention in simple and humanized operation for requirements of ample functions and plentiful applications in the intelligent times.

## 3. Talent team

On the one hand, the Company would establish talent team strategy to match business development and efficiency and provide solutions according to businesses. It would provide authorization by maturity and dexterity. On the other hand, the Company would construct cultivation mechanism for talents by step and employ new staff with innovation.

## 4. Promotion of innovation

When the industrial form has transferred from traditional manufacturing to IT, intelligence and internet, the Company is facing uncertainties for industrial changes and challenges. The innovation would priority among all businesses.

(1). Conception innovation. The Company would change the development conception with innovative thinking, open mind and adventurous spirit to promote reforms and achieve rapid breakthroughs.

(2). Management innovation. The Company breaks the routines affecting efficiency and pursues suitable management mode, organizational structure and procedures to improve operation efficiency.

(3). Marketing innovation. Each business entity would grasp traditional marketing channels and modes for studying and analyzing competitive characteristics in the internet times by innovation. It uses internet and innovation philosophy to face challenges, grasps emerging opportunities from e-commerce, and seeks new marketing

sales modes to remedy disadvantages of traditional channels and make breakthroughs in operational scale.

#### **(IV) Capital needs, use plans and capital sources**

In order to realize operation targets of 2013, the Company was expected to need RMB 25,625.17 in 2013, mainly for fixed asset investment such as acquiring devices and equipments for production capacity increase, technological innovation and new product development.

Details of the fixed asset investments for 2013 are as follows:

Unit: RMB Ten thousand Yuan

Business invested with fixed assets	Investment amount	Proportion
Color TV	9,735.30	37.99%
Consumer appliance	1,479.90	5.78%
Cell phone	1,440.40	5.62%
Other	12,969.57	50.61%
Total	25,625.17	100.00%

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 allocation efficiency, so as to satisfy the funds demand of the company

#### **(V) Possible risk factors of adverse influences caused by future development strategies and operational targets**

##### 1. Future development layout affecting household appliances by e-commerce

E-commerce is rapid and convenient, which would be competitive point for merchants. With the enhancement of market shares, marketing strategies for manufactures of

household appliances would be changed. Development of e-commerce would be best breakthrough for household appliance manufacturer. The manufacturing, transportation and sales would be re-constructed with larger scale. E-commerce would be influential for the future layout of China household appliance industry.

2. Development of intelligent TV changes the commercial mode of color TV

Intelligent TV has entered competition of terminal, back end and comprehensive application from hardware and software. In the times of intelligent TV, television industry requires integration of manufacturers and suppliers of panel, chip, operational system, content integrated control, contents, internet, applications and accessories for a complete and new industry ecosphere. Each link in the ecosphere is important, especially for the integration of demanded requirements by consumers. Intelligent TV would promote reform in traditional television industry.

3. Intelligent mobile phones promote reform in mobile phone market

In the era of intelligent mobile phones, polarization in the market is obvious. Mobile phones of Samsung and Apple occupies half the market. Other manufacturers face the situation with meager profits or even loss. Fierce competition has changed the situation. Competition up-gradation promotes reform in mobile phone market.

4. Influences to profitability caused by increased cost

Inflation pressure has resulted in increased prices in manpower and raw materials, which would be influential for profitability.

The Company would pay attention to above risks and make adjustments according to different situations to control the risks at minimum level.

**IX. Explanation of the Board of Directors on “Non-standard Auditing Report” issued by the CPA firm for the reporting period**

Applicable Inapplicable

Annual financial report of the Company holds clean opinion on the audit report released by CPA form.

**X. Explanation of the changes of accounting policy, estimate alteration and accounting method compared with financial report in last year**

Applicable Inapplicable

Compared with financial report in last year, accounting policy, estimate alteration and accounting method have no changes.

**XI. Explanation of correction and retrospective restatement of major accounting mistakes for the reporting period**

Applicable Inapplicable

No major accounting mistakes needed retrospective restatement appeared for the reporting period.

**XII. Explanation of changes of consolidated statements compared with the financial report in last year**

Applicable Inapplicable

No entities of consolidation scope were incorporated in the reporting period and no requirements of entities of consolidation scope were required in reporting period.

**XIII. Company' s distribution of profits and dividend payout**

(I). Formulation , execution and adjustment of the Company' s distribution of profits, especially cash dividend policy

The cash dividend policy of the Company is clearly stated in its Articles of Association, with explicit dividend standards and ratios, as well as sound decision-making procedures and mechanisms. Independent directors have faithfully performed their duties and performed their function well by giving minority shareholders opportunities to express their opinion and demands and effectively safeguarding their lawful interests. The Company has strictly executed the cash dividend policy in the Articles of Association, and cash dividend distribution of

the Company is in line with the Articles of Association and relevant resolutions of the Shareholders' General Meeting.

According to the spirit of the CSRC Notice on Further Implementing Matters Related to Cash Dividend Distribution of Listed Companies (Zheng-Jian-Fa [2012] No. 37) and the CSRC Shenzhen Bureau Notice on Seriously Implementing the CSRC Notice on Further Implementing Matters Related to Cash Dividend Distribution of Listed Companies (Shen-Zheng-Ju-Gong-Si-Zi [2012] No. 43), taking into account its actual situation, the Company communicated with independent directors and some floating share holders on the topic of the planning for returns for shareholders and carried out special discussions in terms of the arrangements for returns for shareholders, profit distribution, especially how to improve the decision-making procedure and mechanism for matters in relation to cash dividends. Meanwhile, it listened to minority shareholders' opinions and requirements via hotlines, fax, email, the Company's website, etc. so as to decide a proper decision-making procedure for matters in relation to cash dividends that was in line with the Company's future development. And a reasoning report was formed. According to the Reasoning Report on Matters in Relation to Returns for Shareholders, the Company revised its Articles of Association and formulated the Return for Shareholder Planning for the Coming Three Years (2012-2014) according to the profit distribution plan and its plans for the coming three years. Meanwhile, as required by the said Notice, the Company convened a board session and a general meeting, at which the Reasoning Report on Matters in Relation to Returns for Shareholders, the Return for Shareholder Planning for the Coming Three Years (2012-2014) and the Proposal on Revising the Articles of Association was reviewed and approved. In order to further listen to the opinions of minority shareholders, the voting on the Return for Shareholder Planning for the Coming Three Years (2012-2014) adopted both on-site voting and online voting to protect legal rights and interests of minority shareholders.

(II). Profit distribution preplan and capital reserve into equity preplan in the reporting period should comply with regulations of articles of association.

Explanation of profit distribution preplan and capital reserve into equity in recent years (including reporting period)

1. In 2012, the net profit attributable to owners of the Company was RMB 45,829,234.02 as audited and the retained profit was RMB 725,485,704.10. Based on the actual status and the requirement for long-term development of the Company, the Board of Directors proposed the annual profit distribution plan 2012, with details as follows:

Based on the Company's total share capital of 1,203,972,704 shares as at the end of 2012, the Company distributed a cash dividend of 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 into the next year for distribution.

2. In 2011, the net profit attributable to owners of the Company was RMB 24,972,838.12 as audited and the retained profit was RMB 709,679,408.84. Based on the actual status and the requirement for long-term development of the Company, the Board of Directors proposed the annual profit distribution plan 2011, with details as follows:

Based on the Company's total share capital of 1,203,972,704 shares as at the end of 2011, the Company distributed a cash dividend of 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 into the next year for distribution.

3. In 2010, the net profit attributable to owners of the Company was RMB 83,947,861.32. Based on the actual status and the requirement for long-term development of the Company, the Board of Directors proposed the annual profit distribution plan 2010, with details as follows:

Based on the Company's total share capital of 1,203,972,704 shares as at the end of 2010, the Company distributed a cash dividend of 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 into the next year for distribution.

Cash dividends in the previous three years

Unit: Yuan

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 (RMB Yuan)	Percentage that cash dividends take up in net profit belonging to shareholders of listed company in consolidated financial statement
2012	12,039,727.04	45,829,234.02	26.27%
2011	12,039,727.04	24,972,838.12	48.21%
2010	12,039,727.04	83,947,861.32	14.34%

Profits and retained profits attributable to owners of the Company were positive. But no cash dividend distribution preplan was put forward.

Applicable Inapplicable

#### XIV. Explanation of social responsibilities

The Company insists the principle of health, stability and sustainable development to benefit shareholders and employees and satisfy customers. In pursuit of economic profits and protection of shareholders' profits, the Company is active in protecting legal rights of debtors and employees, treating suppliers, customers and consumers

in good faith, and participating in environmental protection and community establishment for harmonious development of the Company and society.

(I) To protect rights of shareholders and creditors

1. The Company protects rights of shareholders

(1) The Company insists protection of rights for all shareholders, especially equal status and legal rights for medium and small shareholders, and make insurance of rights to be informed, participation and vote.

(2) The Company would perform all obligations of information disclosure to ensure timely, accurate and complete information and strictly execute confidential system of registrar and insider information to guarantee justice.

(3) The Company pays attention to repay to shareholders, and insists mutual development with investors. In the previous three years, the Company shares dividends with all shareholders. The Company strict executes dividend policies regulated in Articles of Association. All cash dividends comply with regulations in Articles of Association and requirements in shareholders' conference.

2. The Company protects rights of creditors

In full consideration of legal rights of creditors, the Company complies with strict business rules of credit cooperation to guarantee legal rights of creditors. No damages upon rights of creditors happened.

(II) The Company performs responsibilities to suppliers and customers

1. It is devoted to improve customer service quality.

The Company is insisting philosophy of customer orientation to strengthen customer service management, service consciousness for employees, service levels and to protect rights for customers. Through customer service hot-line, field visit and follow-up service, the Company has set a good corporate image for customers.

2. Be honest to suppliers

Following the principle of integrity and mutually beneficial cooperation, the Company keeps good cooperative relations with suppliers at each level. The corporate principle is open, fair and impartial to standardize procurement, protect suppliers' legal rights and lay solid foundation for further cooperation.

**(III). Be enthusiastic to social and public welfare undertakings**

Based on the principle of appreciating and repaying the society, the Company has participated in all kinds of activities for public welfare, cooperated with society, undertaken social responsibilities actively and promoted harmonious development between enterprise and society.

**(IV). Be responsible for employees**

The Company insists the principle of people orientation to improve working environment, promote occupational skills, provide opportunity and platform for development and growth and encourage self upgradation and realization for employees. Mutual improvement for employees and enterprise could be achieved.

1. Be honest and law-abiding to protect legal rights for employees

The Company would strictly comply with laws and regulations in *Labor Law* and *Labor Contract Law* to sign labor contract with employees with fair treatment in employment, payment, promotion, training, demission and retirement. Also, the Company would pay all kinds of insurances and housing fund for employees. Regular physical examination would be organized for each year. Any problems found would require re-examination and consultation from a doctor.

The Company would improve living quality, enhance cohesive force and sense of belongings through a series of safeguard measures.

2. To protect occupational health for employees

The Company would establish and perfect training, safety assessment by security system to guarantee the safety and occupational health for employees. On the other hand, by promotion of the importance of safety, safety awareness would be rooted in the heart to make all employees abide by safety standards and fully play subjective initiative in protecting self occupational safety and production safety.

3. To promote occupational skills by diversified professional training

The Company has always paid great attention on diversified training for employees. On the one hand, the Company would be meticulous in training of regular business and occupational skills and carry out all requirements positively to improve professional levels by normal training management. On the other hand, the Company would establish methods of self training platform, training instructor, theme training and lectures to provide colorful training activities. Besides the work, professional and comprehensive quality would be fully promoted.

#### (V). Be responsible for environment

The Company concerns about environmental changes and close relationships with environment by creating low carbon economy in technical innovation, from green manufacturing, green products to green industry circular economy. The Company would provide efforts in protecting global ecological environment. In June, 2012, subsidized products catalogue had been released jointly by National Development and Reform Commission, Ministry of Industry and Information and Ministry of Finance. There are several products selected in the catalogue. In the severe competition, the Company has taken the preemptive opportunities by research and leading technology in energy conservation.

In the new year, the Company would undertake all social responsibilities by improving strategic management, sustainable development and enterprise economic efficiency. It would retribute all shareholders and protect legal rights for creditors and employees. To be honest to suppliers and customers, the Company would serve local economic development and participate in social public welfare activities and environment protection. It would undertake all responsibilities in many fields and make attributions to social, economic, and environmental sustainable development for a socialism harmonious society.

#### XV. Researches, visits and interviews received in the reporting period

Time of reception	Place of reception	Way of reception	Visitor type	Visitor	Main discussion and materials provided by the Company
6 Feb. 2012	Conference Room of the Company	Field research	Institution	Chongyang Investment	Development trends of the color TV industry in 2012, color TV export
21 Feb. 2012	Conference Room of the Company	Field research	Institution	Zexi Investment	Development trends of the color TV industry, price trends of panels, competition among intelligent TV makers
24 Feb. 2012	Conference Room of the Company	Field research	Institution	Ping An UOB Fund	Development trends of the color TV industry in 2012, prospects of 3D TVs and

					intelligent TVs
5 Mar. 2012	Conference Room of the Company	Field research	Institution	Founder Securities	Competition among intelligent TV makers
30 Mar. 2012	Conference Room of the Company	Field research	Institution	China Merchants Securities	The color TV product structure, price trends of panels in 2012, development trends of the color TV, consumer appliance and cell phone business lines in 2012
10 May 2012	Conference Room of the Company	Field research	Institution	Yinhua Fund	Growth of the color TV industry in 2012, progress of the intelligent TV project, rebuilding progress of the plants of the headquarters
11 May 2012	Conference Room of the Company	Field research	Institution	China Post Fund	The general situation of the color TV industry in 2012, rebuilding progress of the plants of the headquarters, prospects of the LED industry
16 May 2012	Conference Room of the Company	Field research	Institution	GF Fund	Growth of the color TV industry in 2012, rebuilding progress of the plants of the headquarters
16 May 2012	Conference Room of the Company	Field research	Institution	ChinaAMC	Market demands for color TVs, cell phones and consumer appliances; rebuilding progress of the plants of the headquarters
24 May 2012	Conference Room of the Company	Field research	Institution	Haitong Securities, Sinolink Securities, Manulife Teda Fund, Fullgoal Fund, etc.	Influence of the energy-saving subsidy policy on the color TV industry, the Company's product structure, development trends of color TV products
25 May 2012	Conference Room of the Company	Field research	Institution	Guosen Securities (HK), Manulife Asset Management, BOC International (China), Haitong Securities, Penghua Fund, etc.	Growth of the color TV industry in 2012, influence of the energy-saving subsidy policy on the color TV industry, operation of the Kunshan crystal liquid module production line
29 Jun. 2012	Conference Room of the Company	Field research	Institution	BOC International (China) Limited	Market demands for color TVs, cell phones and consumer

					appliances; Influence of the energy-saving subsidy policy on the color TV industry; prospects of 3D TVs and intelligent TVs; rebuilding progress of the plants of the headquarters
8 Nov. 2012	Conference Room of the Company	Field research	Institution	Changjiang Securities, Shenzhen Minsen Investment Co., Ltd., Changxin Asset Management Co., Ltd., Lombarda China Fund Management Co., Ltd., Minsheng Securities, Zexi Investment Management Co., Ltd., Zhonghai Fund, New China Fund Management Co., Ltd., Huatai-PineBridge Fund Management Co., Ltd. and Ping An UOB Fund Management Co., Ltd.	Situation of color TV industry in 2012, the price trend of liquid crystal panel, the price trend of color TVs in 2013, rebuilding progress of the plants of the headquarters
22 Nov. 2012	Conference Room of the Company	Field research	Institution	CICC and China AMC	The price trend of liquid crystal panel, the price trend of color TVs in 2013, rebuilding progress of the plants of the headquarters, influence on the Company by the decrease of sales of Japanese color TV enterprises
13 Dec. 2012	Conference Room of the Company	Field research	Institution	Southwest Securities	Development trend of intelligent TV in 2013, the marketing channel of color TV business, the price trend of

					liquid crystal panel in 2013 and the development of 3D TV in 2013
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## Section V. Significant Events

### I. Significant litigations and arbitrations

Applicable Inapplicable

There were no significant litigations or arbitrations for the Company in the year  
Particulars on media' s queries

Applicable Inapplicable

There was no media' s query during the reporting period.

### II. Particulars about the non-operating occupation of funds by the controlling shareholder and other related parties of the Company

Applicable Inapplicable

### III. Bankrupt and reorganization events

There were no bankrupt or reorganization events for the Company during the reporting period.

### IV. Asset transactions

#### 1. Acquisition of assets

Overview of acquisition of assets

There was no acquisition of assets during the reporting period.

Transaction party or ultimate controller	Asset acquired or bought in	Transaction price (RMB 0'000)	Progress	Net profit contributed to the Company from the acquisition date to the period-end (applicable for business combinations not under the same control)	Net profit contributed to the Company from the year-begin to the period-end (applicable for business combinations under the same control)	Ratio of the net profit contributed by the asset to the Company to the total profit (%)	Relationship between the transaction party and the Company (applicable for related-party transactions)	Disclosure date	Disclosure index
Naught	Naught	0	Inapplicable	0	0	0%	No	Inapplicable	Inapplicable

## 2. Sales of assets

Transaction counterparty	Asset sold	Disposal date	Transaction price (RMB 0'000)	Net profit contributed to the Company from the period -begin to the disposal date (RMB 0'000)	Gains and losses arising from the sales of assets (RMB 0'000)	Ratio of the net profit contributed by the asset to the Company to the total profit (%)	Pricing principle	Related-party transaction or not	Relationship between the transaction party and the Company (applicable for related-party transactions)	Whether or not the owners of the asset involved have been fully transferred	Whether or not the creditor's right and liabilities involved have been fully transferred	Disclosure date	Disclosure index
Unknown	60% equity of Chongqing Konka Electronic Co., Ltd.	Unknown	6,936.96				Public listed for transfer basing on the appraisal value of the net assets of 60% equity of Chongqing Konka Electronic Co., Ltd.	No	Inapplicable	No	No	10 Nov. 2012	Note

Note: Announcement on Listing to Transfer 60% Equity of the Subsidiary Chongqing Konka Electronic Co., Ltd. (Announcement No.: 2012-39), published on <http://www.cninfo.com.cn/information/companyinfo.html>

Particulars about the sales of assets:

In accordance the Announcement on Listing to Transfer 60% Equity of the Subsidiary Chongqing Konka Electronic Co., Ltd. disclosed by the Company on 10 Nov. 2012, the Company planned to publicly list for transferring its 60% Equity of the Subsidiary Chongqing Konka Electronic Co., Ltd. basing on the appraisal value (i.e. RMB 69,369,600) of the net assets of the 60% equity of Chongqing Konka Electronic Co., Ltd.. However, the above equity hasn't been listed in the Equity Exchange till now. At present, there isn't a clear transferee, and the transaction counterparty can't be fixed, so it's uncertain that whether the 60% equity of Chongqing Konka Electronic Co., Ltd. can be transferred at the listing price or not and when the transfer can be completed.

### 3. Business combination

There was no business combination for the Company during the reporting period.

### V. Particulars about the implementation of equity incentive of the Company and its influence

There was no equity incentive implemented by the Company up to the end of the reporting period.

### VI. Significant related-party transactions

#### 1. Related-party transactions relevant to routine operation

Related party	Relationship	Type of the related-party transaction	Content of the related-party transaction	Pricing principle of the related-party transaction	Transaction price	Transaction amount (RMB Ten thousand)	Proportion in same kind of transactions (%)	Settlement method of the related-party transaction	Market price	Disclosure date	Disclosure index
Anhui Huali Packing Co., Ltd.	Subsidiary controlled by the principal shareholder	Purchasing raw materials from related parties	Purchasing the packaged materials for color TVs	Agreed price		3,153.85	0.99%	In cash		27 Apr. 2012	Announcement on Prediction of Routine Related-party Transactions in 2012
Shanghai Huali Packing Co., Ltd.	Subsidiary controlled by the principal shareholder	Purchasing raw materials from related parties	Purchasing the packaged materials	Agreed price		1,323.41	0.41%	In cash		27 Apr. 2012	with announcement no. 2012-14, which was

	l sharehol der	parties	s for color TVs								published on <a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>
Huali Packing (Huizhou ) Co., Ltd.	Subsidiary controlled by the principal shareholder	Purchasing raw materials from related parties	Purchasing the packaging material s for color TVs	Agreed price		681.27	0.21%	In cash		27 Apr. 2012	
Huizhou Huali Packing Co., Ltd.	Subsidiary controlled by the principal shareholder	Purchasing raw materials from related parties	Purchasing the packaging material s for color TVs	Agreed price		666.39	0.21%	In cash			
Total				--	--	5,824.93	1.82%	--	--	--	
Chengdu Tianfu OCT Industrial Development Co., Ltd	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		32.48	0.34%	In cash		27 Apr. 2012	
Taizhou OCT Co., Ltd	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		1.24	0.01%	In cash		27 Apr. 2012	
OCT Urban Entertainment Investment Company	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		205.13	2.17%	In cash		27 Apr. 2012	

of Shenzhen	der										
Wuhan OCT Industry Development Co., Ltd.	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		692.64	7.32%	In cash		27 Apr. 2012	
InterContinental Hotels Group	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		118.80	1.25%	In cash		27 Apr. 2012	
Shenzhen OCT Middle School	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		98.29	1.04%	In cash		27 Apr. 2012	
The Venice Hotel Shenzhen	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		7.61	0.08%	In cash		27 Apr. 2012	
Shenzhen OCT Real Estate Co., Ltd.	Subsidiary controlled by the principal shareholder	Selling goods to related parties	Selling liquid crystal display	Agreed price		4.87	0.05%	In cash		27 Apr. 2012	
Total					--	1,161.06	12.26%	--	--	--	--

Details of large amount of sales returns	Inapplicable
Necessity and continuity of related-party transaction as well as reason of choosing the related party (but not other transaction parties) to conduct the said transaction	Related transactions of the Company with the above related parties occurred in daily operation of the Company, which 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 related transactions were beneficial for maintaining the long-term cooperation between the Company and related parties.
Impacts of related-party transaction on independency of the Company	The related-party transactions did not affect the independence of the Company, and main business of the Company would not rely on the related parties due to the related-party transactions above.
Dependant degree of the Company on related party and relevant solutions for the dependence (if any)	Inapplicable
As for the prediction on the total amount of routine related-party transactions to be occurred in the reporting period by relevant types, the actual performance in the reporting period (if any)	
Reason for significant difference between the transaction price and the market price	The transaction price was fixed by referring to the market price, which hadn't any significant difference with the market price.

## 2. Related-party transactions regarding purchase and sales of assets

Applicable  Inapplicable

## 3. Significant related-party transitions with joint external investments

Applicable  Inapplicable

## 4. Significant credits and liabilities with related parties

Is there any no

## 5. Other significant related-party transactions

The 22<sup>nd</sup> Session of the 7<sup>th</sup> Board of Directors of the Company was convened on 5 Jan. 2012 (Thursday), at which reviewed and approved the Proposal on Borrowing Loans from OCT ENTERPRISES CO.. According to the resolutions made at the session, it approved the Company to borrow RMB 200 million again from OCT ENTERPRISES CO. by way of entrusted loans, including RMB 100 million with the period of the loan as five years and the annual expense rate as 5.29% (including interest rate of 5.28%

and bank charges rate of 0.01%); and the other RMB 100 million with the period of loan as one year and the annual expense rate as 5.37% (including interest rate of 5.36% and bank charges rate of 0.01%). And the maximum amount of the related-party transactions was RMB 32 million (for details, please refer to the Announcement on Related-party Transactions disclosed on 7 Jan. 2012, with the announcement no. 2012-01).

The 24<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors of the Company was convened on 6 Mar. 2012 (Tuesday), at which reviewed and approved the Proposal on Borrowing Loans from OCT ENTERPRISES CO.. According to the resolutions made at the session, it approved the Company to borrow RMB 300 million again from OCT ENTERPRISES CO. by way of entrusted loans, and it agreed on the ending date of the loan as 31 Jul. 2013 and the annual expense rate as 4.74% temporarily (including interest rate of 4.73% and bank charges rate of 0.01%). Upon the execution of the events, it would make suitable adjustment on the annual expense rate according to the financial cost of OCT ENTERPRISES CO. at that time. And the maximum amount of the related-party transactions was RMB 20 million (for details, please refer to the Announcement on Related-party Transactions disclosed on 8 Mar. 2012, with the announcement no. 2012-05).

The 25<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors of the Company was convened on 20 Mar. 2012 (Tuesday), at which reviewed and approved the Proposal on Change of the Interest Rate of Loans Borrowed from OCT ENTERPRISES CO.. In order to decrease the capital costs, the Company made the Resolution on Borrowing Loans from OCT ENTERPRISES CO. at the 52<sup>nd</sup> Session of the 6<sup>th</sup> Board of Directors, with the details as follows: In order to decrease the capital costs, and based on borrowing RMB 40 million from OCT ENTERPRISES CO., it approved the Company to borrow RMB 300 million from OCT ENTERPRISES CO. again by way of entrusted loans at the session. And it agreed on the annual expense rate as 3.93% (including interest rate of 3.92% and bank charges rate of 0.01%) and the period of loans as three years. Due to the financing costs of OCT ENTERPRISES CO. increased, in accordance with the agreement of both parties and resolutions made at the 25<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors, it agreed to change the annual expense rate of the above loans to 5.66% (including interest rate of 5.65% and bank charges rate of 0.01%) at the session, with the starting date of change in interest rate as 21 Mar. 2012 and no change in other provisions stipulated in the contract of the entrusted loans. The maximum amount of the related-party transaction was RMB 8.7 million.

The 27<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors of the Company was convened on 31 May 2012 (Thursday), at which reviewed and approved the Proposal on Application for the Line of Loans from OCT ENTERPRISES CO.. Based on the loans already borrowed from OCT ENTERPRISES CO., it agreed the Company to apply on increasing a line of loans not over RMB 400 million from OCT ENTERPRISES CO. from the year of 2012 to 2013 at the session, with the total line of loans not over RMB 1.5 billion and the interest rate of loans not higher than the interest rate of financial institutions

at the same period according to the market conditions (for details, please refer to the Announcement on Related-party Transactions disclosed on 2 Jun. 2012 with the announcement no. 2012-19).

Relevant index for the website disclosing the interim announcement on significant related-party transactions

Name of the interim announcement	Disclosure date of the interim announcement	Name of the website disclosing the interim announcement
Announcement on Related-party Transaction	7 Jan. 2012	<a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>
Announcement on Related-party Transaction	8 Mar. 2012	<a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>
Announcement on Related-party Transaction	2 Jun. 2012	<a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>

## VII. Significant contracts and execution

### 1. Particulars about trusteeship, contract and lease

#### (1) Trusteeship

Particulars about trusteeship

In the reporting period, the Company had no significant trusteeship of assets of other companies, nor did any other companies have trusteeship of assets of the Company.

Gain/loss of projects that brought over 10% of the total profits for the Company during the reporting period

Applicable  Inapplicable

#### (2) Contract

Particulars about contract

In the reporting period, the Company had no significant contract of assets of other companies, nor did any other companies have contract of assets of the Company.

Gain/loss of projects that brought over 10% of the total profits for the Company during the

reporting period

 Applicable  Inapplicable

## (3) Lease

Particulars about lease

In the reporting period, the Company had no significant lease of assets of other companies, nor did any other companies have lease of assets of the Company.

Gain/loss of projects that brought over 10% of the total profits for the Company during the reporting period

 Applicable  Inapplicable

Name of lessor	Name of lessee	Information of the leased assets	Amount of the leased assets (RMB 0\000)	Initial date	Ending date	Lease income (RMB 0\000)	Recognition basis for the lease income	Effect of the lease income on the Company	Related-party transaction or not	Relationship

## 2. Guarantees provided by the Company

Unit: RMB Ten Thousand

Guarantees provided by the Company for external parties (excluding those for subsidiaries)									
Guaranteed party	Disclosure date of relevant announcement on the guarantee amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not	
Kunshan Jielunte Mould Plastic Co., Ltd.	21 Jul. 2012	1,620.85	Naught	0	General guarantee	5 years	No	No	
Dongguan Konka Mould Plastic Co., Ltd.	27 Apr. 2012	3,704.80	Naught	0	General guarantee	1 year	No	No	
Total external guarantee line approved during the reporting period (A1)			5,325.65	Total actual occurred amount of external guarantee during the reporting period (A2)					0
Total external guarantee line			5,325.65	Total actual external					0

that has been approved at the end of the reporting period (A3)				guarantee balance at the end of the reporting period (A4)				
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclose date of relevant announcement on the guarantee amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Hongkong Konka Co., Ltd.	1 Dec. 2010	63,000	23 Mar. 2012	30,555.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	1 Dec. 2010	63,000	28 Feb. 2012	9,166.50	General guarantee	1 year	No	No
Konka Household Appliances International Trading Co., Ltd.	1 Dec. 2010	63,000	30 Mar. 2012	3,780.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	1 Dec. 2010	63,000	31 May. 2012	6,300.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	1 Dec. 2010	63,000	21 Dec. 2012	11,970.00	General guarantee	6 months	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	30 Jul. 2012	11,225.79	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	25 Jun. 2012	19,712.92	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	16 Jul. 2012	6,111.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	29 Oct. 2012	3,024.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	29 Nov. 2012	3,024.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	27 Nov. 2012	9,072.00	General guarantee	1 year	No	No
Hongkong Konka Co., Ltd.	13 Dec. 2011	126,000	3 Dec. 2012	15,120.00	General guarantee	1 year	No	No
Anhui Konka Tongchuang Household	2 Jun. 2012	41,000	29 Jun. 2012	3,000.00	General guarantee	1 year	No	No

Appliances Co., Ltd.								
Total guarantee line approved for the subsidiaries during the reporting period (B1)		41,000.00	Total actual occurred amount of guarantee for the subsidiaries during the reporting period (B2)				135,061.21	
Total guarantee line that has been approved for the subsidiaries at the end of the reporting period (B3)		400,000.00	Total actual guarantee balance for the subsidiaries at the end of the reporting period (B4)				135,061.21	
Total guarantee amount provided by the Company (total of the above-mentioned two kinds of guarantees)								
Total guarantee line approved during the reporting period (A1+B1)		46,325.65	Total actual occurred amount of guarantee during the reporting period (A2+B2)				135,061.21	
Total guarantee line that has been approved at the end of the reporting period (A3+B3)		405,325.65	Total actual guarantee balance at the end of the reporting period (A4+B4)				135,061.21	
Proportion of total guarantee amount (A4+B4) to the net assets of the Company							33.40%	
Of which:								
Amount of guarantee for shareholders, actual controller and related parties (C)							0	
Amount of debt guarantee provided for the guaranteed party whose asset-liability ratio is not less than 70% directly or indirectly (D)							135,061.21	
Part of the amount of the total guarantee over 50% of net assets (E)							0	
Total amount of the above three guarantees (C+D+E)							135,061.21	
Explanation on the possibility of fulfilling the joint responsibility of repayment due to immature guarantees			Currently, the guaranteed parties are in normal operation and a good financial position. Therefore, the possibility for the Company to fulfill the joint responsibility of repayment is small.					
Explanation on provision of guarantees for external parties in violation of the prescribed procedure			Naught					

Explanation on particulars about the guarantees by complex ways

Naught

**(1) Particulars about illegal external guarantee**

Applicable  Inapplicable

During the reporting period, there was no illegal external guarantee provided by the Company.

**3. Other significant contracts**

Applicable  Inapplicable

**VIII. Performance of commitments**

1. Commitments made by the Company or shareholders holding over 5% of the Company's shares in the reporting period, or such commitments carried down into the reporting period

Applicable  Inapplicable

2. If the Company's assets or projects existing earnings prediction, and the reporting period is among the prediction period, it shall explain on whether the assets or projects reach the original earnings prediction and relevant reason

Applicable  Inapplicable

**IX. Particulars about engagement and disengagement of CPAs firm**

CPAs firm engaged at present

Name of domestic CPAs firm	RSM China Certified Public Accountants
Remuneration of domestic CPAs firm (RMB 0'000)	80
Consecutive years of the audit services provided by domestic CPAs firm	Four years
Name of the certified public accountants from the domestic CPAs firm	Liu Jianhua and Tang Qimei
Name of overseas CPAs firm (if any)	Inapplicable
Remuneration of overseas CPAs firm (RMB 0'000) (if any)	Inapplicable
Consecutive years of the audit services provided by overseas CPAs firm (if any)	Inapplicable
Name of the certified public accountants from the overseas CPAs firm (if any)	Inapplicable

Reengage the CPAs firm at current period or not?

Yes  No

Particulars on engaging the audit firm for the internal control, financial adviser or sponsor

Applicable  Inapplicable

During the reporting period, as approved by the Shareholders' General Meeting, the Company

continued to engage RSM China Certified Public Accountants as the audit firm on internal control of the Company for 2012, with the auditing fee for the internal control in 2012 as RMB 400,000.

#### X. Explanation of the Supervisory Committee and Independent Directors (if applicable) on the “Non-standard Auditor’s Report” issued by the CPAs firm during the reporting period

Inapplicable

#### XI. Punishment and rectification

Applicable  Inapplicable

Explanation on rectification:

During the reporting period, the Company and its directors, supervisors, senior management staffs as well as actual controller received no punishment from the securities regulatory authorities.

Particulars about the directors, supervisors, senior management staffs and shareholders holding over 5% shares of the Company involving in illegal trading the Company’s stocks and the Company has disclose to recover the illegal income

Applicable  Inapplicable

#### XII. Particulars about trading suspension and termination faced after the disclosure of annual report

There were no risks of trading suspension and termination faced by the Company after the disclosure of annual report.

#### XIII. Explanation on other significant events

Index for significant information disclosure

No.	Time	Name of announcement	Page	Link
				<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012-01	7 Jan. 2012	Announcement on Resolutions of the 22 <sup>nd</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times B9; Ta Kung Pao B3	<a href="http://www.cninfo.com.cn/finalpage/2012-01-07/60416818.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-01-07/60416818.PDF?www.cninfo.com.cn</a>
2012-02	7 Jan. 2012	Announcement on Related-party Transactions	Securities Times B9; Ta Kung Pao B3	<a href="http://www.cninfo.com.cn/finalpage/2012-01-07/60416817.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-01-07/60416817.PDF?www.cninfo.com.cn</a>
2012-03	20 Jan. 2012	Announcement on 2011 Annual Business Results Forecast	Securities Times C16; Ta Kung Pao A21	<a href="http://www.cninfo.com.cn/finalpage/2012-01-20/60468826.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-01-20/60468826.PDF?www.cninfo.com.cn</a>
2012-04	8 Mar. 2012	Announcement on Resolutions of the 24 <sup>th</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times D17; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-03-08/60639812.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-03-08/60639812.PDF?www.cninfo.com.cn</a>
2012-05	8 Mar. 2012	Announcement on Related-party Transactions	Securities Times D17; Ta Kung Pao	<a href="http://www.cninfo.com.cn/finalpage/2012-03-08/60639811.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-03-08/60639811.PDF?www.cninfo.com.cn</a>

			B19	
2012-06	6 Apr. 2012	Announcement on Receiving Tax Rebates	Securities Times D68; Ta Kung Pao A19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-06/60786788.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-06/60786788.PDF?www.cninfo.com.cn</a>
2012-07	14 Apr. 2012	Announcement on the Business Result Forecast for the First Quarter of 2012	Securities Times B24; Ta Kung Pao B2	<a href="http://www.cninfo.com.cn/finalpage/2012-04-14/60830033.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-14/60830033.PDF?www.cninfo.com.cn</a>
2012-08	14 Apr. 2012	2011 Annual Preliminary Earnings Forecast	Securities Times B24; Ta Kung Pao B2	<a href="http://www.cninfo.com.cn/finalpage/2012-04-14/60830034.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-14/60830034.PDF?www.cninfo.com.cn</a>
2012-09	27 Apr. 2012	Abstract of the 2011 Annual Report of Konka Group Co., Ltd.	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921189.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921189.PDF?www.cninfo.com.cn</a>
2012-10	27 Apr. 2012	Abstract of the First Quarter Report 2012 of Konka Group Co., Ltd.	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921213.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921213.PDF?www.cninfo.com.cn</a>
2012-11	27 Apr. 2012	Notice on Convening the 2011 Annual Shareholders' General Meeting	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921200.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921200.PDF?www.cninfo.com.cn</a>
2012-12	27 Apr. 2012	Announcement on Resolutions of the 26 <sup>th</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921199.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921199.PDF?www.cninfo.com.cn</a>
2012-13	27 Apr. 2012	Announcement on Resolutions of the 5 <sup>th</sup> Session of the 7 <sup>th</sup> Supervisory Committee	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921206.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921206.PDF?www.cninfo.com.cn</a>
2012-14	27 Apr. 2012	Announcement on Expected Routine Operation Related-party Transactions for 2012	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921188.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921188.PDF?www.cninfo.com.cn</a>
2012-15	27 Apr. 2012	Announcement on Provision of Guarantees by Controlled Subsidiaries for External Parties	Securities Times C8; Ta Kung Pao B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921219.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921219.PDF?www.cninfo.com.cn</a>
2012-16	3 May 2012	Announcement on Progress of the Urban Renewal Application Plan Project	Securities Times D12; Ta Kung Pao B5	<a href="http://www.cninfo.com.cn/finalpage/2012-05-03/60942993.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-05-03/60942993.PDF?www.cninfo.com.cn</a>
2012-17	2 Jun. 2012	Announcement on Resolutions of the 27 <sup>th</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times B11; Ta Kung Pao B17	<a href="http://www.cninfo.com.cn/finalpage/2012-06-02/61079517.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-02/61079517.PDF?www.cninfo.com.cn</a>
2012-18	2 Jun. 2012	Announcement on Provision of Guarantees for External Parties	Securities Times B11; Ta Kung Pao B17	<a href="http://www.cninfo.com.cn/finalpage/2012-06-02/61079516.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-02/61079516.PDF?www.cninfo.com.cn</a>
2012-19	2 Jun. 2012	Announcement on	Securities Times	<a href="http://www.cninfo.com.cn/finalpage/2012-0">http://www.cninfo.com.cn/finalpage/2012-0</a>

		Related-party Transactions	B11; Ta Kung Pao B17	6-02/61079515.PDF?www.cninfo.com.cn
2012-20	2 Jun. 2012	Announcement on Adding New Proposals for the 2011 Annual General Meeting	Securities Times B11; Ta Kung Pao B17	<a href="http://www.cninfo.com.cn/finalpage/2012-06-02/61079514.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-02/61079514.PDF?www.cninfo.com.cn</a>
2012-21	16 Jun. 2012	Announcement on Resolutions of the 2011 Annual General Meeting	Securities Times B16; Ta Kung Pao B2	<a href="http://www.cninfo.com.cn/finalpage/2012-06-16/61144540.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-16/61144540.PDF?www.cninfo.com.cn</a>
2012-22	30 Jun. 2012	Announcement on Resolutions of the 29 <sup>th</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times B16; Ta Kung Pao B8	<a href="http://www.cninfo.com.cn/finalpage/2012-06-30/61200993.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-30/61200993.PDF?www.cninfo.com.cn</a>
2012-23	30 Jun. 2012	Notice on Convening the 1 <sup>st</sup> Special General Meeting for 2012	Securities Times B16; Ta Kung Pao B8	<a href="http://www.cninfo.com.cn/finalpage/2012-06-30/61200988.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-30/61200988.PDF?www.cninfo.com.cn</a>
2012-24	30 Jun. 2012	Announcement on the Implementation of the 2011 Annual Dividend Plan	Securities Times B16; Ta Kung Pao B8	<a href="http://www.cninfo.com.cn/finalpage/2012-06-30/61200986.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-06-30/61200986.PDF?www.cninfo.com.cn</a>
2012-25	14 Jul. 2012	Announcement on Earnings Forecast for the First Half Year of 2012	Securities Times B17; Ta Kung Pao B3	<a href="http://www.cninfo.com.cn/finalpage/2012-07-14/61267390.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-14/61267390.PDF?www.cninfo.com.cn</a>
2012-26	21 Jul. 2012	Announcement on Resolutions Made at the 30 <sup>th</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times B21; Ta Kung Pao B3	<a href="http://www.cninfo.com.cn/finalpage/2012-07-21/61302603.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-21/61302603.PDF?www.cninfo.com.cn</a>
2012-27	21 Jul. 2012	Announcement on External Guarantees Provided by the Holding Subsidiary	Securities Times B21; Ta Kung Pao B3	<a href="http://www.cninfo.com.cn/finalpage/2012-07-21/61302602.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-21/61302602.PDF?www.cninfo.com.cn</a>
2012-28	28 Jul. 2012	Announcement on Adding Interim Proposals to the First Special Shareholders' General Meeting for 2012	Securities Times B1; Ta Kung Pao B11	<a href="http://www.cninfo.com.cn/finalpage/2012-07-28/61334538.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-28/61334538.PDF?www.cninfo.com.cn</a>
2012-29	28 Jul. 2012	Announcement on Receipt of the Tax Rebate	Securities Times B1; Ta Kung Pao B11	<a href="http://www.cninfo.com.cn/finalpage/2012-07-28/61334539.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-28/61334539.PDF?www.cninfo.com.cn</a>
2012-30	11 Aug. 2012	Suggestive Announcement on Convening the First Special Shareholders' General Meeting for 2012	Securities Times B32; Ta Kung Pao B10	<a href="http://www.cninfo.com.cn/finalpage/2012-08-11/61404787.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-11/61404787.PDF?www.cninfo.com.cn</a>
2012-31	18 Aug. 2012	Suggestive Announcement on Suspending to List for Transferring the 60% Equity of the Subsidiary Mudanjiang Arctic Ocean	Securities Times B9; Ta Kung Pao A21	<a href="http://www.cninfo.com.cn/finalpage/2012-08-18/61441392.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-18/61441392.PDF?www.cninfo.com.cn</a>

		Appliances Co., Ltd.		
2012-32	18 Aug. 2012	Announcement on Resolutions Made at the First Special Shareholders' General Meeting for 2012	Securities Times B9; Ta Kung Pao A21	<a href="http://www.cninfo.com.cn/finalpage/2012-08-18/61441391.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-18/61441391.PDF?www.cninfo.com.cn</a>
2012-33	28 Aug. 2012	Announcement on Resolutions Made at the 31 <sup>st</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times D47; Ta Kung Pao B6 and B7	<a href="http://www.cninfo.com.cn/finalpage/2012-08-28/61490264.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-28/61490264.PDF?www.cninfo.com.cn</a>
2012-34	28 Aug. 2012	Abstract of the Semi-annual Report for Y2012	Securities Times D47; Ta Kung Pao B6 and B7	<a href="http://www.cninfo.com.cn/finalpage/2012-08-28/61490258.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-28/61490258.PDF?www.cninfo.com.cn</a>
2012-35	13 Oct. 2012	Announcement on Earnings Forecast of the Third Quarter of 2012	Securities Times B24; Ta Kung Pao B2	<a href="http://www.cninfo.com.cn/finalpage/2012-10-13/61650701.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-10-13/61650701.PDF?www.cninfo.com.cn</a>
2012-36	26 Oct. 2012	Abstract of Report for the Third Quarter of 2012	Securities Times D104; Ta Kung Pao B17	<a href="http://www.cninfo.com.cn/finalpage/2012-10-26/61709612.PDF">http://www.cninfo.com.cn/finalpage/2012-10-26/61709612.PDF</a>
2012-37	26 Oct. 2012	Announcement on Receipt of Tax Rebates	Securities Times D104; Ta Kung Pao B17	<a href="http://www.cninfo.com.cn/finalpage/2012-10-26/61709619.PDF">http://www.cninfo.com.cn/finalpage/2012-10-26/61709619.PDF</a>
2012-38	10 Nov. 2012	Announcement on Resolutions Made at the 33 <sup>rd</sup> Session of the 7 <sup>th</sup> Board of Directors	Securities Times B17; Ta Kung Pao A50	<a href="http://www.cninfo.com.cn/finalpage/2012-11-10/61783838.PDF">http://www.cninfo.com.cn/finalpage/2012-11-10/61783838.PDF</a>
2012-39	10 Nov. 2012	Announcement on Listing to Transfer the 60% Equity of Chongqing Konka Electronic Co., Ltd.	Securities Times B17; Ta Kung Pao A50	<a href="http://www.cninfo.com.cn/finalpage/2012-11-10/61783833.PDF">http://www.cninfo.com.cn/finalpage/2012-11-10/61783833.PDF</a>
2012-40	22 Dec. 2012	Announcement on Receipt of Tax Rebates	Securities Times B21; Ta Kung Pao B4	<a href="http://www.cninfo.com.cn/finalpage/2012-12-22/61937189.PDF">http://www.cninfo.com.cn/finalpage/2012-12-22/61937189.PDF</a>
2012-41	29 Dec. 2012	Announcement on the Holding Subsidiary Receiving the Government Grants	Securities Times B28; Ta Kung Pao A20	<a href="http://www.cninfo.com.cn/finalpage/2012-12-29/61965199.PDF">http://www.cninfo.com.cn/finalpage/2012-12-29/61965199.PDF</a>

#### XIV. Significant events of the subsidiaries of the Company

No.	Time	Name of announcement	Page	Link
				<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012-15	27 Apr. 2012	Announcement on Provision of Guarantees by Controlled Subsidiaries for External Parties	Securities Times C8; Ta Kung Pao (HK) B19	<a href="http://www.cninfo.com.cn/finalpage/2012-04-27/60921219.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-04-27/60921219.PDF?www.cninfo.com.cn</a>

2012-27	21 Jul. 2012	Announcement on Provision of Guarantees by Controlled Subsidiaries for External Parties	Securities TimesB21、Ta Kung Pao (HK)B3	<a href="http://www.cninfo.com.cn/finalpage/2012-07-21/61302602.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-07-21/61302602.PDF?www.cninfo.com.cn</a>
2012-31	8 Aug. 2012	Suggestive Announcement on Suspending to List for Transferring the 60% Equity of the Subsidiary Mudanjiang Arctic Ocean Appliances Co., Ltd.	Securities TimesB9、Ta Kung Pao (HK)A21	<a href="http://www.cninfo.com.cn/finalpage/2012-08-18/61441392.PDF?www.cninfo.com.cn">http://www.cninfo.com.cn/finalpage/2012-08-18/61441392.PDF?www.cninfo.com.cn</a>
2012-39	10 Nov. 2012	Announcement on Listing to Transfer the 60% Equity of Chongqing Konka Electronic Co., Ltd.	Securities TimesB17、Ta Kung Pao (HK)A50	<a href="http://www.cninfo.com.cn/finalpage/2012-11-10/61783833.PDF">http://www.cninfo.com.cn/finalpage/2012-11-10/61783833.PDF</a>
2012-41	29 Dec. 2012	Announcement on the Holding Subsidiary Receiving the Government Grants	Securities TimesB28、Ta Kung Pao (HK)A20	<a href="http://www.cninfo.com.cn/finalpage/2012-12-29/61965199.PDF">http://www.cninfo.com.cn/finalpage/2012-12-29/61965199.PDF</a>

#### XV. Particulars about issuing corporate bonds by the Company

The Company hadn' t issued any corporate bonds up to the end of the reporting period.

## VI. Change in Share Capital and Particulars about Shareholders

### I. Particulars about the changes in share capital

	Before the change		Increase/decrease in the change (+, -)					After the change	
	Number	Proportion	Issuance of new shares	Bonus shares	Capitalization of public reserve fund	Other	Subtotal	Number	Proportion
I. Shares subject to trading trading moratorium	198,388,540	16.48%				-6,600	-6,600	198,381,940	16.48%
1. Shares held by the State									
2. Shares held by state-owned corporation	198,381,940	16.48%						198,381,940	16.48%
3. Other shares held by domestic investors									
Including: shares held by domestic non-state-owned corporation									
Shares held by domestic natural person									
4. Shares held by foreign investors									
Including: shares held by foreign corporation									
Shares held by foreign natural person									
5. Shares held by senior executives	6,600	0%				-6,600	-6,600	0	0%
II. Shares not subject to trading	1,005,584,164	83.52%				6,600	6,600	1,005,590,764	83.52%

moratorium									
1. RMB ordinary shares	599,908,360	49.83%				6,600	6,600	599,914,960	49.83%
2. Domestically listed foreign shares	405,675,804	33.69%						405,675,804	33.69%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	1,203,972,704	100%						1,203,972,704	100%

Reason for the changes in share capital

Shares held by senior executives were 6,600 shares of A-share of Shen Konka that held by former Vice President Mr. Wang Youlai. In terms of Mr. Wang Youlai has resigned from the post of Vice President of the Company in Dec. 2011, according to relevant regulations, shares of the Company that held by Mr. Wang Youlai was released for listing in Jun. 2012.

Approval for changes in share capital

Applicable  Inapplicable

Transfer for changes in share capital

Applicable  Inapplicable

Effects of changes in share capital on the basic EPS, diluted EPS, net assets per share attributable to common shareholders of the Company and other financial indexes over the last year and last period

Applicable  Inapplicable

Other contents that the Company considers necessary or required by the securities regulatory authorities to disclose

Naught

## II. Issuance and listing of securities

### 1. Issuance of securities over the past three years

Applicable  Inapplicable

Explanation on issuance of securities over the past three years

The Company didn't issue any type of securities over the past three years.

### 2. Explanation on changes in share capital & the structure of shareholders, the structure of assets and liabilities

During the reporting period, there existed no changes in total shares of the Company, or changes in structure of shareholders or in asset-liability structure of the Company due to bonus shares,

capitalization of shares, allotment of shares, issuance of new shares, private issuance of shares, exercise of warrant, implementation of equity incentive scheme, business combination, change of convertible corporate bonds to shares, capital decrease, listing of employee's shares, issuance of bonds or other reasons.

### 3. Existent shares held by internal staffs of the Company

No existent shares held by internal staffs of the Company.

## II. Particulars about the shareholders and actual controller

### 1. Total number of shareholders and their shareholding

Unit: Share

Total number of shareholders at the reporting period		100,130		Total number of shareholders on the fifth trading day before the disclosure date of the annual report			99,174	
Particulars about shares held by shareholders with a shareholding percentage over 5%								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total shares held at the period-end	Increase/decrease during the reporting period	Number of non-tradable shares held	Number of tradable shares held	Pledged or frozen shares	
							Status of shares	Number of shares
OCT ENTERPRISES CO.	State-owned corporation	19%	228,754,783	0	198,381,940	30,372,843	Pledged or frozen	0
HOLY TIME GROUP LIMITED	Foreign corporation	4.89%	58,830,000	1,591,250	0	58,830,000	Pledged or frozen	Unknown
GAOLING FUND, L. P.	Foreign corporation	2.19%	26,400,625	0	0	26,400,625	Pledged or frozen	Unknown
NAM NGAI	Foreign natural person	0.98%	11,760,520	0	0	11,760,520	Pledged or frozen	Unknown
LI YICHAO	Domestic natural person	0.45%	5,391,181	2,925,900	0	5,391,181	Pledged or frozen	Unknown
XIA RUI	Domestic natural person	0.42%	5,006,500	0	0	5,006,500	Pledged or frozen	Unknown
GUOTAI JUNAN SECURITIES (HON	Foreign corporation	0.40%	4,781,110	3,053,910	0	4,781,110	Pledge	Unknown

GKONG) LIMITED							d or frozen	
THE CUSTOMER'S CREDIT TRANSACTION GUARANTEE A/C OF CHINA SECURITIES CO., LTD.	Domestic non-state-owned corporation	0.30%	3,587,186	325,900	0	3,587,186	Pledge d or frozen	Unknown
YHG INVESTMENT, L.P.	Foreign corporation	0.25%	2,967,661	0	0	2,967,661	Pledge d or frozen	Unknown
ZHANG XIAOZHONG	Domestic natural person	0.19%	2,250,000	2,250,000	0	2,250,000	Pledge d or frozen	Unknown
Strategic investor or general corporation becoming a top ten shareholder due to placing of new shares (if any)	Naught							
Explanation on associated relationship or/and persons acting in concert among the above-mentioned shareholders:	The first majority shareholder OVERSEAS CHINESE TOWN ENTERPRISES CO. has no related-party relationship with other shareholders and they are not acting-in-concert parties, either. Except for that, the Company does not know whether the other shareholders are related parties and whether they are acting-in-concert parties.							
Particulars about shares held by the top ten shareholders holding shares not subject to trading moratorium								
Name of shareholder	Number of tradable shares held at the year-end (Note 4)		Type of shares					
			Type	Number				
HOLY TIME GROUP LIMITED	58,830,000		Domestically listed foreign shares	58,830,000				
OCT ENTERPRISES CO.	30,372,843		RMB ordinary share	30,372,843				
GAOLING FUND, L.P.	26,400,625		Domestically listed foreign shares	26,400,625				
NAM NGAI	11,760,520		Domestically listed foreign shares	11,760,520				
LI YICHAO	5,391,181		RMB ordinary share	5,391,181				
XIA RUI	5,006,500		RMB ordinary share	5,006,500				

GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	4,781,110	RMB ordinary share	4,781,110
THE CUSTOMER' S CREDIT TRANSACTION GUARANTEE A/C OF CHINA SECURITIES CO., LTD.	3,587,186	RMB ordinary share	3,587,186
YHG INVESTMENT, L.P.	2,967,661	Domestically listed foreign shares	2,967,661
ZHANG XIAOZHONG	2,250,000	RMB ordinary share	2,250,000
Explanation on associated relationship or/and persons acting in concert among the top ten tradable shareholders and between the top ten tradable shareholders and the top ten shareholders	The first majority shareholder OVERSEAS CHINESE TOWN ENTERPRISES CO. has no related-party relationship with other shareholders and they are not acting-in-concert parties, either. Except for that, the Company does not know whether the other shareholders are related parties and whether they are acting-in-concert parties.		
Explanation on shareholders participating in the margin trading business (if any)	Naught		

## 2. Particulars about the controlling shareholder

### Corporation

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Organization code	Registered capital	Business scope
OCT ENTERPRISES CO.	Ren Kelei	1 Nov. 1985	19034617-5	RMB 6.1 billion	Development and operation of real estate and hotels; operation of tourism and relevant cultural industries; manufacture of electronics and supporting packing products.
Operating results,	According to the un-audited data in 2012, the total assets of OCT ENTERPRISES CO. in				

financial situation, cash flow and future development strategy, etc.	<p>2012 was RMB 91.689 billion, increased by 8.33% over the same period of 2011; net assets was RMB 27.515 billion, increased by 18.71% over the same period of 2011; the total revenue of sales was RMB 40.538 billion, increased by 20.82% over the same period of 2011; net profits was RMB 3.877 billion, increased by 7.63% over the same period of 2011. And the net cash flow arising from operating activities was RMB 6.457 billion, increased by 274.51% over the same period of 2011; while the net cash flow was RMB 1.458 billion, decreased by 54.84% over the same period of 2011.</p> <p>The future development strategies are as follows: Aimed at creating the “aircraft carrier for Chinese cultural tourism industry”, and directed by the value of “Qualified Overseas Chinese Town to Bring Happiness to Thousands of Families”, the Company will actively adapt to the change of national economic development way, always seize the theme of creative development, further deepen and enrich the existing commercial way, so as to promote the great-leap-forward development for various main business, and further solidify and strengthen the leading advantage in the gathering development and operational area of modern service industry.</p>
Shares held by the controlling shareholder in other listed companies by holding or shareholding during the reporting period	<p>OCT ENTERPRISES CO. held 56.62% equity of Shenzhen Overseas Chinese Town Co., Ltd. (a company listed on the main board of Shenzhen Stock Exchange, SZ. 000069), meanwhile, Shenzhen Overseas Chinese Town Co., Ltd. indirectly held 57.85% equity of OCT (Asia) Holdings Ltd. (a company listed on the main board of Hongkong Stock Exchange).</p>

Change of the controlling shareholder during the reporting period

Applicable  Inapplicable

### 3. Particulars about the actual controller

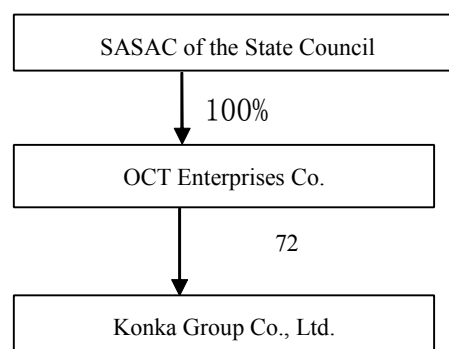
Corporation

Name of the actual controller	Legal representative / company principal
State-owned Assets Supervision and Administration Commission of the State Council	Jiang Jiemin

Change of the actual controller during the reporting period

Applicable  Inapplicable

The ownership and controlling relationship between the actual controller of the Company and the Company is detailed as follows:



19% (A shares)

The actual controller controls the Company via trust or other ways of asset management

Applicable  Inapplicable

**4. Particulars about other corporate shareholders with shareholding proportion over 10%**

Applicable  Inapplicable

Naught

**IV. Particulars on shareholding increase scheme proposed or implemented by the shareholders and act-in-concert persons during the reporting period**

Applicable  Inapplicable

Naught

## Section VII. Directors, Supervisors, Senior Management Staffs and Employees

### I. Changes in shareholding of directors, supervisors and senior management staffs

Name	Office title	Tenure status	Sex	Age	Start date	Ending date	Shares held at the year-begin (share)	Amount of shares increased at the reporting period (share)	Amount of shares decreased at the reporting period (share)	Amount of shares held at the period-end (share)
Hou Songrong	Chairman of the Board	Current	Male	44	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Su Zheng	Director	Current	Male	56	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Wang Xiaowen	Director	Current	Female	43	1 Dec. 2010	1 Dec. 2013	0	0	0	0
He Haibin	Director	Current	Male	38	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Feng Yutao	Independent Director	Current	Male	45	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Yang Haiying	Independent Director	Current	Female	45	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Zhang Zhong	Independent Director	Current	Male	44	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Dong Yaping	Chief Supervisor	Current	Male	59	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Hao Gang	Supervisors	Current	Male	39	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Liu Yong	Supervisor	Current	Male	41	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Chen Yuehua	President	Current	Male	49	1 Apr. 2012	1 Apr. 2014	0	0	0	0
Cheng Dahou	Vice President	Current	Male	50	1 Apr. 2012	1 Apr. 2014	0	0	0	0
He	Vice	Current	Male	43	1 Apr.	1 Apr.	0	0	0	0

Jianjun	President				2012	2014				
Xiao Qing	Secretary to the Board	Current	Male	43	1 Dec. 2010	1 Dec. 2013	0	0	0	0
Yang Rong	CFO	Current	Female	38	1 Apr. 2012	1 Apr. 2014	0	0	0	0
Mu Gang	Vice President	Current	Male	43	1 Apr. 2012	1 Apr. 2014	0	0	0	0
Lin Gaike	Vice President	Current	Male	41	1 Apr. 2012	1 Apr. 2014	0	0	0	0
Liu Fengxi	Vice President	Current	Male	41	1 Apr. 2012	1 Apr. 2014	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0

## II. Post-holding situation

Main working experience of current directors, supervisors and senior management staffs over the past five years:

### 1. Director

Mr. Hou Songrong, Chairman of the Board 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 General Manager of OCT Labor service Co., Ltd., Vice President, Standing Vice President, Vice Secretary of CPC, President, Vice Chairman of the Board of Directors in Konka Group Co., Ltd., Chairman of the Board of Directors of Overseas Chinese Town Hong Kong Limited, Chairman of the Board in Overseas Chinese Town (Asia) Holdings Limited, etc.. 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., as well as Vice President in Shenzhen Overseas Chinese Town Co., Ltd.. He is also at the same time vice chairman of Chinese Young Entrepreneurs' Association and a standing member of Central Enterprise Youth Federation.

Mr. Su Zheng, Director of the Company, was born in 1956 with the Han nationality; collage degree, a senior engineer. He have served successively as Secretary of the CPC and Vice General Manager in SHENZHEN CASIC GUANGYU LTD., Leader of the Assets Integration Team of Shenzhen Area of China Aerospace Science & Industry Corp., 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, as Director in Shanghai Tianxiang OCT Investment Co., Ltd., and as Chief Supervisor in Yunnan OCT Industrial Co., Ltd. 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; Chief Supervisor, Deputy Secretary to the CPC and Secretary of Inspecting Discipline Commission in Shenzhen Overseas Chinese Town Co., Ltd.; Director of China International Travel Service Co., Ltd.; Supervisor of Overseas Chinese Town Real Estate Co., Ltd.; and Director of Konka Group.

Ms. Wang Xiaowen, Director of the Company, born in 1969, Han nationality, is a holder of university

diploma. She successively took the post of Cadre of Personnel Division of Overseas Chinese Affairs Office of the State Council, Vice General Manager of the Audit Department of Overseas Chinese Town Economic Development Corporation, 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, Supervisor of Shenzhen Overseas Chinese Town Holding Company, Director of Shenzhen OCT Real Estate Co., Ltd., Director of Chengdu Tianfu OCT Industrial Development Co., Ltd., Chairman of the Board in Shenzhen Overseas Chinese Town Hotel Group Co., Ltd., etc.. Now she serves as Standing Committee member of Party Committee in Overseas Chinese Town Group Corporation, Director in Konka Group Co., Ltd., Chairman of the Board in Overseas Chinese Town Hong Kong Limited, Overseas Chinese Town (Asia) Holdings Limited and Shenzhen OCT Investment Co., Ltd., Vice President of Shenzhen OCT Co., Ltd., Director in Union Developing Group of China and Vice Chairman of the Supervisory Committee in Shenzhen OCT Happy Coast Investment Co., Ltd.. He' s also at the same time vice chairman of Central Enterprise Youth Federation and vice chairman of the Accounting Society of ShenZhen.

He Haibin, Director of the Company, born in 1974, Han nationality, holds undergraduate degree, is a senior accountant. He has successively taken the posts as Chief of Audit Department and Financial Department in Overseas Chinese Town Group Corporation, as Principal of Finance in Planning Department of the Crowne Plaza Shenzhen, as CFO in Shenzhen OCT Seaview Hotel Co., Ltd., as CFO in InterContinental Shenzhen, as Vice CFO in Overseas Chinese Town Group Corporation and as CFO in Overseas Chinese Town Hong Kong Limited, etc.. Now he is the Chief of Enterprise Management Department in Overseas Chinese Town Group Corporation, as well as a director of Konka Group.

## 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 staff in C-Cube Microsystems, LSI Logic Inc. and Zoran Corporation. Now he acts as Vice President of Ambarella Inc., General Manager of Ambarella Inc., China and Independent Director of Konka Group.

Ms. Yang Haiying, 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 and Independent Director of Konka Group.

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. Now he acts as Lawyer and Copartner of Beijing Zhonglun Law Firm and Independent Director of Konka Group.

### 3. Supervisor

Mr. Dong Yaping, Chief Supervisor of the Supervisory Committee, born in 1953, 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, Chief Supervisor of the Supervisory Committee of Shenzhen Overseas Chinese Town Holding Company, Vice Chairman of the Board in Changsha Window of the World Co., Ltd., Director of Chengdu Tianfu Overseas Chinese Town Industrial Development Co., Ltd., Chief Supervisor of the Supervisory Committee in Taizhou OCT Investment Development Co., Ltd., Supervisor in Shenzhen OCT East Co., Ltd. Now he is Standing Committee Member of the CPC and Vice GM in Overseas Chinese Town Group Corporation, Vice Chairman of the Board in Shenzhen Overseas Chinese Town Co., Ltd., Chief Supervisor of the Supervisory Committee in Konka Group Co., Ltd.. He is also at the same time Vice President of Shenzhen Foundation for Justice and Courage, a member of the Advisory Committee of Shenzhen Municipal Government, a member of the Expert Evaluation Committee for Shenzhen Mayor Quality Award and a member of the presidium of Chinese Culture Promotion Society, Vice Chairman of China Cultural Industry Cooperative.

Mr. Hao Gang, was born in 1973, Han nationality, bachelor degree. He successively took the post such as Vice Chief of the Inspection Office, etc. in Overseas Chinese Town Group Corporation. Now he is the Chief of the Inspection Office in Overseas Chinese Town Group Corporation and a supervisor of Konka Group.

Mr. Liu Yong, Staff Supervisor, Han nationality, born in 1972, bachelor holder of postgraduate, is an assistant to engineer. He successively took posts of Vice Chief of GM's Office in Shenzhen Konka Telecommunications Technology Co., Ltd. and Vice Chief of Office of Konka Group. Now he is Office Chief and a supervisor 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., etc..

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, Chief of Customer Service Center in Overseas Chinese Town Real Estate Co., Ltd., Chief of HR in Overseas Chinese Town Group Corporation, as well as Chairman of the Board in Overseas Chinese Town Xinqiao Industrial Development Co., Ltd., etc..

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 Chief of Secretariat of the Board, Deputy Chief and Chief of Strategic Development Dept. and Secretary to the Board in Konka Group, etc..

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 Business Assistant to the President and Deputy Chief of Strategic Development Dept. as well as Chief of the Investment Development Center in Konka Group Co., Ltd., etc..

Ms. Yang Rong, CFO, Han nationality, born in 1975, postgraduate. She once was Vice GM of the Financial Department of Konka Group, Vice Chief of the Financial Department and Vice Chief 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 Chief and Chief of the Brand Marketing Management Department of Konka Group, Chief 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, bachelor, 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.

Mr. Liu Fengxi, Han nationality, born in 1972, postgraduate. He was once marketing GM for the multi-media division of Konka Group, Assistant GM and then Vice GM of Shenzhen Konka Telecommunications Technology Co., Ltd., Chief of the Operation Management Center of Konka Group, Assistant to President of Konka Group, etc.

Post-holding in shareholders' units

Applicable  Inapplicable

Name of the person holding any post in shareholder's unit	Name of shareholder's unit	Position in shareholder's unit	Beginning date of office term	Ending date of office term	Receives payment from shareholder's unit?
Dong Yaping	Overseas Chinese Town Group Corporation	Standing committee member of Party Committee, Vice General Manager	1 Mar. 2008		Yes

Su Zheng	Overseas Chinese Town Group Corporation	Standing committee member of Party Committee, Deputy Secretary of Party Committee and Secretary of Inspecting Discipline Commission	1 Mar. 2008		Yes
Wang Xiaowen	Overseas Chinese Town Group Corporation	Standing committee member of Party Committee	1 Mar. 2008		Yes
Hou Songrong	Overseas Chinese Town Group Corporation	Standing committee member of Party Committee	1 Mar. 2008		No
He Haibin	Overseas Chinese Town Group Corporation	Chief of Enterprise Management Department	1 Feb. 2010		Yes
Hao Gang	Shenzhen Overseas Chinese Town Co., Ltd.	Chief of Inspection Office	1 Mar. 2010		Yes
Notes to post-holding in shareholder's unit	<p>1. Except the above situation, other directors, supervisors and senior management didn't hold any position in the shareholders' units.</p> <p>2. Mr. Dong Yaping has taken the post of Vice General Manager of OCT ENTERPRISES CO. from Jul. 2000 to now, and the post of member of standing committee of CPC from Mar. 2008 to now.</p> <p>3. It is unknown the ending date of the posts of Mr. Dong Yaping, Mr. Suzheng, Ms. Wang Xiaowen, Mr. Hou Songrong, Mr. He Haibin and Mr. Hao Gang held in the shareholders' units.</p>				

## Post-holding in other units

✓ Applicable  Inapplicable

Name of the person holding any post in other units	Name of other unit	Position in other unit	Beginning date of office term	Ending date of office term	Receives payment from other unit?
Hou Songrong	Chinese Young Entrepreneurs' Association	Vice chairman			No
Hou Songrong	Central Enterprise Youth Federation	Standing member			No
Wang Xiaowen	Central Enterprise Youth Federation	Vice chairman			No
Wang Xiaowen	Accounting Society of ShenZhen	Vice chairman			No
Dong Yaping	Shenzhen Foundation for Justice and Courage	Vice President			No
Dong Yaping	Advisory Committee of Shenzhen Municipal Government	Member			No

Dong Yaping	Expert Evaluation Committee for Shenzhen Mayor Quality Award	Member			No
Dong Yaping	Chinese Culture Promotion Society	Member of the presidium			No
Dong Yaping	China Cultural Industry Cooperative	Vice Chairman			No
Feng Yutao	Ambarella Inc.	Vice President, GM of Chinese Area			Yes
Yang Haiying	Hamburg Fritz und Mark Certified Public Accountants	Senior Accountant			Yes
Zhang Zhong	Beijing Zhonglun Law Firm	Lawyer and Copartner			Yes
Notes to post-holding in other units	Mr. Hou Songrong, Ms. Wang Xiaowen and Mr. Dong Yaping all took part-time job in other units, while Mr. Feng Yutao, Ms. Yang Haiying and Mr. Zhang Zhong were the independent directors of the Company.				

### III. Remuneration for directors, supervisors and senior management staffs

Decision-making procedure, determining basis and actual payment for the remuneration of directors, supervisors and senior management staffs

(I) Remuneration of directors and supervisors of the Company was submitted for review and approval of the Shareholders' General Meeting after the review and approval of the Board of Directors. In the reporting period, 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 was RMB 285,600, that was the total remuneration of 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 sessions or Shareholders' General Meetings and the expenses when they were performing their duties as stipulated in the relevant regulations and the Articles of Association and other relevant systems, all these could be reported for deletion.

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

Remuneration of the directors, supervisors and senior management of the Company during the reporting period

Name	Position	Sex	Age	Tenure status	Total remuneration gained from the Company (RMB 0' 000)
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Hou Songrong	Chairman of the Board	Male	44	Current	72.28
Su Zheng	Director	Male	56	Current	0.00
Wang Xiaowen	Director	Female	43	Current	0.00
He Haibin	Director	Male	38	Current	0.00
Feng Yutao	Independent Director	Male	45	Current	9.52
Yang Haiying	Independent Director	Female	45	Current	9.52
Zhang Zhong	Independent Director	Male	44	Current	9.52
Dong Yaping	Chief Supervisor	Male	59	Current	0.00
Hao Gang	Supervisors	Male	39	Current	0.00
Liu Yong	Supervisor	Male	41	Current	48.17
Chen Yuehua	President	Male	49	Current	90.36
Cheng Dahou	Vice President	Male	50	Current	57.08
He Jianjun	Vice President	Male	42	Current	57.08
Xiao Qing	Secretary to the Board	Male	42	Current	57.08
Yang Rong	CFO	Female	38	Current	57.08
Mu Gang	Vice President	Male	43	Current	57.08
Lin Gaike	Vice President	Male	41	Current	57.08
Liu Fengxi	Vice President	Male	41	Current	58.74
Total	--	--	--	--	640.59

Particulars about the equity incentives awarded for the directors, supervisors and senior management staffs of the Company during the reporting period

Applicable  Inapplicable

#### IV. Particulars about resignation and dismissal of Directors, Supervisors and Senior Management Staffs within the reporting period

Applicable  Inapplicable

#### V. Particulars about changes in core technical team or key technicians during the reporting period (not directors, supervisors or senior management staffs)

There were no changes in core technical team or key technicians of the Company during the reporting period.

#### VI. About employees

##### (I) About employees

As to the end of 2012, there were 20,798 employees of the Company in total. Of which there were 1,254 technicians, accounting for 6% of the total employees; 3,517 salesperson, accounting for 17% of the total employees; 1,786 administrative staffs, accounting for 9% of the total employees; and 14,241 production staffs, accounting for 68% of the total employees.

Technicians  
Salesperson  
Administrative staffs  
Production staffs

As to the end of 2012, education level of employees of the Company was as follows: there were 194 persons with master degree and above, accounting for 1.0% of the total employees; 3,145 persons with bachelor degree, accounting for 15% of the total employees; 7,794 persons graduated from junior college or technical secondary school, accounting for 38% of the total employees; 9,665 persons of others, accounting for 46% of the total employees.

Master degree and above  
Bachelor degree  
Junior college or technical secondary school  
Other

(II) Employee' s remuneration policy

The Company promulgated its remuneration system with the operating strategy of serving for the enterprise development and enhancement, and the principle of deciding the remuneration according to the post, business performance and capabilities, as well as the market competitiveness and internal fairness. And it decided the employee' s remuneration level according to its business earnings, the posts and fulfillment of the business performance of the employee..

(III) Employee' s training plan

The Company adhered to the people-oriented and paid special attention to cultivate the talents. Surrounded by the business development and the construction of talent team, the Company actively organized and carried out various training activities, and continuously perfected its talents cultivation system, as well as further enhanced the employee' s professional skills and overall quality, so as to strengthen the construction of management talents, professional talents and technical talents teams.

In 2012, guided by closing to the business needs, the Company centralized the superior resources to promote the cultivation of key talents. And it organized and carried out the open class project for all the employees, and organized and carried out the new employee' s training & cultivation projects respectively for the graduates from campus recruiting and personnel from social recruitment. Meanwhile, it centralized to organize the pointed the training projects of general management skills and post professional knowledge, etc for the personnel from marketing, R&D, manufacturing, financial and human resources systems, so as to better complete its annual training plan.

## VIII. Corporate Governance

### I. Basic information of corporate governance

In the reporting period, strictly 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 internal control systems such as the Articles of Association and Administrative Method on Provision of External Financial Aids as well as Management System on Investors Relationship, continuously perfected the corporate governance structure and standardized the Company' s operation. 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.

(I) Shareholders and the Shareholders' General Meeting

The Company drew up Articles of Association and Rules for Procedure of Shareholders' General Meeting, ensured that all shareholders, in particular medium and minor shareholders, enjoy legal rights and equal standard. In the reporting period, the Company was able to publish announcement on Shareholders' General Meetings in advance, convened Shareholders' General Meeting with strictly accordance to relevant requirements, so as to enable the shareholders have their rights of information to the Company's material issues and the participation rights. In 2012, the Company convened two Shareholders' General Meeting in total. The Company seriously did well the registration, arrangement and organization work for the Shareholders' General Meeting before the circular on convening the Shareholders' General Meeting being published at the designated media. The Company convened the Shareholders' General Meeting at the office address of the Company strictly in line with relevant stipulations, which was convenient in traffic, and the shareholders could attend the session in accordance with their actual situation. The Company's directors, supervisors and senior management staffs made explanations and description for the shareholders' questions and advices at the session.

#### (II) Controlling shareholder and the Company

In the reporting period, the controlling shareholders and actual controllers strictly regulated its behavior and complied with laws in exercising their rights and obligations, not bypassed the Shareholders' General Meeting to intervene in the Company's decisions and operations directly or indirectly. The Company was separated from the controlling shareholders and actual controllers in aspects of its business, personnel, assets, organ and finance, the Board of Directors, Supervisory Committee and the internal departments of the Company functioned independently.

#### (III) Directors and the Board of Directors

The number and structure of the Board Bureau of the Company were in compliance with laws and regulations. The Company drew up Rules for Procedures of the Board Bureau, so as to ensure a high efficient operation and scientific decision-making of the Board Bureau; the Company has set up Independent Director System and engaged three independent directors. In the reporting period, the number of directors and composition of the Board of Directors of the Company as well as the procedure of selection was in accordance with the requirements of the rules and laws as well as Articles of Association. The Company set up four special committees, which were Financial Audit Committee, Nomination Committee, Remuneration & Appraisal Committee, Strategy Committee to provide profession opinion for the decision of the Board of Directors. All the directors carried out their work, fulfilled their duties and scrupulously attended the Board sessions in accordance with Rules of Procedure for the Board of Directors, Rules for Independent Directors, etc.. 19 Board sessions were convened by the Company during the reporting period, which brought the decision-making mechanism of the Board of Directors into full play.

#### (IV) Supervisors and supervisory committee

The Company has established Rules for Procedures of the Supervisory Committee, persons and structure of the Supervisory Committee was in line with relevant laws and statutes, supervisors can earnestly perform their responsibilities, independently and efficiently executed supervision and check responsibilities with a spirit of being responsible to shareholders. In the reporting

period, the number of supervisors and composition of the Supervisory Committee of the Company as well as their selecting procedure complied with the laws, regulations. In accordance with the requirement of the Rules of Procedure for Supervisory Committee, the supervisors performed their duties in an earnest and responsible manner, and exercised their functions of supervision on the decision-making procedure of the Board of Directors, resolutions and the Company's operation by law, and took effective supervision over the Company's significant events, related transactions, financial position, as well as the legality and compliance on duty performance by the directors, president and other senior management members.

(V) Performance Appraisal and Incentive & Restrictive Mechanism

The senior management staffs of the Company were recruited on an open basis and in compliance with the laws and regulations. The Company has established and gradually improved the performance appraisal standards and incentive & restrictive mechanism for senior management staffs, so as to attract qualified personnel, and ensure the stability of senior management staffs.

(VI) Interested parties

During the reporting period, the Company fully respected and maintained the legal rights of the interested parties, and realized the balance of interest among the parties such as society, shareholders and employees, etc.. Meanwhile, the Company protected the rights of the employees, promoted the environmental protection, and actively joined in the social benefit and charitable cause so as to jointly promote sustainable and healthy development.

(VII) Information disclosure and transparency

The Company strengthened its investor relations management by formulating the Management Rules for Investor Relations and the Management Rules 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 a timely, honest, complete and accurate basis, to ensure the accurate and timely information disclosure, while ensure equal access to information for all shareholders. Owing to his efforts in promoting the standardized 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 five years from the 4<sup>th</sup> session to the 9<sup>th</sup> session, and successively gained the title of Board Secretary in Actively Promoting the Standards and Self-discipline for the Listed Companies in 2012 by Shenzhen Securities Regulatory Bureau after gaining it in 2008, 2009, 2010 and 2011.

(VIII) Non-standard governance

1. Type of non-standard governance matter existed

There was a situation that the Company disclosed undisclosed information.

2. Types and cycle of undisclosed information provided to the principal shareholder

The Company provided monthly financial data to the principal shareholder.

3. 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.

#### 4. 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.

Whether it exists any difference between the corporate governance and the Company Law and relevant rules of CSRC or not?

Yes  No

There is no difference between the corporate governance and the Company Law and relevant rules of CSRC.

Progress of corporate governance activities, promulgation and implementation of Registration System for Information Insiders

##### (I) Construction and execution of internal control standards

In accordance with the Notice on Conducting Experimental Work of Internal Control Standards of Listed Companies in Shenzhen Administration Area (Shen-Zheng-Ju-Gong-Si-Zi [2011] No.31) and the Notice on Doing a Better Job in Implementation of Internal Control Regulations in Listed Companies in Shenzhen (Shen-Zheng-Ju-Fa [2012] No. 105), the Company undertook standardizing work of internal control and submitted process of internal control to Shenzhen SRC with requirements.

During the reporting period, the Company mainly accomplished the following specific work in relation to internal control improvement:

A. According to the work plan for the internal control self-appraisal phase, the Company rectified the internal control defects found in the appraisal.

B. RSM China Certified Public Accountants Co., Ltd. audited the internal control of the Company for 2011 and the Company rectified the internal control defects found in the audit.

C. The internal audit department of the Company worked out and disclosed the 2011 Annual Internal Control Self-Appraisal Report.

D. The Company conducted work such as comb of process, recognition of risks, preparation of manuscript of internal control, check of flaws, report of flaw and so on to the Digital Network.

E. The Company conducted the self-appraisal work on internal control for 2012.

## (II) Establishment of robust Management System for Information Insiders

To further standardize the enterprise inside information management, strengthen the confidentiality of the enterprise inside information and maintain the fairness principle of information disclosed, the company has established Konka Group Incorporated Company Management System for Inside Information and Its Insiders in light of such regulations related to laws, regulations and standardized Files as Company Acts, Securities Law, Listing Company Information Disclosure Management Methods and Listing Company Rules in Shenzhen Stock Exchange; the company revised Management System for Inside Information and Its Insiders according to Regulations on establishment Registration Management System for Inside Information and Its Insiders by the listed company and made by CSRC and Notifications on requirements for further management of inside information by Shenzhen SRC within reporting period. The company strictly implements the system during information disclosure. Meanwhile, seriously implement the company registration and management methods for inside information, register the information insiders, and file the registration in Shenzhen Securities SZSE and Shenzhen SRC according to the relevant regulations. Special examination has been taken regarding the inside information management during the period of major projects undertaken and annual reporting in 2012. It is examined that the information insiders did stick to the confidentiality regulations during the period of periodic report, formulation for major projects, examination and disclosure. No inside information was disclosed, revealed or spread to the public, and the information insiders did not utilize the inside information to sell the company shares prior to the disclosure of major and sensitive information that influences the company share price, and the monitoring departments were not inspected and reformed. Management System for Inside Information and Its Insiders was implemented and controlled properly and efficiently.

For details about the Management System for Inside Information and Its Insiders, please refer to the public notice disclosed on <http://www.cninfo.com.cn/information/companyinfo.html> dated 28 Dec. 2011.

## (III) Establishment and implement of management system for the user of external information

In order to strengthen the management of the reporting of company inside information, the company has established inside information reporting management system in light of such relevant regulations regarding laws, regulations and standardized files as Securities law of the People's Republic of China, Management methods of information disclosure for listed company, and Konka Group Incorporated Company Management System for Inside Information and Its Insiders, regulating on the reporting scope, procedure and responsibility division of inside information.

Special examination has been taken regarding the reporting situation of inside information management during the period of the major projects undertaken and annual reporting in 2012. It is examined that the inside information reporting is subject to the requirements of inside

information reporting management system which is implemented and controlled properly and effectively.

## II. Particulars about annual shareholders' general meeting and special shareholders' general meeting held during the reporting period

### 1. Particulars about annual shareholders' general meeting held during the reporting period

Session	Convening date	Name of proposal	Resolution	Disclosure date	Disclosure index
2011 Annual Shareholders' General Meeting	15 Jun. 2012	1. Work Report of the Board of Directors in 2011; Work Report of the Supervisory Committee in 2011; 2011 Annual Report; Proposal on 2011 Annual Profits Distribution Plan; Proposal on Engagement of the Audit Firm on Financial Statements and Internal Control for the Company in 2012; Proposal on Prediction of the Routine Related-party Transactions in 2012; Proposal on Financing by Pledging the Bank Acceptance Bills; Proposal on Application for Credit Line by Konka Mould Plastic Co., Ltd.; Proposal on Application for Comprehensive Credit Line from the Bank of China; Proposal on Application for Comprehensive Credit Line from Shanghai Pudong Development Bank and Proposal on Provision of Guarantee for Anhui Konka Tongchuang Household Appliances Co., Ltd.	All the proposals were reviewed and approved at the session.	16 Jun. 2012	Announcement on Resolutions Made at the 2011 Annual Shareholders' General Meeting (Announcement No: 2012-21) was published on <a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>

### 2. Particulars about special shareholders' general meeting held during the reporting period

Session	Convening date	Name of proposal	Resolution	Disclosure date	Disclosure index
The First Special Shareholders' General Meeting for 2012	17 Aug. 2012	Proposal on Revising Partial Provisions of the Articles of Association; Plan on Return for Shareholders in the Future Three Years (from 2012 to 2014); and Proposal on Application for Increasing Credit Line by Kunshan Jielunte Mould Plastic Co., Ltd.	All the proposals were reviewed and approved at the session.	18 Aug. 2012	Announcement on Resolutions Made at First Special Shareholders' General Meeting for 2012 (Announcement No: 2012-32) was published on <a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>

### III. Performance of the Independent Directors during the Reporting Period

#### 1. Particulars about the independent directors attending the board sessions and the shareholders' general meetings

Particulars about the independent directors attending the board sessions						
Name of independent directors	Due presence (times)	Presence in person (times)	Presence by telecommunication (times)	Entrusted presence (times)	Absence (times)	Failing to present in person for two consecutive sessions or not
Yang Haiying	15	1	14	0	0	No
Feng Yutao	15	1	14	0	0	No
Zhang Zhong	15	1	14	0	0	No
Presence of independent directors in shareholders' general meeting (times)						3

Explanation on failing to present in person for two consecutive sessions:

Inapplicable

#### 2. Particulars about independent directors propose objection on relevant events

Whether independent directors propose objection on relevant events or not?

Yes  No

The independent directors didn't propose objection on relevant events during the reporting period.

#### 3. Other explanation on performance of independent directors

Whether the advices of independent directors for the Company were adopted or not?

Yes  No

Explanation on the advices of independent directors for the Company being adopted or not adopted  
 In the reporting period, independent directors of the Company actively participated relevant meetings, earnestly reviewed each proposal, and objectively issued their opinions and attitudes. They acknowledged operation of the Company, establishment of internal control, and execution of proposals of the Board Bureau and Shareholders' General Meeting, then actively provided professional suggestions on internal management, which including: reinforced management on business procedure, reinforced establishment of internal control, reinforced research on advanced technology of color TV, reinforced management on cash flow and accounts receivable, etc.. The Company carefully adopted opinions of independent directors, continuously perfected and improved management level of the Company.

#### **IV. Performance of the Special Committees under the Board during the reporting period**

##### **(I) Summary report on the performance of the Audit Committee subject to the Board of Directors**

###### 1. Establishment and perfection 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.

The Financial Audit Committee under the Board of the Company was composed of three independent directors, including two independent directors and one non-independent director, 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:

###### 2. It has fulfilled the following duties during the preparation of Annual Report 2012:

- (1). Reviewed and approved the arrangement for 2012 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 RSM China Certified Public Accountants.
- (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 2011 to the Board

3. In 2012, 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.

4. Reviewed financial statements of Annual Report 2011, First Quarterly Report 2012, Semi-Annual Report 2012, and the Third Quarterly Report 2012, and had no objection to the aforesaid financial statements.

5. Proposed to engage RSM China Certified Public Accountants as the audit institution for annual financial statement auditing 2012 of the Company after investigation.

6. During the preparation of Annual Report 2012, the Company 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:

A. We agreed to submit the Financial Statements to the CPAs for auditing.

B. 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 Arrangement for Annual Auditing 2012 of Konka Group Co., Ltd prepared by the Company before the CPAs' entry of Auditing, and approved the arrangement for the auditing of annual report 2012.

(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 2012 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 2012 of the Company audited preliminarily by RSM China Certified Public Accountants.

(7). It deliberated the Financial Statements 2012 after the auditing by annual audit institution, and issued the resolution of the Financial Accounting Statements 2012 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 2011 of the Company issued by RSM China Certified Public Accountants.

(8). It issued the Summery Report on the Annual Auditing 2012 by RSM China Certified Public Accountants.

According to the requirement of relevant documents like Work Rules for the Financial Audit Committee under the Board, it summarizes the annual auditing 2012 of the Company by the CPAs as follows:

RSM China Certified Public Accountants (hereafter refers to CPA firm) had audited and evaluated

the financial condition of Konka Group in 2012, mainly concerning audit assessment on financial condition, annual operation, and cash flows at the end of 2012, as well as special explanation on fund occupation of controlling shareholders of the Company and its related parities. During the annual audit, the Financial Audit Committee followed up and cooperated when necessary. 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.

A. General information

The CPAs communicated with the Board of Directors and the management team of the Company and signed the audit engagement with the Company. After negotiation between the Committee and CPAs firm, the overall time schedule of audit on Annual Financial Report 2012 was determined. During field audit of the audit team, the Committee fully communicated with the CPAs, and urged the CPAs to submit the audit report within the agreed time limit.

The audit team worked efficiently and conscientiously to accomplish all audit procedures within the time limit according to the schedule of the audit plan, acquired enough and proper audit evidences, and submitted an audit report with standard unqualified opinion.

B. Professional ethics of accountants in the CPAs executing annual audit

During the audit, except for the payment agreed in the audit contract, the CPAs firm did not obtain any other cash or economic benefit in any other form from the Company. There' s no direct or indirect mutual investment, or close business relationship between the CPAs and the Company, nor there' s any relation between members of the audit team and decision-making staffs of the Company. During the audit, the CPAs firm and the audit team maintained independence in form and substance, and obeyed requirements concerning keeping independency in basic principles of obeying professional ethics from the beginning to the end.

The members of the audit team had professional knowledge and relevant professional certificates that were needed to take on the audit, were competent for the audit, and were able to maintain due concern and professional prudence.

C. Opinion about the audit plan

During the audit of Y2012, the Committee fully negotiated with the CPAs. On that basis, the audit team complied the overall audit strategy and specific audit plan, which made full preparation for accomplishment of audit assignments and reduction of audit risks.

D. Appraisal on the execution of detailed auditing procedures

Based on appraising the completeness of internal control, rationality of design and effectiveness of operation, the CPAs firm decided the controlling test procedures and substantive test procedures to be implemented, so as to gain the necessary auditing evidence for issuing the audit opinion.

E. Communication during the auditing

During the audit, the members of the audit team and the Company kept sustainable and sufficient communication, which resulted in a more mature judgment for the auditor to give a fair audit conclusion.

F. 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.

G. Assessment of audit work executed by the CPAs

During the period of serving as the audit firm of the Company and providing the audit service, RSM China Certified Public Accountants adhered to conduct independent audit with objective and fair attitude, and it better executed the responsibilities and duties stipulated in the Business Agreement, as well as completed the audit work timely. The Audit Committee expressed satisfaction towards the audit work in 2012 conducted by RSM China Certified Public Accountants.

H. It issued the resolution of engagement of CPAs in 2013, with details as follows:

Since RSM China Certified Public Accountants provided the Company with its professional auditing service based on its approved professional etiquette, rigorous work style and upper occupational level in annual audit of Financial Statements 2012 of the Company, the Committee suggested continuing engaging RSM China Certified Public Accountants as the audit institution for the Financial Statement 2013 of the Company.

**(II). 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 reporting 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 2012 was in line with the actual situation.
2. 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.

**V. Performance of the Supervisory Committee**

Whether the Supervisory Committee finds the Company existing risks or not in the supervisory activities during the reporting period?

Yes  No

The Supervisory Committee has no objection on the supervised events during the reporting period

**VI. Particulars about the Company' s "five-separation" from the controlling shareholder in respect of business, personnel, assets, organization and financing**

Within the reporting period, the Company was highly independent in terms of business, staff, assets, organs and finance from its controlling shareholders, which owned independent legal representative and main status in market competition, and had independent accounting, as well as possessed complete business system and the ability of independent operation to face the market.

(I) Business: the Company owned complete supply, R&D, production and sales system, possessed ability of independent operation to face the market by independent operation, independent

accounting & decision-making, independent bearing responsibility & risks, didn't subject to the interference and control of the controlling shareholders, actual controller and its controlled enterprises.

(II) Staff: the Company was independent of the controlling shareholder with respect to labor, personnel and salaries management. The Company owned independent team of staffs, the senior management staffs, financial personnel and business personnel received their remunerations in the Company, they were full-time staffs of the Company without holding any post except directors and supervisors in shareholders' units or other related enterprises.

(III) 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 independent production system, ancillary production system, the ancillary facilities, house property right and other assets, which also possessed independent procurement and sales system.

(IV) Organ: the Company had its own functional organs adapting to the needs of self-development and market competitiveness, all the functional organs were separated from each other in aspects of personnel, office premises and management rules, etc., there existed no particulars about any shareholders, other units or individuals interfering the organ setting of the Company.

(V) Finance: the Company established an independent finance department with full-time financial personnel and an independent finance and accounting system, and independently carried out the financial work in line with requirements of relevant accounting rules; the Company promulgated sound financial management system to operate independently without sharing the common account with the controlling shareholder, related enterprise, other units or individual; the Company independently declared and paid the tax by laws without particulars on paying taxes together with shareholders' units.

## **VII. Particulars about horizontal competitions and related-party transactions**

There were no horizontal competitions arising from part of system reform, characteristics of industry, state policies or acquisitions & merge.

## **VIII. Appraisal and incentive mechanism for senior management staffs**

In order to enable the senior management staffs 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 Appraisal Standard and Incentive & Restraint Mechanism for the senior management staffs. The Company assessed the duty performance and completion of business of senior management staffs 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 senior management staff was appraised by the Board of Directors, which

was supervised by the Supervisory Committee.

## Section IX. Internal Control

### I. Construction of internal control of the Company

As one of the key companies in implementing the pilot for internal control standards in Shenzhen for 2011, the Company carefully understood the basic standards of internal control and relevant guidelines, and actively deployed and carried out the work, as well as implemented detailed requirements. In 2012, based on continuously deepening the construction of internal control system and extending the scope of internal control system, the Company assessed the risks, specially combed the significant risk points and procedures. At current, the Company has completed the construction of internal control system and self-appraisal of internal control.

#### 1. Work on construction of internal control system

In 2011, the Company conducted the construction of internal control system for each department of function center of the headquarter, Dongguan Konka Electronic Co., Ltd., Anhui Konka Electronic Co., Ltd., Kunshan Konka Electronics Co., Ltd., Dongguan Konka Mould Plastic Co., Ltd., Konka Household Appliances International Trading Co., Ltd., Shenzhen Konka Telecommunications Technology Co., Ltd., and Anhui Konka Household Appliances Co., Ltd., and carried out the self-appraisal on internal control for the year.

In 2012, the Company extent the scope of construction of internal control system, conducted work such as comb of process, recognition of risks, preparation of manuscript of internal control, check of flaws, report of flaw and so on to Hongkong Konka Co., Ltd., Shenzhen Konka Information Network Co., Ltd. and Shenzhen Konka Video & Communication Systems Engineering Co., Ltd., and made rectification and acception of defects found in the construction process.

#### 2. Work on improvement of internal control

In order to solidify the results of the internal control construction in 2011 and continuously optimize the internal control system and operating system, the Company further perfected the Internal Control Brochure established in the process of internal control construction and relevant attachments in 2012, so as to normalize and standardize the work files and procedures for various internal control, and further meet the needs of routine internal control management work.

#### 3. Work on appraisal of internal control system

In order to increase the quality of the self-appraisal work on internal control, the Company's internal control department and internal auditing department appraised the overview of the Company in Sept. 2012 and integrated the construction situation on internal control, the Company drafted the self-appraisal plan on internal control and recognition standards of defects, and promulgated the unified template of the work paper for self-appraisal on internal control to standardize the work. And the self-appraisal team of the internal control appraised relevant units according to the plan and formed the work paper. And the Company's internal auditing

department summarized the work paper of various business, and issued the Self-appraisal Report on Internal Control for 2012, which was submitted to the Board of Directors for review and approval.

RSM Certified Public Accountants audited the internal control of the Company in 2012, and issued the Auditor's Report on Internal Control of Konka Group Co., Ltd..

## II. Statement of the Board of Directors on its responsibilities towards internal control

The Board of Directors of the Company and all its members commits that the report does not contain any false or misleading statements or omit any material facts, and ensures the authenticity, accuracy and completeness of the report.

It is a responsibility of the Board of Directors to establish, to perfect and to carry out internal control, a responsibility of the Supervisory Committee to conduct supervision to the establishment and execution of internal control by the Board, a responsibility of the management level to in charge of gathering and leading daily operation of internal control.

The goal of internal control of the Company is reasonably to assure the legality of operation, assets security, truthfulness and completeness of financial report and relevant information, promote efficiency and results of operation, advanced the achievement of development strategy of the Company. In terms of the inborn restriction of internal control, the Company can only provide reasonable guarantee to the above mentioned goals.

## III. Basis on establishing the internal control for financial report

The Company established the internal control on financial report based on the Basic Rules for Enterprise Internal Control, Practical Guideline for Enterprise Internal Control and Appraisal Guideline for Enterprise Internal Control jointly issued by the five ministries, such as CSRC, Ministry of Finance.

## IV. Self-appraisal report on internal control

Particulars about significant defects of internal control found during the reporting period in the self-appraisal report on internal control	
No significant defects were found during the reporting period.	
Disclosure date of the Self-appraisal Report on Internal Control	27 Apr. 2013
Disclosure index of the Self-appraisal Report on Internal Control	<a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>

## V. Auditor's report on internal control

Applicable  Inapplicable

Audit opinion paragraph in the Auditor's Report for the Internal Control
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The Company has made valid internal control on financial report in all significant aspects on 31 Dec. 2012 according to the Basic Rules for Enterprise Internal Control and other relevant stipulations.	
Disclosure date of the Auditor's Report on Internal Control	27 Apr. 2013
Disclosure index of the Auditor's Report on Internal Control	<a href="http://www.cninfo.com.cn/information/companyinfo.html">http://www.cninfo.com.cn/information/companyinfo.html</a>

Whether the CPAs firm issues an Auditor's Report on Internal Control with non-standard opinion or not?

Yes  No

Whether the Auditor's Report on Internal Control from the CPAs firm is in consistent with the Self-appraisal Report from the Board or not?

Yes  No

#### **VI. Establishment and execution of rules of accountability for significant mistakes in annual report information disclosure**

In order to improve the enterprise standard operating level and increase the accountability for the responsible persons of annual report information disclosure and improve the quality and increase the transparency of information disclosure, enhance the authenticity, accuracy, completeness and promptness, the Konka Group has determined to formulate Rules of Accountability for Significant Mistakes in Annual Report Information Disclosure of Konka Group Co., Ltd. after examination of the 39<sup>th</sup> Session of the 6<sup>th</sup> Board of Directors of Konka Group Co., Ltd.

During the reporting period, no major mistakes on information disclosure for the annual report occurred in the company.

During the reporting period, no amendment on major accounting mistakes occurred.

During the reporting period, no replenishment on major omitting information occurred.

During the reporting period, no revision on performance announcement in advance occurred.

## Section XI. Documents Available for Reference

- I. Financial statements with the signatures and seals of the company principal, the principal of accounting work and the principal of the accounting organ (financial manager);
- II. Originals of Auditors' Report with the seals of the CPAs firm and the signatures & seals of the certified public accountants;
- III. Texts of all the Company' s documents ever publicly disclosed in newspapers designated by CSRC in the reporting period, and the originals of the public notices.
- IV. Other relevant materials.

The Board of Directors

Konka Group Co., Ltd.

27 April 2013

## Auditor' s Report for Y2012

I. Auditor' s Report

II. Audited Financial Statements

1. Consolidated Balance Sheet

2. Consolidated Income Statement •

3. Consolidated Cash Flow Statement

4. Consolidated Statement of Change in Owners' Equity

5. Balance Sheet

6. Income Statement

7. Cash Flow Statement

8. Statement of Change in Owners' Equity

9. Notes to the Financial Statements

10. Supplementary Information for the Notes to the Financial Statements

## Auditor' s Report

Zhong-Rui-Yue-Hua-Shen-Zi [2013] No. 5686

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

We have audited the accompanying financial statements of Konka Group Co., Ltd. (hereafter referred to as "the Company") and its subsidiaries (hereafter referred to as "the Group" in general) which comprise the consolidated and company' s balance sheets as at 31 December 2012, and the consolidated and company' s income statements, the consolidated and company' s cash flow statements and the consolidated and company' s statements of changes in owners' 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) preparing financial statements according to the Accounting Standards for Business Enterprises and make them a fair presentation; and (2) 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.

### 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 of China CPAs 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 and fair statement in order to design audit procedures that are appropriate in the circumstances. 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. Audit opinion

In our opinion, the financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises in all material respects and give a fair view of the Company and its subsidiaries' consolidated financial positions as at 31 Dec. 2012 and the consolidated business results and cash flows for the year then ended, as well as the Company' s financial positions as at 31 Dec. 2012 and

business results and cash flows for the year then ended.

RSM China Certified Public Accountants (LLP)  
Beijing • China

CPA: Liu Jianhua  
CPA: Tang Qimei  
25 Apr. 2013

## 1. Consolidated balance sheet

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Closing balance	Opening balance
Current Assets:		
Monetary funds	1,728,946,511.11	2,701,892,431.70
Settlement reserves		
Intra-group lendings		
Transactional financial assets		
Notes receivable	5,033,056,004.97	4,865,963,486.09
Accounts receivable	1,975,605,771.07	1,893,039,292.61
Accounts paid in advance	183,008,022.27	574,363,453.07
Premiums receivable		
Reinsurance premiums receivable		
Receivable reinsurance contract reserves		
Interest receivable	7,171,998.73	43,626,559.44
Dividend receivable		
Other accounts receivable	316,590,715.96	134,333,284.70
Financial assets purchased under agreements to resell		
Inventories	4,059,339,049.25	2,829,591,759.41
Non-current assets due within 1 year		
Other current assets		911,000,000.00
Total current assets	13,303,718,073.36	13,953,810,267.02
Non-current assets:		
Loans by mandate and advances granted		
Available-for-sale financial assets	1,187,177.20	6,408,065.70

Held-to-maturity investments		
Long-term accounts receivable		
Long-term equity investment	472,423,533.19	271,188,014.48
Investing property	235,680,171.89	241,105,035.18
Fixed assets	1,887,836,271.02	1,779,259,823.65
Construction in progress	50,682,893.85	118,905,008.92
Engineering materials		
Disposal of fixed assets		
Production biological assets		
Oil-gas assets		
Intangible assets	290,280,443.01	194,383,622.95
R&D expense		
Goodwill	3,943,671.53	3,943,671.53
Long-term deferred expenses	6,261,286.45	10,152,203.66
Deferred income tax assets	310,903,676.56	327,297,600.22
Other non-current assets		
Total of non-current assets	3,259,199,124.70	2,952,643,046.29
Total assets	16,562,917,198.06	16,906,453,313.31
Current liabilities:		
Short-term borrowings	5,456,351,486.48	6,835,265,235.56
Borrowings from Central Bank		
Customer bank deposits and due to banks and other financial institutions		
Intra-group borrowings		
Transactional financial liabilities		22,101,173.97
Notes payable	846,746,137.62	799,094,173.72
Accounts payable	2,735,993,787.52	2,530,352,186.42
Accounts received in advance	441,836,467.09	349,544,262.93
Financial assets sold for repurchase		
Handling charges and commissions payable		
Employee's compensation payable	305,003,416.73	267,353,845.13

Tax payable	-231,087,836.60	33,174,908.08
Interest payable	27,651,352.67	26,446,960.89
Dividend payable		
Other accounts payable	1,364,756,260.46	1,029,139,182.06
Reinsurance premiums payable		
Insurance contract reserves		
Payables for acting trading of securities		
Payables for acting underwriting of securities		
Non-current liabilities due within 1 year	810,000,000.00	
Other current liabilities		
Total current liabilities	11,757,251,071.97	11,892,471,928.76
Non-current liabilities:		
Long-term borrowings	400,000,000.00	610,000,000.00
Bonds payable		
Long-term payables	30,000,000.00	30,000,000.00
Specific payables		
Projected liabilities	2,511,814.54	20,163,356.00
Deferred income tax liabilities	563,067.21	1,370,569.08
Other non-current liabilities	125,743,462.22	115,820,202.99
Total non-current liabilities	558,818,343.97	777,354,128.07
Total liabilities	12,316,069,415.94	12,669,826,056.83
Owners' equity (or shareholders' equity)		
Paid-up capital (or share capital)	1,203,972,704.00	1,203,972,704.00
Capital reserves	1,272,420,328.46	1,275,686,262.22
Less: Treasury stock		
Specific reserves		
Surplus reserves	827,291,207.52	809,307,995.80
Provisions for general risks		
Retained profits	725,485,704.10	709,679,408.84
Foreign exchange difference	14,421,594.77	11,077,592.96

Total equity attributable to owners of the Company	4,043,591,538.85	4,009,723,963.82
Minority interests	203,256,243.27	226,903,292.66
Total owners' (or shareholders' ) equity	4,246,847,782.12	4,236,627,256.48
Total liabilities and owners' (or shareholders' ) equity	16,562,917,198.06	16,906,453,313.31

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ: Xu Youshan

## 2. Balance sheet of the Company

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Closing balance	Opening balance
Current Assets:		
Monetary funds	1,232,222,002.19	2,197,167,892.05
Transactional financial assets		
Notes receivable	4,745,072,740.14	4,731,536,936.35
Accounts receivable	1,236,932,980.35	1,272,793,163.17
Accounts paid in advance	194,043,254.39	115,891,757.12
Interest receivable	7,894,632.07	42,999,483.89
Dividend receivable		
Other accounts receivable	743,098,527.06	590,667,690.98
Inventories	2,840,661,422.34	2,090,143,386.96
Non-current assets due within 1 year		
Other current assets		859,000,000.00
Total current assets	10,999,925,558.54	11,900,200,310.52
Non-current assets:		
Available-for-sale financial assets	1,187,177.20	6,408,065.70
Held-to-maturity investments	395,000,000.00	350,000,000.00
Long-term accounts receivable		
Long-term equity investment	1,693,717,169.87	1,492,617,169.87
Investing property	235,680,171.89	241,105,035.18
Fixed assets	555,870,405.39	581,214,987.66
Construction in progress	5,584,347.15	6,056,730.30

Engineering materials		
Disposal of fixed assets		
Production biological assets		
Oil-gas assets		
Intangible assets	24,518,958.53	25,294,452.23
R&D expense		
Goodwill		
Long-term deferred expenses	1,811,365.14	3,796,432.62
Deferred income tax assets	223,333,764.57	249,756,554.62
Other non-current assets		
Total of non-current assets	3,136,703,359.74	2,956,249,428.18
Total assets	14,136,628,918.28	14,856,449,738.70
Current liabilities:		
Short-term borrowings	2,451,684,485.86	2,198,202,318.15
Transactional financial liabilities		21,760,628.97
Notes payable	597,563,690.81	519,958,870.11
Accounts payable	3,664,516,644.48	4,033,093,915.06
Accounts received in advance	1,197,059,751.70	2,472,654,742.04
Employee's compensation payable	164,101,581.67	134,487,974.49
Tax payable	-245,006,993.34	43,998,499.95
Interest payable	19,388,598.90	24,313,785.67
Dividend payable		
Other accounts payable	1,189,885,260.79	1,078,512,870.69
Non-current liabilities due within 1 year	800,000,000.00	
Other current liabilities		
Total current liabilities	9,839,193,020.87	10,526,983,605.13
Non-current liabilities:		
Long-term borrowings	400,000,000.00	600,000,000.00
Bonds payable		
Long-term payables		
Specific payables		
Projected liabilities		
Deferred income tax liabilities		807,501.87

Other non-current liabilities	78,428,442.55	74,177,633.26
Total non-current liabilities	478,428,442.55	674,985,135.13
Total liabilities	10,317,621,463.42	11,201,968,740.26
Owners' equity (or shareholders' equity)		
Paid-up capital (or share capital)	1,203,972,704.00	1,203,972,704.00
Capital reserves	1,249,290,161.88	1,252,556,095.64
Less: Treasury stock		
Specific reserves		
Surplus reserves	827,291,207.52	809,307,995.80
General risk provision		
Retained profits	538,453,381.46	388,644,203.00
Foreign exchange difference		
Total owners' (or shareholders' ) equity	3,819,007,454.86	3,654,480,998.44
Total liabilities and owners' (or shareholders' ) equity	14,136,628,918.28	14,856,449,738.70

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ:  
Xu Youshan

### 3. Consolidated income statement

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Amount in 2012	Amount in 2011
I. Total operating revenues	18,337,861,657.29	16,217,619,883.23
Including: Sales income	18,337,861,657.29	16,217,619,883.23
Interest income		
Premium income		
Handling charge and commission income		
II. Total operating cost	18,487,599,770.04	16,520,438,925.05
Including: Cost of sales	15,038,090,498.84	13,552,761,251.50
Interest expenses		
Handling charge and commission expenses		
Surrenders		
Net claims paid		

Net amount withdrawn for the insurance contract reserve		
Expenditure on policy dividends		
Reinsurance premium		
Taxes and associate charges	74,295,105.05	52,348,932.50
Selling and distribution expenses	2,316,627,717.67	2,131,076,959.80
Administrative expenses	655,654,771.02	581,507,298.38
Financial expenses	179,516,279.32	48,685,114.01
Asset impairment loss	223,415,398.14	154,059,368.86
Add: Gain/(loss) from change in fair value ("—" means loss)	22,101,173.97	42,855,947.89
Gain/(loss) from investment ("—" means loss)	7,421,147.82	34,586,386.52
Including: share of profits in associates and joint ventures	2,204,872.01	-2,765,886.00
Foreign exchange gains ("—" means loss)		
III. Business profit ("—" means loss)	-120,215,790.96	-225,376,707.41
Add: non-operating income	223,297,060.56	243,661,009.28
Less: non-operating expense	11,255,184.94	8,717,523.90
Including: loss from non-current asset disposal	5,307,902.07	2,908,599.88
IV. Total profit ("—" means loss)	91,826,084.66	9,566,777.97
Less: Income tax expense	46,387,509.80	-14,612,590.05
V. Net profit ("—" means loss)	45,438,574.86	24,179,368.02
Including: Net profit achieved by combined parties before the combinations		
Attributable to owners of the Company	45,829,234.02	24,972,838.12
Minority shareholders' income	-390,659.16	-793,470.10
VI. Earnings per share	--	--
(I) Basic earnings per share	0.0381	0.0207
(II) Diluted earnings per share	0.0381	0.0207
VII. Other comprehensive incomes	78,068.05	-1,856,379.99
VIII. Total comprehensive incomes	45,516,642.91	22,322,988.03
Attributable to owners of the Company	45,907,302.07	23,116,458.13
Attributable to minority shareholders	-390,659.16	-793,470.10

Where business mergers under the same control occurred in this report period, the net profit achieved by the

merged parties before the business mergers was RMB 0.

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ:  
Xu Youshan

#### 4. Income statement of the Company

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Amount in 2012	Amount in 2011
I. Total sales	18,895,064,412.59	16,619,401,117.30
Less: cost of sales	16,498,564,931.61	14,708,621,497.71
Business taxes and surcharges	51,860,611.21	34,603,322.62
Distribution expenses	1,819,421,859.64	1,757,822,781.96
Administrative expenses	401,126,236.47	423,525,807.90
Financial costs	90,641,026.22	-1,327,737.93
Impairment loss	121,009,956.25	76,112,058.77
Add: gain/(loss) from change in fair value (“-” means loss)	21,760,628.97	42,845,842.55
Gain/(loss) from investment (“-” means loss)	148,270,013.83	506,623.47
Including: income from investment on associates and joint ventures		
II. Business profit (“-” means loss)	82,470,433.99	-336,604,147.71
Add: non-business income	130,239,601.26	132,556,486.23
Less: non-business expense	6,164,013.24	2,583,648.28
Including: loss from non-current asset disposal	2,443,522.31	1,036,764.73
III. Total profit (“-” means loss)	206,546,022.01	-206,631,309.76
Less: income tax expense	26,713,904.79	-56,748,873.75
IV. Net profit (“-” means loss)	179,832,117.22	-149,882,436.01
V. Earnings per share	--	--
(I) Basic earnings per share		
(II) Diluted earnings per share		
VI. Other comprehensive income	-3,265,933.76	3,446,575.10
VII. Total comprehensive income	176,566,183.47	-146,435,860.91

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ:

Xu Youshan

**5. Consolidated cash flow statement**

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Amount in 2012	Amount in 2011
I. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	17,700,056,550.42	16,180,100,375.70
Net increase of deposits from customers and dues from banks		
Net increase of loans from the central bank		
Net increase of funds borrowed from other financial institutions		
Cash received from premium of original insurance contracts		
Net cash received from reinsurance business		
Net increase of deposits of policy holders and investment fund		
Net increase of disposal of tradable financial assets		
Cash received from interest, handling charges and commissions		
Net increase of intra-group borrowings		
Net increase of funds in repurchase business		
Tax refunds received	333,819,164.11	332,540,312.66
Other cash received relating to operating activities	476,678,406.07	269,114,814.34
Subtotal of cash inflows from operating activities	18,510,554,120.60	16,781,755,502.70
Cash paid for goods and services	13,879,627,713.74	13,962,768,608.60
Net increase of customer lendings and advances		
Net increase of funds deposited in the		

central bank and amount due from banks		
Cash for paying claims of the original insurance contracts		
Cash for paying interest, handling charges and commissions		
Cash for paying policy dividends		
Cash paid to and for employees	1,494,404,314.87	1,287,427,973.03
Various taxes paid	2,327,300,280.10	1,590,846,388.63
Other cash payment relating to operating activities	1,168,466,726.47	1,311,198,698.14
Subtotal of cash outflows from operating activities	18,869,799,035.18	18,152,241,668.40
Net cash flows from operating activities	-359,244,914.58	-1,370,486,165.70
II. Cash flows from investing activities:		
Cash received from withdrawal of investments	2,657,324.08	
Cash received from return on investments	7,179,366.22	20,009.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	17,094,279.30	6,019,179.83
Net cash received from disposal of subsidiaries or other business units		
Other cash received relating to investing activities	937,689,984.14	
Subtotal of cash inflows from investing activities	964,620,953.74	6,039,188.83
Cash paid to acquire fixed assets, intangible assets and other long-term assets	229,763,450.73	390,905,492.49
Cash paid for investment	202,800,000.00	123,578,072.64
Net increase of pledged loans		
Net cash paid to acquire subsidiaries and other business units		
Other cash payments relating to investing activities		911,000,000.00
Subtotal of cash outflows from investing activities	432,563,450.73	1,425,483,565.13

Net cash flows from investing activities	532,057,503.01	-1,419,444,376.30
III. Cash Flows from Financing Activities:		
Cash received from capital contributions		4,749,423.00
Including: Cash received from minority shareholder investments by subsidiaries		4,749,423.00
Cash received from borrowings	7,617,903,693.08	7,802,913,374.17
Cash received from issuance of bonds		
Other cash received relating to financing activities	5,623,390,510.74	5,424,616,906.21
Subtotal of cash inflows from financing activities	13,241,294,203.82	13,232,279,703.38
Repayment of borrowings	8,542,487,185.69	5,827,256,911.78
Cash paid for interest expenses and distribution of dividends or profit	159,354,391.33	158,960,596.05
Including: dividends or profit paid by subsidiaries to minority shareholders		7,096,745.82
Other cash payments relating to financing activities	4,525,478,841.70	4,365,833,871.07
Sub-total of cash outflows from financing activities	13,227,320,418.72	10,352,051,378.90
Net cash flows from financing activities	13,973,785.10	2,880,228,324.48
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-9,194,254.86	-13,371,725.79
V. Net increase in cash and cash equivalents	177,592,118.67	76,926,056.69
Add: Opening balance of cash and cash equivalents	646,451,050.70	569,524,994.01
VI. Closing balance of cash and cash equivalents	824,043,169.37	646,451,050.70

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ: Xu Youshan

## 6. Cash flow statement of the Company

Prepared by Konka Group Co., Ltd.

Unit: RMB Yuan

Item	Amount in 2012	Amount in 2011
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I. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	13,228,739,122.47	14,844,170,447.56
Tax refunds received	191,901,062.62	168,921,178.60
Other cash received relating to operating activities	400,212,824.56	842,452,992.66
Subtotal of cash inflows from operating activities	13,820,853,009.65	15,855,544,618.82
Cash paid for goods and services	12,255,906,511.94	10,287,393,071.37
Cash paid to and for employees	803,574,319.86	699,875,789.98
Various taxes paid	1,944,882,993.85	1,279,264,095.94
Other cash payment relating to operating activities	1,024,460,122.23	1,453,603,102.97
Subtotal of cash outflows from operating activities	16,028,823,947.88	13,720,136,060.26
Net cash flows from operating activities	-2,207,970,938.23	2,135,408,558.56
II. Cash flows from investing activities:		
Cash received from retraction of investments	2,657,324.08	
Cash received from return on investments	29,573,746.23	2,711,342.33
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	16,381,461.44	1,387,100.33
Net cash received from disposal of subsidiaries or other business units		
Other cash received relating to investing activities	885,212,861.40	
Subtotal of cash inflows from investing activities	933,825,393.15	4,098,442.66
Cash paid to acquire fixed assets, intangible assets and other long-term assets	86,461,316.62	198,992,035.39
Cash paid for investment	202,800,000.00	390,000,000.00
Net cash paid to acquire subsidiaries and other business units		
Other cash payments relating to investing activities	45,000,000.00	859,000,000.00
Subtotal of cash outflows from investing	334,261,316.62	1,447,992,035.39

activities		
Net cash flows from investing activities	599,564,076.53	-1,443,893,592.73
III. Cash Flows from Financing Activities:		
Cash received from capital contributions		
Cash received from borrowings	3,200,590,880.06	2,627,255,835.43
Cash received from issuance of bonds		
Other cash received relating to financing activities	5,560,776,481.96	5,403,628,155.82
Subtotal of cash inflows from financing activities	8,761,367,362.02	8,030,883,991.25
Repayment of borrowings	2,463,849,434.01	4,320,912,819.61
Cash paid for interest expenses and distribution of dividends or profit	96,059,743.60	100,974,213.50
Other cash payments relating to financing activities	4,494,645,607.28	4,274,552,710.06
Sub-total of cash outflows from financing activities	7,054,554,784.89	8,696,439,743.17
Net cash flows from financing activities	1,706,812,577.13	-665,555,751.92
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-8,406,442.67	-5,431,706.68
V. Net increase in cash and cash equivalents	89,999,272.76	20,527,507.23
Add: Opening balance of cash and cash equivalents	275,892,342.99	255,364,835.76
VI. Closing balance of cash and cash equivalents	365,891,615.75	275,892,342.99

Legal representative: Hou Songrong      Chief of the accounting work: Yang Rong      Chief of the accounting organ:  
Xu Youshan

## 7. Consolidated statement of changes in owners' equity

Prepared by Konka Group Co., Ltd.

Reporting period

Unit: RMB Yuan

Item	Reporting period									
	Equity attributable to owners of the Company								Minority interests	Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of the previous year	1,203,972,704.00	1,275,686,262.22			809,307,995.80		709,679,408.84	11,077,592.96	226,903,292.66	4,236,627,256.48
Add: change of accounting policy										
Correction of errors in previous periods										
Other										
II. Balance at the beginning of the year	1,203,972,704.00	1,275,686,262.22			809,307,995.80		709,679,408.84	11,077,592.96	226,903,292.66	4,236,627,256.48
III. Increase/ decrease of amount in the year ("-" means decrease)										
(I) Net profit							45,829,234.02		-390,659.16	45,438,574.86
(II) Other comprehensive incomes								3,344,001.81	-418,762.62	-340,694.57
Subtotal of (I) and (II)							45,829,234.02	3,344,001.81	-809,421.78	45,097,880.29
(III) Capital paid in and reduced by owners										

1. Capital paid in by owners									
2. Amounts of share-based payments recognized in owners' equity									
3. Others									
(IV) Profit distribution				17,983,211.72		-30,022,938.76		-22,837,627.61	-34,877,354.65
1. Appropriations to surplus reserves				17,983,211.72		-17,983,211.72			
2. Appropriations to general risk provisions									
3. Appropriations to owners (or shareholders)						-12,039,727.04		-22,837,627.61	-34,877,354.65
4. Other									
(V) Internal carry-forward of owners' equity									
1. New increase of capital (or share capital) from capital public reserves									
2. New increase of capital (or share capital) from surplus reserves									
3. Surplus reserves for making up losses									

4. Other										
(VI) Specific reserve										
1. Withdrawn for the period										
2. Used in the period										
(VII) Other										
IV. Closing balance	1,203,972,704.00	1,272,420,328.46			827,291,207.52		725,485,704.10	14,421,594.77	203,256,243.27	4,246,847,782.12

Last year

Unit: RMB Yuan

Item	Last year										
	Equity attributable to owners of the Company									Minority interests	Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Others			
I. Balance at the end of the previous year	1,203,972,704.00	1,272,239,687.12			809,307,995.80		696,746,297.76	16,380,548.05	225,490,212.07	4,224,137,444.80	
Add: retrospective adjustments due to business combinations under the same control											
Add: change of accounting policy											
Correction of errors in previous periods											
Other											

II. Balance at the beginning of the year	1,203,972,704.00	1,272,239,687.12			809,307,995.80		696,746,297.76	16,380,548.05	225,490,212.07	4,224,137,444.80
III. Increase/ decrease of amount in the year (“-” means decrease)		3,446,575.10					12,933,111.08	-5,302,955.09	1,413,080.58	12,489,811.67
(I) Net profit							24,972,838.12		-793,470.10	24,179,368.02
(II) Other comprehensive incomes		3,446,575.10								-1,856,379.99
Subtotal of (I) and (II)		3,446,575.10					24,972,838.12	-5,302,955.09	-793,470.10	22,322,988.03
(III) Capital paid in and reduced by owners									4,776,765.00	4,776,765.00
1. Capital paid in by owners									4,776,765.00	4,776,765.00
2. Amounts of share-based payments recognized in owners' equity										
3. Others										
(IV) Profit distribution							-12,039,727.04		-2,570,214.32	-14,609,941.36
1. Appropriations to surplus reserves										
2. Appropriations to general risk provisions										
3. Appropriations to owners (or shareholders)							-12,039,727.04		-2,570,214.32	-14,609,941.36
4. Other										

(V) Internal carry-forward of owners' equity										
1. New increase of capital (or share capital) from capital public reserves										
2. New increase of capital (or share capital) from surplus reserves										
3. Surplus reserves for making up losses										
4. Other										
(VI) Specific reserve										
1. Withdrawn for the period										
2. Used in the period										
(VII) Other										
IV. Closing balance	1,203,972,704.00	1,275,686,262.22			809,307,995.80	709,679,408.84	11,077,592.96	226,903,292.66	4,236,627,256.48	

Legal representative: Hou Songrong

Chief of the accounting work: Yang Rong

Chief of the accounting organ:

Xu Youshan

**8. Statement of changes in owners' equity of the Company**

Prepared by Konka Group Co., Ltd.

Reporting period

Unit: RMB Yuan

Item	Amount in 2012									
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	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of the previous year	1,203,972,704.00	1,252,556,095.64			809,307,995.80		388,644,203.00	3,654,480,998.44
Add: change of accounting policy								
Correction of errors in previous periods								
Other								
II. Balance at the beginning of the year	1,203,972,704.00	1,252,556,095.64			809,307,995.80		388,644,203.00	3,654,480,998.44
III. Increase/ decrease of amount in the year (“-” means decrease)		-3,265,933.76			17,983,211.72		149,809,178.46	164,526,456.42
(I) Net profit							179,832,117.22	179,832,117.22
(II) Other comprehensive incomes		-3,265,933.76						-3,265,933.76
Subtotal of (I) and (II)		-3,265,933.76					179,832,117.22	176,566,183.46
(III) Capital paid in and reduced by owners								
1. Capital paid in by owners								
2. Amounts of share-based payments recognized in owners' equity								
3. Others								
(IV) Profit distribution					17,983,211.72		-30,022,938.76	-12,039,727.04
1. Appropriations to surplus reserves					17,983,211.72		-17,983,211.72	

2. Appropriations to general risk provisions								
3. Appropriations to owners (or shareholders)							-12,039,727.04	-12,039,727.04
4. Other								
(V) Internal carry-forward of owners' equity								
1. New increase of capital (or share capital) from capital public reserves								
2. New increase of capital (or share capital) from surplus reserves								
3. Surplus reserves for making up losses								
4. Other								
(VI) Specific reserve								
1. Withdrawn for the period								
2. Used in the period								
(VII) Other								
IV. Closing balance	1,203,972,704.00	1,249,290,161.88			827,291,207.52		538,453,381.46	3,819,007,454.86

Last year

Unit: RMB Yuan

Item	Last year							Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained profit	

I. Balance at the end of the previous year	1,203,972,704.00	1,249,109,520.54			809,307,995.80		550,566,366.05	3,812,956,586.39
Add: change of accounting policy								
Correction of errors in previous periods								
Other								
II. Balance at the beginning of the year	1,203,972,704.00	1,249,109,520.54			809,307,995.80		550,566,366.05	3,812,956,586.39
III. Increase/ decrease of amount in the year (“-” means decrease)		3,446,575.10					-161,922,163.05	-158,475,587.95
(I) Net profit							-149,882,436.01	-149,882,436.01
(II) Other comprehensive incomes		3,446,575.10						3,446,575.10
Subtotal of (I) and (II)		3,446,575.10					-149,882,436.01	-146,435,860.91
(III) Capital paid in and reduced by owners								
1. Capital paid in by owners								
2. Amounts of share-based payments recognized in owners' equity								
3. Others								
(IV) Profit distribution							-12,039,727.04	-12,039,727.04
1. Appropriations to surplus reserves								
2. Appropriations to general risk provisions								
3. Appropriations to owners (or shareholders)							-12,039,727.04	-12,039,727.04
4. Other								
(V) Internal carry-forward of owners'								

equity								
1. New increase of capital (or share capital) from capital public reserves								
2. New increase of capital (or share capital) from surplus reserves								
3. Surplus reserves for making up losses								
4. Other								
(VI) Specific reserve								
1. Withdrawn for the period								
2. Used in the period								
(VII) Other								
IV. Closing balance	1,203,972,704.00	1,252,556,095.64			809,307,995.80		388,644,203.00	3,654,480,998.44

Legal representative: Hou Songrong  
Xu Youshan

Chief of the accounting work: Yang Rong

Chief of the accounting organ:

**Konka Group Co., Ltd.**  
**Notes to Financial Statements**  
**For Fiscal Year 2012**

(In RMB 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 (including ground receiving equipment of satellite television broadcasting), digital products, 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; LED (OLED) back light, illumination, light-emitting devices, and packaging thereof; electronic parts and components, moulds, plastic and rubber products, and packing materials, and technical consultancy and after-sale paid services of related products( except mobile phone, the other products in the above business scope are manufactured in other places outside Shenzhen); 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, technical consultant service for electronic products; ordinary cargo transportation, domestic freight forwarding, warehousing services; consultancy on enterprise management; and self-owned property leasing and management services, recovery of waste electrical appliances and electronic products (excluding dissembling) (operated by branch offices); and outsourcing services of information technology and business procedures by means of undertaking services in the way of outsourcing, including management and maintenance of system application, management of information technology, bank background service, financial settlement, human resource service, software development, call center, and data processing.

4. The parent company, as well as the actual controller of the Company is Overseas Chinese Town Group Co., Ltd., and

the ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council.

5. The financial statements of the Company were submitted upon approval of the Board of Directors on 25 Apr. 2013.

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

Corporate name	Abbreviation
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 Arctic Ocean Appliances Co., Ltd.	Mudanjiang Appliances
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

Corporate name	Abbreviation
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
Shenzhen Konka Optoelectronic Technology Co., Ltd.	Konka Optoelectronic
Shenzhen Wankaida Science and Technology Co., Ltd.	Wankaida
Kunshan Kangsheng Investment Development Co., Ltd.	Kunshan Kangsheng
Anhui Konka Tongchuang Household Appliances Co., Ltd.	Anhui Tongchuang
Indonesia Konka Electronics Co., Ltd.	Indonesia Konka
Shenzhen Shushida Logistics Service Co., Ltd.	Shushida Logistics
Beijing Konka Electronic Co., Ltd.	Beijing Konka Electronic

Corporate name	Abbreviation
Kunshan Jielunte Mould Plastic Co. , Ltd.	Jielunte

## II. Basis for the preparation of financial statements

With the going-concern assumption as the basis, the Group prepared its financial statements in light of the actual transactions and events, as well as the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 Feb. 2006, the Application Guidance of Accounting Standards for Business Enterprises, the Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (jointly referred to as “the Accounting Standards for Business Enterprises”), and the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15—General Regulations for Financial Reporting (revised in 2010) by China Securities Regulatory Commission (CSRC).

In accordance with the Accounting Standards for Business Enterprises, accounting activities of the Group were conducted on the accrual basis. Except for some financial instruments, the financial statements were prepared on the basis of historical costs. Where impairment occurred in an asset, the corresponding impairment provision was withdrawn according to relevant rules.

## III. Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements for Y2012 prepared by the Group are in compliance with the requirements of the Accounting Standards for Business Enterprises, factually and completely presenting the Company’s and the Group’s financial positions as at 31 Dec. 2012, and operating results, cash flows and other relevant information for the year then ended. Furthermore, these financial statements, in all material respects, are also in line with relevant disclosure requirements for financial statements and notes thereof stipulated in the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15—General Regulations for Financial Reporting (revised in 2010) by CSRC.

## IV. Major accounting policies and accounting estimates

### **1. Fiscal period**

The Group's accounting periods are divided into annual periods (yearly) and interim periods. The interim period is a reporting period which is shorter than a full fiscal year. Gregorian calendar is adopted for fiscal year of the Company, namely from 1 Jan. to 31 Dec. every year.

### **2. Recording currency**

Renminbi (RMB) is the prevailing currency used in the main economic circumstances of the Company and its domestic subsidiaries. The Company and its domestic subsidiaries adopt RMB as the recording currency. When preparing the financial statements for Y2012, the Group adopted RMB as the recording currency.

### **3. Accounting methods for business combinations**

A business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are divided into business combinations under the same control and those not under the same control.

#### **(1) Business combinations under the same control**

A business combination under the same control is a business combination in which all the enterprises involved in the combination are ultimately controlled by the same party or parties both before and after the business combination and on which the control is not temporary. In a business combination under the same control, the party which obtains control of other enterprise(s) involved in the business combination on the combining date is the combining party, and the other enterprise(s) involved in the business combination is (are) the combined party. The "combining date" refers to the date on which the combining party obtains actual control on the combined party.

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 additional paid-in capital shall be adjusted. If the additional paid-in capital

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

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer, and other combining enterprise(s) is (are) the acquiree. The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

As for business combinations not under the same control, the combination costs shall be the fair values, 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, and intermediary agency fees for auditing, legal, consulting services, etc. and other administrative expenditures incurred for the business combination, which were recorded in the profits and losses at the current period when incurred. The trading expenditures arising from the acquirer's issuance of equity or liabilities securities as the consideration for the business combination are recorded in the initial recognition amount for the equity or liabilities securities. The contingent consideration involved is recorded in the combination costs according to its fair value on the acquisition date. Where new or further evidence against the existing circumstances on the acquisition date occurs within 12 months after the acquisition date, which makes it necessary to adjust the contingent consideration, the combined business reputation is adjusted accordingly. For a business combination realized by two or more transactions of exchange, in the Group's consolidated financial statements, as for the equity interests of the acquiree held by the Group before the acquisition date, they are re-measured according to their fair value on the acquisition date. The difference between their fair value and their carrying amount is recorded in investment gains for the period comprising the acquisition date. Other comprehensive incomes arising from the equity interests of the acquiree held by the Group before the acquisition date are transferred to investment gains at the current period. The combination costs are the summation of the fair value on the acquisition date of the equity interests of the acquiree held by the Group before the acquisition date and the fair value on the acquisition date of the equity interests of the acquiree acquired by the

Group on the acquisition date.

The combination costs of the acquirer and the identifiable net assets obtained in the combination are both measured at their fair values on the acquisition date. The positive balance between the combination costs and the fair value of the identifiable net assets the acquirer obtains from the acquiree is recognized as business reputation. The acquirer shall, pursuant to the following provisions, treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree: a. it shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs; b. if, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current period.

As for the unrecognized deductible temporary differences of the acquiree obtained by the acquirer due to their not satisfying the recognition criteria for deferred income tax assets on the acquisition date, if new or further information within 12 months after the acquisition date shows that the relevant circumstances on the acquisition date has existed and that the economic benefits arising from the deductible temporary differences of the acquiree on the acquisition date are expected to be realized, the corresponding deferred income tax assets are recognized and the business reputation is written down in the mean time. If the business reputation is not sufficient to offset, the difference is recognized in the profits and losses at the current period. Except for the aforesaid circumstance, the recognized deferred income tax assets in relation to the business combination are recorded in the profits and losses at the current period.

#### **4. Preparation of consolidated financial statements**

##### (1) Ascertainment of the consolidation scope

The scope of consolidated financial statements shall be confirmed based on the control. Control means the Company can decide the financial and manage policy of investee entity and have authority to earn the benefit from the investee entity. The consolidation scope includes the Company and all its subsidiaries. The Company's subsidiaries refer to the enterprises or entities controlled by the Company.

##### (2) Preparation methods for consolidated financial statements

The Group consolidates a subsidiary from the date when the Group obtains actual control over the subsidiary's net assets and production and operation decision-making and de-consolidates it from the date when such control ceases. As for a disposed subsidiary, its operating results and cash flows before the disposal date are properly included in the consolidated income statement and the consolidated cash flow statement. As for a subsidiary disposed in the current period, the opening accounts in the consolidated balance sheet are not restated. For a subsidiary acquired in a business combination not under the same control, its operating results and cash flows after the acquisition date are properly included in the consolidated income statement and the consolidated cash flow statement, and the opening accounts and comparative accounts in the consolidated financial statements are not restated. For a subsidiary acquired in a business combination under the same control or a merged party under merge and consolidation, its operating results and cash flows for the period from the beginning of the reporting period to the combination date are properly included in the consolidated income statement and the consolidated cash flow statement, and the comparative accounts in the consolidated financial statements are restated in the mean time.

In the preparation of the consolidated financial statements, where a subsidiary adopts different accounting policies or accounting periods from those of the Company, the subsidiary's financial statements are adjusted according to the Company's accounting policy and accounting periods. For a subsidiary obtained in a business combination not under the same control, its financial statements are adjusted on the basis of the fair value of its identifiable net assets on the acquisition date.

All significant balances, transactions and unrealized profits within the Group are offset in the preparation of the consolidated financial statements.

The portions in a subsidiary's shareholders' equity and net current profits and losses that are not attributable to the Company are separately presented, as minority interests and minority shareholder gains and losses respectively, under the shareholders' equity item and the net profit item in the consolidated financial statements. The portion in the subsidiary's current net gains and losses that belongs to minority interests is presented as "minority shareholder gains and losses" under the net profit item in the consolidated income statement. Where the subsidiary's losses attributable to minority shareholders exceed the portion in the subsidiary's opening owners' equity attributable to minority shareholders, minority interests are offset.

Where the Company loses control over a former subsidiary due to disposal of some equity investment or other reasons, the residual equity interests are re-measured according to the fair value on the date when such control ceases. The summation of the consideration obtained from the equity disposal and the fair value of the residual equity interests, minus the portion in the former subsidiary's net assets measured on a continuous basis from the acquisition date that is attributable to the Company according to its former shareholding ratio in the subsidiary, is recorded in the investment gains for the reporting period when the Company's control over the subsidiary ceases. Other comprehensive incomes in relation to the former equity investment in the subsidiary are transferred to the investment gains at the current period when the Company's control over the subsidiary ceases. Later on, subsequent measurement is carried out on the residual equity interests in accordance with the "Accounting Standards for Business Enterprises No. 2—Long-term Equity Investment" or the "Accounting Standards for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments" and other relevant regulations. For more details, please refer to "10. Long-term Equity Investment" or "7. Financial Instruments" under the Note IV.

#### **5. Recognition standard for cash and cash equivalents**

The term "cash" refers to cash on hand and deposits that are available for payment at any time. The term "cash equivalents" refers to short-term (within 3 months from the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### **6. Foreign currency businesses and translation of foreign currency financial statements**

##### **(1) Translation of foreign currency transactions**

At the time of initial recognition of a foreign currency transaction, the Group shall convert the amount in a foreign currency into amount in its Renminbi at the spot exchange rate (generally refer to the middle price of market exchange rate published by the People's Bank of China, the same below) on the day the transaction is occurred. Of which, as for such transactions as foreign exchange or involving in foreign exchange, the Company shall converted into amount in the Renminbi at actual exchange rate the transaction is occurred.

(2) Treatment method for the foreign currency monetary items and foreign currency non-monetary items:

On the balance sheet date, the foreign currency monetary items are translated at the spot exchange rate on the date. Exchange differences are recorded in the profits and losses at the current period except for the following circumstances:

① Exchange differences arising from the special foreign currency borrowings for the acquisition and construction of assets eligible for capitalization are treated in accordance with the principle of borrowing cost capitalization; ② Exchange differences arising from the net investment hedging instruments in an overseas operation are recorded in other comprehensive incomes and can be recognized in the profits and losses at the current period only when the net investment is disposed (the balance was recorded into other comprehensive income, or current profits and losses until the net investment being disposed); and ③ Exchange differences arising from changes in the carrying balances other than the amortized costs of foreign currency monetary items available for sale are recorded in other comprehensive incomes.

Foreign currency non-monetary items measured at historical costs are translated into RMB at the spot exchange rate on the transaction date. The foreign currency non-monetary items measured at the fair value are translated at the spot exchange rate on the fair value confirming date, from which the exchange difference is treated as change in fair value (including change in exchange rate) and recorded in the profit and loss of the current period, or treated as other comprehensive incomes and recorded in the capital reserves.

(3) Translation of foreign currency financial statements

Where the consolidated financial statements involve an overseas operation and foreign currency monetary items form in a substantial basis on the net investment in the overseas operation, exchange differences arising from exchange rate changes are recorded in the “translation difference of foreign currency statements” item under the owners’ equity item; and recorded in the profits and losses at the reporting period of the disposal when the overseas operation is disposed.

The foreign currency financial statements of an overseas operation are translated in RMB in accordance with the following methods: The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner’ s equity items, except the ones as “retained profits”, others shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profits statements shall be translated at the average exchange rate of the current period on transaction date. The opening retained profit is the closing retained profit as of the previous year after translation; The closing retained profit is measured and stated

according to profit distribution items after translation; And the difference between the asset items and the summation of the liability and shareholders' equity items after translation, as the translation difference of foreign currency statements, is recognized in other comprehensive incomes and is presented separately under the shareholders' equity item in the balance sheet. Where an overseas operation is disposed and the Group's control on the overseas operation ceases, the foreign currency statement translation difference in relation to the overseas operation and presented under the shareholders' equity items in the balance sheet is, all or according to the disposal rate of the overseas operation, transferred to the profits and losses at the reporting period comprising the disposal.

Foreign currency cash flows and cash flows generated by overseas subsidiaries are translated at the average exchange rate for the current period on the date when the cash flow is generated. The influence on cash due to change of exchange rate shall be presented separately under the cash flow statement.

The opening amounts and the actual amounts in the previous year are presented on the basis of the translated financial statements for the previous year.

## **7. Financial instruments**

### (1) Ascertainment of fair values of financial assets and liabilities

The "fair value" refers to the amount, at which both parties to a transaction who are familiar with the condition exchange assets or clear off debts under fair conditions. As for the financial instrument for which there is an active market, the Group determines its fair value using the quoted price in the active market. The quoted prices in the active market refer to the prices, which are easily available from the stock exchange, brokers, industry associations, pricing service institutions, etc. at a fixed term, and which represent the prices at which actually incurred market transactions are made under fair conditions. Where there is no active market for a financial instrument, the Group adopts value appraisal techniques to determine its fair value. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc..

(2) Classification, recognition and measurement of financial assets

Financial assets bought in and sold out in the conventional way are recognized and de-recognized in accordance with the transaction dates. In the initial recognition, financial assets are divided into financial assets measured at fair values and whose changes are recorded in current profits and losses, held-to-maturity investments, loans and accounts receivables, and available-for-sale financial assets. In the initial recognition, a financial asset is measured at its fair value. For a financial asset measured at fair value and whose changes are recorded in current gains and losses, the relevant trading expenditures are directly recorded in the gains and losses at the current period. And the trading expenditures for the other financial assets are recorded in the initially recognized amount.

① Financial assets measured at fair values and whose changes are recorded in current profits and losses

Such financial assets include transactional financial assets and financial assets designated to be measured at fair values and whose changes are recorded in current gains and losses.

A transactional financial asset refers to a financial asset meeting any of the following requirements: A. The purpose to acquire the financial asset is mainly for selling or repurchase of it in the near future; B. Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the Group may manage the combination by way of short-term profit making in the near future; and C. Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

Financial asset complying with one of following conditions can be measured at fair value when being initially recognized and changes in that financial asset are recorded in gains and losses of the current period: A. The designation can eliminate or greatly reduce situations where related profits or losses were in inconformity due to different measurement base of the financial asset; B. The formal written document of concerning risk management or investment strategy of the Group has stated that the Group shall manage and assess on financial asset group and financial asset and financial liability group on the basis of fair value, and report to key management staffs.

A transactional financial asset, which is measured at the fair value and changes thereof are recorded in gains and losses of the current period, is subsequently measured at the fair value. The gains and losses arising from the fair value changes, as well as the dividend and interest incomes from the financial asset, are recorded in the gains and losses for the current period.

### ② Held-to-maturity investments

A held-to-maturity investment refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the Group holds for a definite purpose or the Group is able to hold until its maturity.

A held-to-maturity investment is subsequently measured according to the amortized cost using the actual interest rate method. The gains or losses arising from de-recognition, impairment or amortization of the investment are recorded in the profits and losses for the current period.

The actual interest rate method refers to the method by which the post-amortization costs and the interest incomes of different installments or interest expenses are calculated in light of the actual interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities). The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

When calculating the actual interest rate, the Group predicts the future cash flow (not taking into account the future credit losses) on the basis of taking into account all the contractual provisions concerning the financial asset or financial liability. The various fee charges, trading expenses, reduced values, premiums, etc., which are paid or collected by the parties to a financial asset or financial liability contract and which form a part of the actual interest rate, are also taken into account in the determination of the actual interest rate.

### ③ Loans and accounts receivable

Loans and accounts receivable refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo amount is fixed or determinable. The financial assets defined by the Group as loans

and accounts receivable include notes receivable, accounts receivable, interest receivable, dividend receivable, other receivables, etc..

Loans and accounts receivable are subsequently measured according to the amortized cost using the actual interest rate method. The gains or losses arising from de-recognition, impairment or amortization of the loans and accounts receivable are recorded in the profits and losses for the current period.

#### ④ Available-for-sale financial assets

Available-for-sale financial assets include the non-derivative financial assets which are designated as available for sale when they are initially recognized, as well as the financial assets other than the financial assets measured at fair values and whose changes are recorded in current gains and losses, loans and accounts receivable and held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at their fair values. Impairment losses and the exchange differences of foreign currency monetary financial assets in relation to the amortized cost are recorded in the profits and losses for the current period. Other gains or losses arising from fair value changes are recognized as other comprehensive incomes and recorded in the capital reserves, and transferred out and recorded in the profits and losses for the current period when the financial asset is de-recognized.

Interest obtained during the period of holding an available-for-sale financial asset and the cash dividends declared and distributed by an invested party are recorded in investment gains.

#### (3) Impairment of financial assets

For the financial assets other than the financial assets measured at fair values and whose changes are recorded in current gains and losses, the Group runs a check on their carrying amounts on every balance sheet date. Where there is any objective evidence proving that such a financial asset has been impaired, an impairment provision is made.

The Group carries out a separate impairment test for every financial asset which is individually significant. As for a financial asset which is individually insignificant, an impairment test is carried out separately or in the financial

asset group with similar credit risk. Where the financial asset (individually significant or insignificant) is found not impaired after the separate impairment test, it is included in the financial asset group with similar credit risk and tested again on the group basis. Where the impairment loss is recognized for an individual financial asset, it is not included in the financial asset group with similar credit risk for an impairment test.

① Impairment of held-to-maturity investments, loans and accounts receivable

Where a financial asset measured on the basis of costs or amortized costs is impaired, the carrying amount of the said financial asset is written down to the current value of the predicted future cash flow. The amount written down is recognized as the impairment loss of the asset and is recorded in the profits and losses for the current period. Where a financial asset is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment losses as originally recognized are reversed. The reversed carrying amount of the said financial asset does not exceed the amortized cost of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment.

② Impairment of available-for-sale financial assets

When it judged that the decrease of fair value of the available-for-sale equity instrument investment is serious and not temporarily after comprehensive considering relevant factors, it reflected that the available-for-sale equity instrument investment occurred impairment. Of which, the “serious decline” refers to the accumulative decline range of the fair value over 20%; while the “non-temporary decline” refers to the consecutive decline time of the fair value over 12 months.

Where an available-for-sale financial asset is impaired, the accumulative losses arising from the decrease of the fair value of the capital reserve which is directly included are transferred out and recorded in the profits and losses for the current period. The accumulative losses transferred out are the balance obtained from the initially obtained cost of the said financial asset after deducting the principals as taken back, the amortized amount, the current fair value and the impairment loss originally recorded in the profits and losses.

Where the impairment loss has been recognized for an available-for-sale financial asset, if, within the accounting periods

thereafter, there is any objective evidence proving that the value of the said financial asset has been restored and the restoration is objectively related to the events that occur after the impairment loss was recognized, the originally recognized impairment loss is reversed. The impairment losses on the available-for-sale equity instrument investments are reversed and recognized as other comprehensive incomes, and the impairment losses on the available-for-sale liability instruments are reversed and recorded in the profits and losses for the current period.

The impairment loss incurred to an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, or incurred to a derivative financial asset which is connected with the said equity instrument investment and which must be settled by delivering the said equity investment, is not reversed.

#### (4) Recognition and measurement of financial asset transfers

Where a financial asset satisfies any of the following requirements, the recognition of it is terminated: ① The contractual rights for collecting the cash flow of the said financial asset are terminated; ② The said financial asset has been transferred and nearly all of the risks and rewards related to the ownership of the financial asset to the transferee; or ③ The said financial asset has been transferred. And the Group has ceased its control on the said financial asset though it neither transfers nor retains nearly all of the risks and rewards related to the ownership of the financial asset.

Where the Group neither transfers nor retains nearly all of the risks and rewards related to the ownership of a financial asset, and it does not cease its control on the said financial asset, it recognizes the relevant financial asset and liability accordingly according to the extent of its continuous involvement in the transferred financial asset. The term "continuous involvement in the transferred financial asset" refers to the risk level that the enterprise faces resulting from the change of the value of the 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 is recorded in the profits and losses of the current period: (1) The book value of the transferred financial asset; and (2) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in other comprehensive incomes.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the book value of the transferred financial asset is apportioned between the portion whose recognition has been stopped and the portion whose recognition has not been stopped according to their respective relative fair value, and the difference between the amounts of the following 2 items is included into the profits and losses of the current period: (1) The summation of the consideration received from the transfer and the portion of the accumulative amount of changes in the fair value originally recorded in other comprehensive incomes which corresponds to the portion whose recognition has been stopped; and (2) The amortized carrying amounts of the aforesaid amounts.

#### (5) Classification and measurement of financial liabilities

In the initial recognition, financial liabilities are divided into the financial liabilities measured at fair values and whose changes are recorded in current gains and losses and other financial liabilities. Financial liabilities are initially recognized at their fair values. As for a financial liability measured at fair value and whose changes are recorded in current gains and losses, the relevant trading expense is directly recorded in the profits and losses for the current period. As for other financial liabilities, the relevant trading expenses are recorded in the initially recognized amounts.

##### ① Financial liabilities measured at fair values and whose changes are recorded in current gains and losses

Such financial liabilities are divided into transactional financial liabilities and financial liabilities designated to be measured at fair values and whose changes are recorded in current gains and losses in the initial recognition under the same conditions where such financial assets are divided into transactional financial assets and financial assets designated to be measured at fair values and whose changes are recorded in current gains and losses in the initial recognition.

Financial liabilities measured at fair values and whose changes are recorded in current gains and losses are subsequently measured at their fair values. Gains or losses arising from the fair value changes, as well as the dividend and interest expenses in relation to the said financial liabilities, are recorded in the profits and losses for the current period.

##### ② Other financial liabilities

As for a derivative financial liability connected to an equity instrument for which there is not quoted price in an active market and whose fair value cannot be reliably measured and which must be settled by delivering the equity instrument, it is subsequently measured on the basis of costs. Other financial liabilities are subsequently measured according to the amortized cost using the actual interest rate method. Gains or losses arising from de-recognition or amortization of the said financial liabilities are recorded in the profits and losses for the current period.

### ③ Financial guarantee contract

For the financial guarantee contracts which are not designated as a financial liability measured at its fair value and the variation thereof is recorded into the profits and losses of the current period, which shall be initially recognized by fair value, and the subsequent measurement shall be made after they are initially recognized according to the higher one of the following: a. the amount as determined according to the Accounting Standards for Enterprises No. 13 - Contingencies; b. the surplus after accumulative amortization as determined according to the principles of the Accounting Standards for Enterprises No. 14 - Revenues is subtracted from the initially recognized amount.

### (6) De-recognition of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where the Group (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it terminates the recognition of the existing financial liability, and at the same time recognizes the new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the enterprise concerned shall include into the profits and losses of the current period for the gap between the book value which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed)

(7) Derivative instrument and embedded derivative instrument

Derivative instrument shall be initially measured at its fair value on the signing date for relevant contracts, and made the follow-up measurement at fair value. The changes in the fair value of the derivative instrument shall be recorded into gain/loss at current period.

Where a mixed instrument including an embedded derivative instrument fails to be designated as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses, and it can simultaneously meet the two conditions that there is no close relationship between it and the principal contract in terms of economic features and risks, as well as there is no close relationship between it and the principal contract in terms of economic features and risks. Then the embedded derivative instrument shall be separated from the mixed instrument and treated as an independent derivative instrument. Where it is impossible to make an independent measurement when it is obtained or subsequently on the balance sheet date, the mixed instrument shall be designated entirely as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses.

(8) The offset of financial assets and financial liabilities

When the Group has the legal right to offset the confirmed financial assets and financial liabilities, and can execute this legal right now, meanwhile, the Group plans to settle them at their net amount or realize the financial assets and pay off the financial liabilities at the same time, the financial assets and financial liabilities should be listed in the balance sheet by the amount after their offset with each other. Apart from this, the financial assets and financial liabilities should be listed in the balance sheet respectively and should not offset with each other.

(9) Equity instruments

The "equity instruments" refers to the contracts which can prove that the Group holds the surplus equities of the assets after the deduction of all the debts. For equity instruments, the consideration received in the issuance of equity instruments after deducting the transaction cost shall be recorded in the owners' equity.

The owners' equity decreased from the Group's various distribution (excluding the dividend distribution) to the owners of equity instruments, the Group shall not make it as the change in the fair value of equity instruments.

## 8. Receivables

Receivables includes account receivables and other accounts receivables.

(1) Recognition of provision for bad debts:

The Group shall test the carrying amount of receivables on the balance sheet date. Where there is any objective evidence proving that such receivables have been impaired, an impairment provision shall be made.

- ① debtor has serious financial difficult;
- ② debtor goes against the contract clause (for instance, breach of faith or overdue paying interests or principal);
- ③ debtors has a great probability of bankruptcy or other financial reorganization;
- ④ other objective evidence proving such accounts receivable has been impaired;

(2) Withdraw method of provision for bad debts

① The recognition criteria and method of individual provision for bad debts of receivables that are individually significant

The Group recognized the receivables with amount above RMB 20 million and other receivables above 10 million as receivables with significant single amounts and withdrawn the provision for bad debts..

The Group made an independent impairment test on receivables with significant single amounts, the financial assets without impairment by independent impairment test should be included in financial assets portfolio with similar credit risk to take the impairment test. Receivables was recognized with impairment should no longer be included in receivables portfolio with similar credit risk to take the impairment test.

② The recognition and method of provision for bad debts of receivables by credit risk portfolio

## A. Recognition of credit risk group

Receivables that are not individually significant and individually significant but without impairment by independent impairment test, are grouped on the basis of similarity and relevance of credit risk. This credit risk usually reflects the debtor's ability to repay all the due accounts in accordance with contract for such assets, which also are related with the measurement on future cash flow of the examined assets.

Recognition of different groups:

Item	Recognition basis of group
Aging group	Age of accounts receivable
The group of related parties of the Group	Whether the debtor is the related party among the group or not

## B. Withdrawal method of provision for bad debts recognized by credit risk group

For the impairment test implemented by groups, the amount of provision for bad debts was appraised and recognized in accordance with the structure of accounts receivable group and similar characteristics of credit risk (the debtor's ability to pay off the loans in accordance with the provisions of contract), experience of losses, current economic status and the predicted losses in the accounts receivable group.

Withdrawal methods of provision for bad debts on different groups

Item	Withdrawal method
Age group	Aging analysis
Related parties groups within the Group	No withdrawal

In the group, withdrawal method for provision for bad debts by aging analysis

Age	Proportion of provision for bad debts of accounts receivable (%)	Proportion of provision for bad debts of other accounts receivable (%)

Within 1 year (including 1 year, the same below)	2	2
1-2 years	5	5
2-3 years	20	20
3-4 years	50	50
4-5 years	50	50
Over 5 years	100	100

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 Receivables with insignificant amount but being individually withdrawn the provision for bad debts

The Group made independent impairment test on receivables with insignificant amount but with the following characteristics, if any objective evidence shows that the accounts receivable has been impaired, impairment loss shall be recognized on the basis of the gap between the current values of the future cash flow lower than its book value so as to withdraw provision for bad debts:

- A. Receivables exist dispute with the other parties or involving lawsuit and arbitration;
- B. Receivables exist obvious indication showing that the debtors are likely to fail to perform the duty of repayment, etc..

(3) Reversal of provision for bad debts

If there is any objective evidence proving that the value of the said receivables has been restored, and it is objectively related to the events occurred after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said accounts receivable on the day of reverse under the assumption that no provision is made for the impairment.

## 9. Inventory

## (1) Classification

The Group's inventories are classified as non-property inventories and property inventories. And the non-property inventories include raw materials, goods in process, merchandise on hand, goods delivered and circulating materials, etc; while the property inventories include property in process and finished property, etc..

- ① The finished property refers to the finished and held-for-sale property.
- ② The property in process (development costs) refers to the unfinished property with the development purpose for sale.

## (2) Pricing method of outgoing and obtaining inventories

The inventories shall be measured in light of their cost when obtained. The cost of inventory consists of purchase costs, processing costs and other costs. Inventory is accounted by weight average method upon receiving and giving. For merchandise on hand shall be accounted by planned cost, if the difference between planned cost of and actual cost of raw materials is accounted through the cost variance item, and the planned cost is adjusted to the actual cost according to the cost difference which the carryover and given-out inventory should shoulder in the period.

The property inventories are initially measured at the costs, and the costs of the developed property include the land premium, expenditures for supporting infrastructures, expenditures for construction and installation projects, the borrowing costs before the completion of the developed project and other expenses occurred during the development process.

- ① The public supporting facilities recorded the development costs at the actual costs, the amortization upon completion was transferred to the costs of houses and other available-for-sale property, while as for the supporting facilities with operating value and beneficiary rights owned by the Group as well as available for individual sale and measurement, which shall be recorded into the "investment property"
- ② For the accounting policies on borrowing costs occurred for developing property, please refer to Note IV. 14 Pricing of "Borrowing Costs"

## (3) Recognition standard of net realizable value and withdrawal method of depreciation reserves for inventories

The net realizable value refers, in the ordinary course of business, to the account after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The net realizable

value of inventories shall be fixed on the basis of valid evidence as well as under consideration of purpose of inventories and the effect of events after balance-sheet-date.

On the balance sheet date, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. If the net realizable value is lower than the cost, it shall withdraw the depreciation reserves for inventories, which was withdrawn in accordance with the balance that the cost of individual inventory item exceeding the net realizable value.

After withdrawing the depreciation reserves for inventories, if the factors, which cause any write-down of the inventories, have disappeared, causing the net realizable value of inventories is higher than its carrying amount, the amount of write-down shall be reversed from the original amount of depreciation reserve for inventories. The reversed amount shall be included in the profits and losses of the current period.

(4) Inventory system for inventories: Perpetual inventory system.

(5) Amortization method of the low-value consumption goods and packing articles

The Company shall amortize the low-value consumption goods and packing through the one-off amortization method.

## **10. Long-term equity investment**

(1) Recognition of investment cost

The initial cost of the long-term equity investment formed in business combination shall be ascertained in accordance with the following provisions: For the business combination under the same control, it shall regard the share of the carrying amount of the owner's equity of the combined party on the date of combination as the initial cost of the long-term equity investment. For the business combination under different control, the combination costs shall be the sum of the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the Company; the commission fees for audit, law services, assessment & consultancy services and other relevant expenses occurred in the business combination by the combining party, shall be recorded into current profits and losses upon their occurrence; the transaction expense from the issuance of equity securities or bonds securities which are as consideration for combination by the combining party, should be recorded as the initial amount of equity securities and bonds securities. Besides the long-term equity investments formed by business combination, the other long-term equity investments shall

be initially measured by cost, the cost is fixed in accordance with the ways of gaining, such as actual cash payment paid by the Group, the fair value of equity securities issued by the Group, the agreed value of the investment contract or agreement, the fair value or original carrying amount of exchanged assets from non-monetary assets exchange transaction, the fair value of the long-term equity investments, etc. The expenses, taxes and other necessary expenditures directly related with gaining the long-term equity investments shall also be recorded into investment cost.

(2) Follow-up measurement of long-term equity investment and recognized method of profits and losses

The long-term equity investment that the Company does not have joint control or significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured, it shall be measured by adopting the cost method; a long-term equity investment that the Company has joint control or significant influences over the invested entity shall be measured by employing the equity method; a long-term equity investment that the Company does not have control, joint control or significant influence on the invested entity, as well as its fair value can be reliably measured, it shall be accounted as financial assets available-for-sale.

Moreover, long-term equity investment adopting the cost method in the financial statements, and which the Company has control on invested entity.

① Long-term equity investment measured by adopting cost method

The price of a long-term equity investment measured by adopting the cost method shall be included at its initial investment cost, the return on investment at current period shall be recognized in accordance with the cash dividend or profit announced to distribute by the invested entity, except the announced but not distributed cash dividend or profit included in the actual payment or consideration upon gaining the investment.

② Long-term equity investment measured by adopting equity method

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

When measured by adopting equity method, the investment profits or losses at current period shall be the attributable

share of the net profits or losses of the invested entity. The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, and in accordance with the accounting policies and accounting periods, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. For the profits and losses of unrealized insider dealing between the Group and joint-operative enterprise or co-operative enterprise, the investment profits and losses shall be recognized after the part attributable to the Group calculated by proportion of shares held being offset. However, if the losses of unrealized insider dealing between the Group and joint-operative enterprise or co-operative enterprise was attributed to the impairment losses of the transferred assets in accordance with the Accounting Standards for Enterprises No. 8— Asset Impairment, which shall not be offset. The other comprehensive profits from invested entity shall be recognized as other comprehensive profits after adjusting the book value of long-term equity investment, and then recorded into capital reserves

The Group shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero. However, if the Group has the obligation to undertake extra losses, which shall be recognized as the estimated liabilities in accordance with the estimated duties and then recorded into investment losses at current period. If the invested entity realizes any net profits later, the Group shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume to recognize its attributable share of profits.

For the long-term equity investment on joint-enterprise and co-operative enterprise held by the Group before the initial execution of New Accounting Standards for Enterprise, if there existed the balance of debtor for equity investment related with such long-term equity investment, which shall be recorded into current profits and losses with the amount by straight-line amortization in the remained period.

### ③ Acquiring shares of minority interest

In the preparation for the financial statements, the balance existed between the long-term equity investment increased

by acquiring shares of minority interest and the attributable net assets on the subsidiary calculated by the increased shares held since the purchase date (or combination date), the capital reserves shall be adjusted, if the capital reserves are not sufficient to offset, the retained profits shall be adjusted.

#### ④ Disposal of long-term equity investment

In the preparation of financial statements, the Company disposed part of the long-term equity investment on subsidiaries without losing its controlling right on them, the balance between the disposed price and attributable net assets of subsidiaries by disposing the long-term equity investment shall be recorded into owners' equity; where the Company loses the controlling right by disposing part of long-term equity investment on such subsidiaries, it shall be treated in accordance with the relevant accounting policies in Note IV. 4 (4)— Method on preparation of combined financial statements.

For other ways on disposal of long-term equity investment, the balance between the book value of the disposed equity and its actual payment gained shall be recorded into current profits and losses; for the long-term equity investment measured by adopting equity method, the other comprehensive income originally recorded into owners' equity shall be transferred into current profits and losses by proportions upon the disposal. The remained equity shall be recognized as long-term equity investment or other relevant financial assets in accordance with the book value, and carried out the follow-up measurement in accordance with the above accounting policies for the long-term equity investment or financial assets. If the measurement method of remained equity is transferred from cost method to equity method, it shall be subject to retrospective adjustment in accordance with relevant rules and stipulations.

#### (3) Recognition basis of joint control and significant influences

The term "control" refers to the power to determine the financial and operating policies of an enterprise and obtain benefits from its operating activities of the enterprise. The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions. The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. When ascertaining whether or not it is able to control or have significant influences on an invested entity, an enterprise shall take into consideration the invested enterprises' current convertible corporate bonds and current executable

warrants held by the investing enterprise and other parties, as well as other potential factors concerning the voting rights.

(4) Testing method of impairment and withdrawal method of provision for impairment

The Group shall, on the day of balance sheet, make a judgment on whether there is any sign of possible impairment of the long-term equity investment. Where there is sign of impairment, the Group shall estimate the recoverable amount of the long-term equity investment. Where the recoverable amount of the long-term equity investment is lower than its book value, which balance shall be withdrawn the provision for impairment and recorded into current profits and losses. Once any loss of impairment of the long-term equity investment is recognized, it shall not be switched back in the future accounting periods.

## 11. Investment real estates

The term "investment real estates" refers to the real estates held for generating rent and/or capital appreciation. Investment real estates of the Group include the right to use any land which has already been rented; the right to use any land which is held and prepared for transfer after appreciation; and the right to use any building which has already been rented. Besides, as for the vacant buildings held for operating lease, if the Board (or similar institution) made a written resolution, and clearly expressed to hold it as operating lease with no change in the short time, which shall be listed as investment real estates.

The initial measurement of the investment real estate shall be made at its cost. Subsequent expenditures incurred for an investment real estate is included in the cost of the investment real estate when it is probable that economic benefits associated with the investment real estate will flow to the Group and the cost can be reliably measured, otherwise the expenditure is recognized in profit or loss in the period in which they are incurred.

The Group shall make a follow-up measurement to the investment real estates by employing the cost pattern on the date of the balance sheet. An accrual depreciation or amortization shall be made for the investment real estates in the light of the accounting policies of the use right of buildings or lands.

For details of impairment test method and withdrawal method of impairment provision of investment real estates, please refer to Note IV. 17. Impairment of Non-current Non-financial Assets.

When owner-occupied real estate or inventories are changed into investment real estate or investment real estate is changed into owner-occupied real estate, whose book value prior to the change shall be the entry value after the change.

When an investment real estate is changed to an owner-occupied real estate, it is transferred to fixed assets or intangible assets at the date of such change. When an owner-occupied real estate is changed to be held to earn rental or for capital appreciation, the fixed asset or intangible asset is transferred to investment real estate at the date of such change. If the fixed asset or intangible asset is changed into investment real estate measured by adopting the cost pattern, whose book value prior to the change shall be the entry value after the change; if the fixed asset or intangible asset is changed into investment real estate measured by adopting the fair value pattern, whose fair value on the date of such change shall be the entry value after the change

An investment real estate is derecognized on disposal or when the investment real estate is permanently withdrawn from use and no future economic benefits are expected from its disposal. The amount of proceeds on sale, transfer, retirement or damage of an investment real estate less its carrying amount and related taxes and expenses is recognized in profit or loss in the period in which it is incurred.

## **12. Fixed assets**

### **(1) Recognized standard of fixed assets**

The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: they are held for the sake of producing commodities, rendering labor service, renting or business management; and their useful life is in excess of one fiscal year.

### **(2) Category of fixed assets and depreciation**

The initial measurement of a fixed asset shall be made at its cost after considering the effect of expected discard expenses. The Group shall withdraw the depreciation of fixed assets by adopting the straight-line method since the second month of its useful life. Useful life, expected net salvage value and annual depreciation rate of each fixed assets are as below:

Category of fixed assets	Useful life (Y)	Expected net salvage value (%)	Annual depreciation rate (%)
Housing and building	20-40	10.00	2.25-4.50
Machinery equipments	10	10.00	9.00
Transportation vehicle	5	10.00	18.00
Electronic equipments	5	10.00	18.00
Other equipments	5	10.00	18.00

The "expected net salvage value" refers to the expected amount that the Group may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its expected useful life.

(3) Testing method of impairment and withdrawal method of provision for impairment on fixed assets

For details, please refer to Note IV. 17— Impairment of non-current non financial assets.

(4) Recognition basis and pricing method of fixed assets by finance lease

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. Its ownership may or may not eventually be transferred. The fixed assets by finance lease shall adopt the same depreciation policy for self-owned fixed assets. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

(5) Other explanations

The follow-up expenses related to a fixed asset, if the economic benefits pertinent to this fixed asset are likely to

flow into the enterprise and its cost can be reliably measured, shall be recorded into cost of fixed assets and ultimately recognized as the book value of the replaced part; otherwise, they shall be included in the current profits and losses. When the Group sells, transfers or discards any fixed assets, or when any fixed assets of the Group is damaged or destroyed, the Group shall deduct the book value of the fixed assets as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

The Group shall check the useful life, expected net salvage value and depreciation method of the fixed assets at the end of the year at least, if there is any change, it shall be regarded as a change of the accounting estimates.

### **13. Construction in progress**

Construction in progress is measured at actual cost. Actual cost comprises construction costs, borrowing costs that are eligible for capitalization before the fixed assets being ready for their intended use and other relevant costs. Construction in progress is transferred to fixed assets when the assets are ready for their intended use.

For details of the testing method of impairment and withdraw method of impairment provision on construction in progress, please refer to Note IV. 17— Impairment of non-current non financial assets.

### **14. Borrowing costs**

The borrowing costs shall include 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 an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall start to be capitalized when the asset disbursements have already incurred, the borrowing costs has already incurred and the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started; When the qualified asset under acquisition and construction or production is ready for the intended use or sale, it shall stop to be capitalized. Other borrowing costs shall be recognized as costs upon their occurrence.

The to-be-capitalized amount of interests shall be determined in light of the actual interests incurred of the specially

borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment; the enterprise shall calculate and determine the to-be-capitalized amount on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

During the period of capitalization, the exchange balance on foreign currency special borrowings shall be capitalized; the exchange balance on foreign currency general borrowings shall be recorded into current profits and losses.

The term “assets eligible for capitalization” refers to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

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 until the acquisition and construction or production of a qualified asset resume again

## **15. Intangible assets**

### **(1) Intangible assets**

The term “intangible asset” refers to the identifiable non-monetary assets possessed or controlled by enterprises which have no physical shape.

The intangible assets shall be initially measured according to its cost. The costs related with the intangible assets, if the economic benefits related to intangible assets are likely to flow into the enterprise and the cost of intangible assets can be measured reliably, shall be recorded into the costs of intangible assets; otherwise, it shall be recorded into current profits and losses upon the occurrence.

The use right of land gained is usually measured as intangible assets. For the self-developed and constructed factories

and other constructions, the related expenditures on use right of land and construction costs shall be respectively measured as intangible assets and fixed assets. For the purchased houses and buildings, the related payment shall be distributed into the payment for use right of land and the payment for buildings, if it is difficult to be distributed, the whole payment shall be treated as fixed assets.

For intangible assets with a finite service life, from the time when it is available for use, the cost after deducting the sum of the expected salvage value and the accumulated impairment provision shall be amortized by straight line method during the service life. While the intangible assets without certain service life shall not be amortized.

At the end of period, the Group shall check the service life and amortization method of intangible assets with finite service life, if there is any change, it shall be regarded as a change of the accounting estimates. Besides, the Group shall check the service life of intangible assets without certain service life, if there is any evidence showing that the period of intangible assets to bring the economic benefits to the enterprise can be prospected, it shall be estimated the service life and amortized in accordance with the amortization policies for intangible assets with finite service life.

## (2) Expenditures for research and development

The expenditures for its internal research and development projects of the Company shall be classified into research expenditures and development expenditures.

Expenditures for research and development shall be recorded into current profits and losses upon the occurrence.

The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously, otherwise, it shall be recorded into current profits and losses.

- ① It is feasible technically to finish intangible assets for use or sale;
- ② It is intended to finish and use or sell the intangible assets;
- ③ 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;

④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and

⑤ The development expenditures of the intangible assets can be reliably measured.

If the expenditures for research and expenditures for development can not be distinguished from each other, all the expenditures for research and development shall be recorded into current profits and losses.

(3) Testing method of impairment and withdraw method of impairment provision for intangible assets

For details, please refer to Note IV. 17— Impairment of non-current non financial assets.

## **16. Long-term deferred expenses**

Long-term deferred expenses refer to general expenses with the apportioned period over one year (one year excluded) that have occurred but attributable to the current and future periods. Long-term deferred expense shall be amortized averagely within benefit period.

## **17. Impairment of non-current non-financial assets**

For the non-current non-financial assets, such as fixed assets, construction in progress, intangible assets with finite service life, investment real assets measured by cost mode as well as long-term equity investment on subsidiaries, co-operative enterprise and joint-operative enterprise, etc., are tested for impairment if there is any indication that an asset may be impaired at the balance date. If there is any sign of possible assets impairment, the Group shall estimate the recoverable amount and made the impairment tests. No matter whether there is any sign of possible assets impairment, the good will, intangible assets without certain service life, intangible assets not ready for use shall be subject to impairment test every year.

If the result of the impairment test indicates that the recoverable amount of the asset is less than its book value, a provision for impairment and an impairment loss are recognized for the amount by which the asset's book value exceeds

its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The fair value of an asset shall be determined in light of the basis of the price as stipulated in the sales agreement. Where there is no sales agreement but there is an active market of assets, the fair value of the asset shall be determined according to the price bidden by the buyer of the asset; Where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, trucking charge as well as the direct expenses for bringing the assets into a marketable state. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. A provision for asset Impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

For the goodwill separately listed in the financial statements, during the impairment test, the book value of this goodwill is allocated to the related asset group or groups of asset group which is expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or groups of asset group including the goodwill allocated is lower than its book value, the corresponding impairment loss is recognized. The impairment loss is first deducted from the book value of goodwill allocated to the asset group or groups of asset group, and then deducted from the book value of the remaining assets of the asset group or groups of asset group pro rata with goodwill.

Once the asset impairment loss mentioned above is recognized, it is not allowed to be reversed even if the value is recovered in the subsequent periods.

## **18. Estimated liabilities**

The obligation pertinent to a Contingencies shall be recognized as an estimated liability when the following conditions are satisfied simultaneously: (1)That obligation is a current obligation of the enterprise; (2)It is likely to cause

any economic benefit to flow out of the enterprise as a result of performance of the obligation; and (3) The amount of the obligation can be measured in a reliable way.

On the balance sheet date, an enterprise shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies to measured the estimated liabilities in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

When all or some of the expenses necessary for the liquidation of an estimated liabilities of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. Besides, the amount recognized for the reimbursement should not exceed the book value of the estimated liabilities.

## 19. Revenue

### (1) Revenue from selling goods

No revenue from selling goods may be recognized unless the following conditions are met simultaneously: the significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise; the enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; the relevant amount of revenue can be measured in a reliable way; the relevant economic benefits may flow into the enterprise; and the relevant costs incurred or to be incurred can be measured in a reliable way. The recognition of revenue from exported goods: For good exported by way of FOB, the revenue shall be recognized once the goods were delivered to the carrier designated by the purchaser; for goods exported by way of CIF, the revenue shall be recognized once the goods reach the port of the purchase.

### (2) Recognition method of revenue from sales of property

It can recognize the realization of revenue of sales after signing the sales contract, the property completed and accepted as qualified, reaching the deliverable conditions agreed on the sales contract and the property payment totally paid according to the sales contract.

### (3) Revenue from providing labor services

If the Company can reliably estimate the outcome of a transaction concerning the labor services it provides, it shall

recognize the revenue from providing services employing the percentage-of-completion method on the date of the balance sheet. The completed proportion of a transaction concerning the providing of labor services shall be decided by the proportion of the labor service already provided to the total labor service to provide.

The outcome of a transaction concerning the providing of labor services can be measured in a reliable way, means that the following conditions shall be met simultaneously: ① The amount of revenue can be measured in a reliable way; ② The relevant economic benefits are likely to flow into the enterprise; ③ The schedule of completion under the transaction can be confirmed in a reliable way; and ④ The costs incurred or to be incurred in the transaction can be measured in a reliable way.

If the outcome of a transaction concerning the providing of labor services can not be measured in a reliable way, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred and expected to be compensated, and make the the cost of labor services incurred as the current expenses. If it is predicted that the cost of labor services incurred couldn't be compensated, thus no revenue shall be recognized.

Where a contract or agreement signed between Group and other enterprises concerns selling goods and providing of labor services, if the part of sale of goods and the part of providing labor services can be distinguished from each other and can be measured respectively, the part of sale of goods and the part of providing labor services shall be treated respectively. If the part of selling goods and the part of providing labor services can not be distinguished from each other, or if the part of sale of goods and the part of providing labor services can be distinguished from each other but can not be measured respectively, both parts shall be conducted as selling goods.

#### (4) Royalty revenue

In accordance with relevant contract or agreement, the amount of royalty revenue should be recognized as revenue on accrual basis.

#### (5) Interest revenue

The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the Group's monetary fund is used by others and the agreed interest rate;

(6) Property rental revenue

For details about the recognition method of property rental revenue, please refer to Note IV. 22 (2).

## **20. Government subsidies**

A government subsidy means the monetary or non-monetary assets obtained free by the Group from the government, but excluding the capital invested by the government as the owner of the enterprise. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount. The government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

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. The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized; or those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.

Where it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: 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; or if there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

## **21. Deferred income tax assets and deferred income tax liabilities**

(1) Current income tax

On the balance sheet date, the current income tax liabilities (or assets) incurred in the current period or prior periods

shall be measured on the basis of the expected payable (refundable) amount of income tax, which is calculated according to the tax law. The taxable income which is the basis to calculate current income tax is the pre-tax accounting profits at the period after adjustment in accordance with the stipulations of relevant tax laws

(2) Deferred income tax assets and deferred income tax liabilities

The balance between the book value of deferred tax assets and deferred tax liabilities and its taxable amount, as well as the temporary difference between the book value of those unrecognized as assets and liabilities but with clear taxable amount and the taxable amount should adopt law of liabilities for balance sheet to recognize deferred income tax assets and deferred income tax liabilities.

No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill, the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). Besides, no deferred tax assets is recognized for the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises, and the investing enterprise can control the time of the reverse of temporary differences as well as the temporary differences are unlikely to be reversed in the excepted future. Otherwise, the Group should recognize the deferred income tax liabilities arising form other taxable temporary difference.

No deferred taxable assets should be recognized for the deductible temporary difference of initial recognition of assets and liabilities arising from the transaction which is not business combination, the accounting profits will not be affected, nor will the taxable amount or deductible loss be affected at the time of transaction. Besides, no deferred taxable assets should be recognized for the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises, which are not likely to be reversed in the expected future or is not likely to acquire any amount of taxable income tax that may be used for making up such deductible temporary differences. Otherwise, the Company shall recognize the deferred income tax assets arising from a deductible temporary difference basing on the extent of the amount of the taxable income that is likely to be acquired to make up such deductible temporary differences

For any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax asset shall be 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.

On the balance sheet date, the deferred income assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The book value of deferred income tax assets shall be reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the book value of the deferred income tax assets shall be written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

### (3) Income tax expense

Income tax expense includes current income tax and deferred income tax.

Except the current income tax and deferred income tax, which was recognized as other comprehensive income or related with the transactions or events directly recorded in the owner's equities, should be recorded in other comprehensive income or owners' equity, and the book value of deferred income tax from business combination after adjusting the good will, the other expenses or income of current income tax and deferred income tax should be recorded into current profits and losses.

### (4) The offset of income tax

When the Group has the legal right to settle with net amount, and intends to settle, purchase assets, liquidate liabilities with net amount at the same time, the current income tax assets and current income tax liabilities of the Group shall be listed by the net amount after the offset.

When the Group has the legal right to settle current income tax assets and current income tax liabilities with net amount, as well as the deferred income tax assets and deferred income tax liabilities are related with the income tax that the same taxation authority collects towards the same tax payer or different tax payer, but during every period of reversal for significant deferred income tax assets and liabilities in the future, if the tax payer intends to settle the current income tax assets and liabilities or purchase assets and liquidate liabilities with the net amount, the Group's deferred

income tax assets and deferred income tax liabilities shall be listed as the net amount after offset.

## 22. Leases

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. Other leases except for finance leases are operating leases.

(1) Business of operating leases recorded by the Group as the lessee

The rent expenses 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. The initial direct costs shall be recognized as the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(2) Business of operating leases recorded by the Group as the lessor

The rent incomes from operating leases shall be recognized as the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs of great amount shall be capitalized when incurred, and be recorded into current profits and losses in accordance with the same basis for recognition of rent incomes over the whole lease term. The initial direct costs of small amount shall be recorded into current profits and losses when incurred. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(3) Business of finance leases recorded by the Group as the lessee

On the lease beginning date, the Group shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. Besides, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance through deducting unrecognized financing charges from the minimum lease payments shall be respectively stated in long-term liabilities and long-term liabilities due within 1 year.

Unrecognized financing charges shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing charges. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(4) Business of finance leases recorded by the Group as the lessor

On the beginning date of the lease term, the Group shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and the sum of their present values shall be recognized as unrealized financing income. The balance through deducting unrealized financing incomes from the finance lease accounts receivable shall be respectively stated in long-term claims and long-term claims due within 1 year.

Unrecognized financing incomes shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing revenues. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

### **23. Employee compensation**

The Group recorded the employee compensation payables as liabilities during the service period of employee.

The Group joins in the employee social security system established by the government institution in accordance with relevant rules and laws, which includes the basic retirement insurance, medical insurance and other social insurances, as well as the housing accumulation fund, and the relevant expenditures should be recorded into cost of relevant assets or current profits and losses upon the occurrence.

If an enterprise cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, and the following conditions are met concurrently, the enterprise shall recognize the expected liabilities incurred due to the compensation for the cancellation of the labor relationship with the employee, and shall simultaneously record them into the profit or loss for the current period: the enterprise has formulated a formal plan on the cancellation of labor relationship or has brought forward a proposal on voluntary layoff and will execute it soon; and the enterprise is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal.

The inside employee retirement plan is treated by adopting the same principle with the above dismissal welfare. The group would recorded the salary and the social security insurance fees paid and so on from the employee' s service terminative date to normal retirement date into current profits and losses (dismissal welfare) under the condition that they meet the recognition conditions of estimated liabilities.

#### **24. Change in major accounting policies and accounting estimates**

##### (1) Change in accounting policies

No accounting policies changed in the Group during the reporting period.

##### (2) Change in accounting estimates

No accounting estimates changed in the Group during the reporting period.

#### **25. Corrections of prior accounting errors**

In this period, the Group has no matter related to correction of prior-period errors.

#### **26. Critical accounting judgments and estimates**

Due to the inside uncertainty of operating activity, the Group needed to make judgments, estimates and assumption on the book value of the accounts without accurate measurement during the employment of accounting policies. And these judgments, estimates and assumption were made basing on the prior experience of the senior executives of the Group, as well as in consideration of other factors. These judgments, estimates and assumption would also affect the report amount of income, costs, assets and liabilities, as well as the disclosure of contingent liabilities on balance sheet date. However, the uncertainty of these estimates was likely to cause significant adjustment on the book value of the affected assets and liabilities.

The Group would check periodically the above judgments, estimates and assumption on the basis of continuing operation. For the changes in accounting estimates only affected on the current period, the influence should be recognized at the period of change occurred; for the changes in accounting estimates affected the current period and also the future period, the influence should be recognized at the period of change occurred and future period.

On the balance sheet date, the Group needed to make judgments, estimates and assumption on the accounts in the following important items:

(1) Categorization of leasing

In accordance with Accounting Standards for Enterprises No. 21 - Leasing, the Group categorized the leasing into operating lease and finance lease. During the categorization, the management level needed to make analysis and judgment on whether all the risk and compensation related with the leased assets had been transferred to the leasee, or whether the Group had already undertaken all the risk and compensation related with the leased assets.

(2) Provision for bad debts

In accordance with the accounting policies of accounts receivable, the Group measured the losses for bad debts by adopting allowance method. The impairment of accounts receivable was based on the appraisal of the recoverability of accounts receivable. The impairment of accounts receivable was dependent on the judgment and estimates. The actual amount and the difference of previous estimates would affect the book value of accounts receivable and the withdrawal and reversal on provision for bad debts of accounts receivable during the period of estimates being changed.

(3) Provision for falling price of inventories

In accordance with the accounting policies of inventories, for the inventories that the costs were more than the net realizable value as well as out-of-date and dull-sale inventories, the Group withdrew the provision for falling price of inventories on the lower one between costs and net realizable value. Evaluating the falling price of inventories needed the management level gain the valid evidence and take full consideration of the purpose of inventories, influence of events after balance sheet date and other factors, and then made relevant judgments and estimates. The actual amount and the difference of previous estimates would affect the book value of inventories and the withdrawal and reversal on provision for bad debts of inventories during the period of estimates being changed.

(4) The fair value of financial instrument

For the financial instruments without active market, the Group recognized the fair value by various methods. These evaluation methods included discounted cash flow mode analysis, etc.. The Group needed to estimate the future cash flow, credit risk, fluctuation rate of market and relativity and other factors, as well as choose the property discount rate. Due to the uncertainty of relevant assumptions, so their changes would affect the fair value of financial instrument.

(5) The impairment of financial assets available for sale

The Group judged whether the financial assets available for sale were impaired relying heavily on the judgment and assumption of the management team, so as to decide whether recognized the impairment losses in the income statement. During the process of making the judgment and assumption, the Group needed to appraise the balance of the cost of the investment exceeding its fair value and the continuous period, the financial status and business forecast in a short period, including the industrial situation, technical reform, credit level, default rate and risk of counterparty.

#### (6) Provision for impairment of non-financial non-current assets

The Group made a judgment on the non-current assets other than financial assets whether they had any indication of impairment on the balance sheet date. For the intangible assets without finite service life, other than the annual impairment test, they should be subject to the impairment test when there was any indication of impairment. For other non-current non-financial assets, which should subject to impairment test when there was indication of impairment showing that the book value can't be recoverable.

When the book value of the assets or assets portfolio was more than the recoverable amount, which was the higher one between the net amount of fair value after deducting the disposal expenses and the discounted amount of the estimated future cash flow, it means impairment incurred.

The net amount of fair value after deducting the disposal expenses should be fixed the price in the sale agreement for similar assets in the fair transaction minus the increased costs directly attributable to the assets disposal.

When estimated the discounted value of future cash flow, the Group needed to make important judgment on the output, selling price, relevant costs and the discount rate for calculating the discounted amount, etc. When estimated the recoverable amount, the Group would adopt all the available documents, including the predicts for relevant output, selling price and relevant operating costs arising from reasonable and supportive assumptions.

The Group made the impairment test on goodwill at least one time per year, which required to predict the discounted amount of the future cash flow of the assets or assets portfolio with the distributed good will, for which, the Group needed to predict the future cash flow of the assets or assets portfolio, and adopt the property discounted rate to decide the discounted amount of future cash flow.

#### (7) Depreciation and amortization

For the investment real estate, fixed assets and intangible assets, the Group withdrew the depreciation and amortization by adopting the straight-line method during the service life after full consideration of the salvage value. The Group

checked the service life periodically so as to decide the amount of depreciation and amortization at each reporting period. The service life was fixed by the Group in accordance with the previous experience of the similar assets and the expected technical update. If there was any significant change on the previous estimates, the depreciation and amortization expenses should be adjusted.

(8) Expenditures for development

When fixing the amount of capitalization, the management level of the Group needed to make assumption on the predicted future cash flow, property discounted rate and estimated beneficiary period for relevant assets.

(9) Deferred income tax assets

Within the limit that it was likely to have sufficient taxable profits to offset the losses, the Group recognized the deferred income tax assets by all the unused tax losses, which needed the management level of the Group to estimate time and amount of the future taxable profits incurred with many judgments, as well as integrate strategy of tax payment, to decide the amount of deferred income tax assets which should be recognized.

(10) Income tax

During the routine operating activities, there were some uncertainty in the ultimate tax treatment and calculation for parts of transactions. Some accounts of such transaction could be listed as pre-tax expenditures only after the approval of taxation authorities. If there were any differences between the ultimate result of recognition for these taxation matters and their initial estimates, the differences would affect the current income tax and deferred income tax at the period of ultimate recognition.

(11) Estimated liabilities

The Group made the estimation on product quality guarantee, predicted loss of contract and the fine for delayed delivery, etc. and withdrew the relevant provision for estimated liabilities in accordance the provisions of contract, current knowledge and experience. Under the condition that the contingent event has formed a current duty and fulfilling the duty is likely to cause the economical interest outflow the Group, the Group measures the estimated liabilities in accordance with the best estimate of the necessary expenses for the performance of the current duty. The recognition and measurement of estimated liabilities were heavily relied on the judgment of the management team. During the process of making judgment, the Group needed to appraise the relevant risks, uncertainty and the time value of money and etc.. Of which, the Group estimated the liabilities basing on the after-sale services commitments to the customers upon the

sale, repair and reform of goods. When estimating the liabilities, the Group has fully taken the consideration of the latest repair experience, but which may not reflect the repair situation in the future. Any increase / decrease of the provision for estimated liabilities may affect the profits and losses in the future periods.

## V. Taxation

### 1. Main taxes and tax rate

Category of taxes	Particulars on tax rates
VAT	Calculated the output tax at 17% of taxable income and paid the VAT by the amount after deducting the deductible withholding VAT at current period.
Business tax	Paid by 5% of taxable business income
Urban maintenance and construction tax	Paid at 7% of the circulating tax actually paid
Enterprise income tax	Paid at 25% of the taxable income, Hongkong company at 16.5%, Telecommunication Technology, Chongqing Konka, Dongguan Mould and plastic, Dongguan Konka, Precision Mold, Kunshan Konka and Anhui Tongchuang at 15%, while Boluo precision at 12.5%.
Education surtax	Paid at 3% of the circulating tax actually paid
Local education surtax	Paid at 2% of the circulating tax actually paid

As for the transportation revenue of the logistic business of the Company's subsidiary Shushida Logistics, it originally paid the business tax at the rate of 5%. While in accordance with the Notice on Carrying out the Pilot of Change on Charging the Business Taxes of Transportation Industry and Partial Modern Service Industry to Value Added Taxes in Eight Provinces and Cities including Beijing issued by the Ministry of Finance and the National Taxation Bureau (CS [2012] No. 71) and

other regulations, the revenue of logistic business was changed to charge the VAT since 1 Sept. 2012, with the tax rate of 3%.

In accordance with the Notice on Printing the Administration Method on Charging and Use of the Treatment Funds of Discarded Electronic Appliance and Electric Products issued by the Ministry of Finance, Ministry of Environmental Protection, National Development and Reform Commission, Ministry of Industry and Information, General Administration of Customs and National Taxation Bureau (CZ [2012] No. 34), and the Administration Method on Charging and Use of the Treatment Funds of Discarded Electronic Appliance and Electric Products issued by National Taxation Bureau (GJSWZJGG [2012] No. 41), the domestic manufacturer of the electrical appliances and electronic products of PRC started to pay the treatment funds for discarded electrical appliance and electronic products according the sales volume (trusted processing amount) and relevant charging standards from 1 Jul. 2012. According to the regulations, the Group's charging standards were RMB 13 per set of TV, RMB 12 per set of refrigerator and RMB 7 per set of washing machine.

## **2. Tax preference and approved document**

(1) On 30 Nov. 2011, the wholly-owned subsidiary of the Company—Shenzhen Konka Telecommunications Technology Co., Ltd. obtained the Certificate of High-Tech Enterprise No. GF201144200088 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 from 2011 to 2013 for consecutive three years, and be levied the business income tax at the preferential tariff of 15%.

(2) The Company's subsidiary—Chongqing Qingjia Electronics Co., Ltd. is levied the business income tax at the preferential tariff of 15% from 1 Jan. 2011 to 31 Dec. 2020 in accordance with CS (2011) No. 58 Notice on Relevant Tax Policies on Deeply Implementing the western development strategy.

(3) On 12 Sept. 2012, the Company's subsidiary— Dongguan Konka Mould Plastic was filed for the high-tech enterprise certification by Ministry of Science and Technology, and received Certificate of High-Tech Enterprise with No. GF201244000053, was 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 2012 and was levied at the preferential enterprise income tax rate of 15%.

(4) On 8 Oct. 2008, Guangdong Boluo Office of State Administration of Taxation approved the application of Boluo Konka Precision Technology Co., Ltd. for tax preferential of “tax exemption for two years and 50% tax reduction for three years” in BGSJ (2008) No. 94 and thus Boluo Konka Precision Technology Co., Ltd. started to enjoy the said tax preferential policy (i.e. exempted from the enterprise income tax in year 2008 and 2009 and will be levied at 50% of the enterprise income tax rate from year 2010 to year 2012), so its applicable tax rate in 2012 was 12.5%.

(5) On 26 Sep. 2010, Dongguan Konka Co., Ltd., the Company's subsidiary gained the Certificate of Hi-tech Enterprise jointly issued by Department of Science & Technology, Finance Bureau, National Taxation Bureau and Local Taxation Bureau of Guangdong province (No. GR-201044000209) with valid term of three years. In accordance with relevant stipulations of taxation, Dongguan Konka Co., Ltd. will enjoy relevant preferential policies for high-tech enterprises for successive three years since 2010 and was levied at the preferential enterprise income tax rate of 15%.

(6) On 23 Feb. 2011, the Company's subsidiary—Shenzhen Konka Precision Mold Manufacturing Co., Ltd. gained the Certificate of Hi-tech Enterprise jointly issued by Department of Science & Technology, Finance Bureau, National Taxation Bureau and Local Taxation Bureau of Shenzhen (No. GR201144200236) with valid term of three years. In accordance with relevant stipulations of taxation, Shenzhen Konka Precision Mold Manufacturing Co., Ltd. will enjoy relevant preferential policies for high-tech enterprises for successive three years since 2010 and was levied at the preferential enterprise income tax rate of 15%.

(7) On 8 Nov. 2011, Kunshan Konka Electronic Co., Ltd., the Company's subsidiary gained the Certificate of Hi-tech Enterprise jointly issued by Department of Science & Technology, Finance Bureau, National Taxation Bureau and Local

Taxation Bureau of Jiangsu province (No. GR201132000506) with valid term of three years. In accordance with relevant stipulations of taxation, Kunshan Konka Electronic Co., Ltd. will enjoy relevant preferential policies for high-tech enterprises for successive three years since 2011 and was levied at the preferential enterprise income tax rate of 15%.

(8) On 3 Jul. 2012, the Company's subsidiary Anhui Tongchuang received the Certificate of Hi-tech Enterprise jointly issued by Department of Science & Technology, Finance Bureau, National Taxation Bureau and Local Taxation Bureau of Anhui Province (No. GR201234000074) with valid term of three years. In accordance with relevant stipulations of taxation, Anhui Tongchuang will enjoy relevant preferential policies for high-tech enterprises for successive three years since 2012 and was levied at the preferential enterprise income tax rate of 15%.

(9) According to the CS No. [2011] 100 Article issued by Ministry of Finance and State Administration of Taxation, if the ordinary VAT payer sells software products developed by itself, the VAT is levied at the rate of 17% and after that, the part of actual tax burden of VAT which exceeds 3% can enjoy the policy of refunding taxes immediately after levying taxes. Video engineering and information network of the Company and its subsidiaries can enjoy such favorable policy.

## VI. Business Combination and Consolidated Financial Statements

### 1. Subsidiaries

Subsidiaries obtained through establishment or investment

Monetary unit: RMB 0'000

Name of subsidiary	Type of subsidiary	Registration place	Business nature	Registered capital	Business scope	Type of enterprise	Legal representative	Organization code	Actual investment amount at the period-end	Balance of other items substantially constituting net investment to subsidiaries
Shenzhen Konka Telecommunications Technology	Wholly-owned subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB12,000.00	Production and sales of mobile communication products and sales of	Limit	LI HONGTAO	70848057-2	12,000.00	—

Co., Ltd.					multi-media products	ny				
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.	Holding subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB1,500.00	Production and sales of LED display screens and lighting	Limit ed company	HE JIANJUN	72858645-4	1,500.00	—
Shenzhen Konka Precision Mould Manufacturing Co., Ltd.	Holding subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB1,596.88	Production and sales of plasthetics and moulds	Limit ed company	LOU YILIANG	61881661-8	1,597.00	—
Shenzhen Konka Electronic Ltd.	Holding subsidiary	Shenzhen, Guangdong	Sales of electronic appliance	RMB830.00	Production and sales of household appliance	Limit ed company	HUANG ZHONGTIAN	61881678-1	830.00	—
Shenzhen Konka Information Network Co., Ltd.	Wholly-owned subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB3,000.00	Production and sales of digital network products	Limit ed company	NIU WEIDONG	73416472-5	3,000.00	—
Shenzhen Konka Plastic Products Co., Ltd.	Wholly-owned subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB950.00	Production and sales of plasthetics	Limit ed company	SUN WENBO	61881662-6	950.00	—
Shenzhen Shushida Electronic Co., Ltd.	Wholly-owned subsidiary	Shenzhen, Guangdong	Manufacturing industry	RMB4,200.00	Production and sales of electronic products like DVD	Limit ed company	HUANG ZHONGTIAN	70841244-9	4,200.00	—
Shenzhen Konka Electronic	Wholly-owned	Shenzhen, Guangdong	Investment holding	RMB6,500.00	Investment	Limit ed	NIU WEIDONG	793892132	6,500.00	—

Fittings Technology Co., Ltd.	subsidiary						company				
Mudanjiang Arctic Ocean Appliances Co., Ltd.	Holding subsidiary	Mudanjiang, Huilongjiang	Manufacturing industry	RMB6,000.00	Production and sales of multi-media products	Limit ed company	CHUAI RONGWEI	606102861	6,000.00		—
Shanxi Konka Electronic Co., Ltd.	Holding subsidiary	Xianyang, Shaanxi	Manufacturing industry	RMB6,950.00	Production and sales of multi-media products	Limit ed company	SU ZENGMENG	623102302	6,950.00		—
Chongqing Konka Electronic Ltd.	Holding subsidiary	Chongqing	Manufacturing industry	RMB4,500.00	Production and sales of multi-media products	Limit ed company	ZHANG XIAN	621920985	4,500.00		—
Chongqing Konka Eurotomotive Electronic Co., Ltd.	Holding subsidiary	Chongqing	Manufacturing industry	RMB3,000.00	Production and sales of Eurotomotive electronic equipment	Limit ed company	ZENG HUI	781559252	3,000.00		—
Chongqing Qingjia Electronic Co., Ltd.	Holding subsidiary	Chongqing	Manufacturing industry	RMB1,500.00	Production and sales of electronic turners and 3D glasses	Limit ed company	WANG XIAOYONG	621921873	1,500.00		—
Anhui Konka Electronic Co., Ltd.	Holding subsidiary	Chuzhou, Anhui	Manufacturing industry	RMB14,000.00	Production and sales of multi-media products	Limit ed company	GONG ZHIPING	61056872-8	14,000.00		—
Anhui Konka Appliance Co.,	Holding subsidiary	Chuzhou, Anhui	Manufacturing industry	RMB7,819.00	Production and sales of household appliance	Limit ed	WANG YOU LAI	748906347	7,819.00		—

Ltd.					like refrigerators and washing machine	company				
Changshu Konka Electronic Co., Ltd.	Holding subsidiary	Changshu, Jiangsu	Manufacturing industry	RMB2,465.00	Production and sales of electronic products and electronic transformer	Limit ed company	WANG YOULAI	62822347X	2,465.00	—
Kunshan Konka Electronic Co., Ltd.	Wholly-owned subsidiary	Kunshan, Jiangsu	Manufacturing industry	RMB35,000.00	Production and sales of liquid crystal modules and multi-media products	Limit ed company	HUANG ZHONGTIAN	68053275-5	35,000.00	—
Dongguan Konka Electronic Co., Ltd.	Wholly-owned subsidiary	Dongguan, Guangdong	Manufacturing industry	RMB26,667.00	Production and sales of multi-media products	Limit ed company	HUANG ZHONGTIAN	61811698-8	26,667.00	7,478.40
Dongguan Konka Packing Materials Co., Ltd.	Wholly-owned subsidiary	Dongguan, Guangdong	Manufacturing industry	RMB1,000.00	Production and sales of plastic products and plastic packaging	Limit ed company	LI YUNFEI	72245604-2	1,000.00	—
Dongguan Konka Mould Plastic Co., Ltd.	Holding subsidiary	Dongguan, Guangdong	Manufacturing industry	RMB1,000.00	Production and sales of moulds and plathetics	Limit ed company	LOU YILIANG	75109846-7	1,000.00	—
Boluo Konka PCB Co., Ltd.	Holding subsidiary	Boluo, Guangdong	Manufacturing industry	RMB4,000.00	Production and sales of single-faced and double-faced circuit board electronic products	Limit ed company	LIN GAIKE	72112128-3	4,000.00	—
Boluo Konka	Wholly-owned	Boluo,	Manufacturing industry	RMB1,500.00	Production and sales of	Limit ed	LIN GAIKE	79931620-8	1,125.00	—

Precision Technology Co., Ltd.	Wholly-owned subsidiary	Guangdong	Electronic industry		high-density circuit board electronic productions	Electronic company					
Konka (Nanhai) Development Center	Wholly-owned subsidiary	Foshan, Guangdong	Research and development	RMB50.00	R&D of flat panel display technologies and products	Non-governmental enterprise entities	LIN GAIKE	682430058	50.00		—
Hong Kong Konka Co., Ltd.	Wholly-owned subsidiary	Hong Kong, China	International trade	HKD50.00	Exporting and importing electronic products	Limited company	HUANG ZHONGTIAN		—	54.00	—
Konka Household Appliances Investment & Development Co., Ltd.	Wholly-owned subsidiary	Hong Kong, China	Investment holding	HKD50.00	Investment	Limited company	NIU WEIDONG		—	53.00	—
Konka Household Appliances International Trading Co., Ltd.	Wholly-owned subsidiary	Hong Kong, China	International trade	HKD50.00	Export and import of electronic products	Limited company	NIU WEIDONG		—	53.00	—
KONKA AMERICA, INC.	Wholly-owned subsidiary	The USA	International trade	USD100.00	Sales of electronic products	Limited company	CHANG DONG		—	806.00	—

Konka (Europe) Co., Ltd.	Wholly-owned subsidiary	Frankfurt, Germany, Europe	International trade	EUR2.50	Sales of electronic products	Limit ed company	CHANG DONG	—	26.00	—
Dongguan Xutongda Mould Plastic Co., Ltd.	Holding subsidiary	Dongguan Guangdong	Manufacturing industry	RMB500.00	Production and sales of moulds and plastics	Limit ed company	XIANG TIANSHUN	69649113-4	500.00	—
Shenzhen Konka Optoelectronic Technology Co., Ltd.	Wholly-owned subsidiary	Shenzhen Guangdong	Research and development	RMB1,000.00	Development, sales and maintenance of technologies like liquid crystal modules	Limit ed company	LI GAIKE	557193938	1,000.00	—
Shenzhen Wankaida Science and Technology Co., Ltd.	Wholly-owned subsidiary	Shenzhen Guangdong	Software development	RMB1,000.00	Development and maintenance of software technologies	Limit ed company	LI GAIKE	557185057	1,000.00	—
Kunshan Kangsheng Investment Development Co., Ltd.	Wholly-owned subsidiary	Kunshan Jiangsu	Property industry	RMB35,000.00	Development, operation and investment of real estate	Limit ed company	SUN WENBO	55806907-4	35,000.00	—
Anhui Konka Tongchuang Household Appliances Co., Ltd.	Wholly-owned subsidiary	Chuzhou Anhui	Manufacturing industry	RMB18,000.00	Production and sales of household appliance like refrigerators and washing machine	Limit ed company	XIA GUANGBEI	559228110	12,000.00	—
Indonesia Konka Electronics Co., Ltd.	Holding subsidiary	Indonesia	International trade	USD150.00	Sales of electronic products	Limit ed company	CHANG DONG	—	975	—

ny										
Shenzhen Shushida Logistics Service Co., Ltd.	Wholly-owned subsidiary	Shenzhen Guangdong	Logistics	RMB1,000.00	Ordinary freight transport	Limit ed company	NIU WEIDONG	587910870	1,000.00	—
Beijing Electronic Ltd.	Konka Wholly-owned subsidiary	Beijing	Sales of household appliance	RMB3,000.00	Sales of electronic products	Limit ed company	CHEN YUEHUA	590678654	3,000.00	—
Kunshan Jielunte Mould Plastic Co., Ltd.	Holding subsidiary	Kunshan Jiangsu	Manufacturing industry	RMB10,000.00	Production and sales of moulds and plastics	Limit ed company	LOU YILIANG	576729443	10,000.00	—

(to be continued)

Name of subsidiary	Share holding proportion (%)	Voting right proportion (%)	Whether consolidating financial statement or not	Equity of the minority shareholders	Amount of equity of the minority shareholders used to offset profit and loss of minority interest	Note
Shenzhen Konka Telecommunications Technology Co., Ltd.	100	100	Yes	—	—	—
Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.	60	60	Yes	99.43	—	—
Shenzhen Konka Precision Mold Manufacturing Co., Ltd.	46.31	52.49	Yes	5,080.97	—	—
Shenzhen Konka Electronic Co.,	51	51	Yes	-1,013.85	—	—

Ltd.						
Shenzhen Konka Information Network Co., Ltd.	100	100	Yes	—	—	—
Shenzhen Konka Plastic Products Co., Ltd.	100	100	Yes	—	—	—
Shenzhen Shushida Electronic Co., Ltd.	100	100	Yes	—	—	—
Shenzhen Electronic Fittings Technology Co., Ltd.	100	100	Yes	—	—	—
Mudanjiang Arctic Ocean Appliances Co., Ltd.	60	60	Yes	1,623.57	—	—
Shaanxi Konka Electronic Co., Ltd.	60	60	Yes	2,967.48	—	—
Chongqing Konka Electronic Co., Ltd.	60	60	Yes	552.76	—	—
Chongqing Konka Eurotomotive Electronic Co., Ltd.	57	57	Yes	-713.93	-148.08	—
Chongqing Qingjia Electronics Co., Ltd.	40	40	Yes	1,381.49	—	—
Anhui Konka Electronic Co., Ltd.	78	78	Yes	4,954.43	—	—
Anhui Konka Household Appliances Co., Ltd.	96.46	97.45	Yes	255.31	—	—
Changshu Konka Electronic Co., Ltd.	60	60	Yes	810.70	—	—
Kunshan Konka Electronic Co., Ltd.	100	100	Yes	—	—	—
Dongguan Konka Electronic Co., Ltd.	100	100	Yes	—	—	—

Dongguan Konka Packing Materials Co., Ltd.	100	100	Yes	—	—
Dongguan Konka Mould Plastic Co., Ltd.	59.73	59.73	Yes	-2,275.72	—
Boluo Konka PCB Co., Ltd.	51	51	Yes	388.19	—
Boluo Konka Precision Technology Co., Ltd.	100	100	Yes	—	—
Konka (Nanhai) Development Center	100	100	Yes	—	—
Hong Kong Konka Co., Ltd.	100	100	Yes	—	—
Konka Household Appliances Investment & Development Co., Ltd.	100	100	Yes	—	—
Konka Household Appliances International Trading Co., Ltd.	100	100	Yes	—	—
KONKA AMERICA, INC.	100	100	Yes	—	—
Konka (Europe) Co., Ltd.	100	100	Yes	—	—
Dongguan Xutongda Mould Plastic Co., Ltd.	46.31	52.49	Yes	641.34	—
Shenzhen Konka Optoelectronic Technology Co., Ltd.	100	100	Yes	—	—
Shenzhen Wankaida Science and Technology Co., Ltd.	100	100	Yes	—	—
Kunshan Kangsheng Investment Development Co., Ltd.	100	100	Yes	—	—
Anhui Konka Tongchuang Household Appliances Co., Ltd.	100	100	Yes	—	—
Indonesia Konka Electronics Co.,	51	51	Yes	219.93	—

Ltd.						
Shenzhen Shushida Logistics Service Co., Ltd.	100	100	Yes	—	—	—
Beijing Konka Electronic Co., Ltd.	100	100	Yes	—	—	—
Kunshan Jielunte Mould Plastic Co., Ltd.	46.31	52.49	Yes	5,353.53	—	—

Note: ① The Company holds 46.31% of shares of Shenzhen Konka Precision Mold Manufacturing 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 Shenzhen Konka Precision Mold Manufacturing 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.

② The Company holds 40.00% shares of Chongqing Qingjia Electronic Co., Ltd that all senior managers of Chongqing Qingjia Electronic Co., Ltd are appointed and dismissed by the Company. Among the directors, half of them or over half are dispatched directly or indirectly by the Company. Moreover, in Chongqing Qingjia, 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., which is combined into the consolidated financial statement.

③ Shenzhen Konka Precision Mold Manufacturing Co., Ltd. held 100% equity of Dongguan Xutongda Mould Plastic Co., Ltd., and the Company is the actual controller of Dongguan Xutongda Mould Plastic Co., Ltd., for the Company indirectly held 46.31% shares and 52.49 voting right of Dongguan Xutongda Mould Plastic Co., Ltd., which is combined into the consolidated financial statement.

④ Shenzhen Konka Precision Mold Manufacturing Co., Ltd. held 100% equity of Kunshan Jielunte Mould Plastic Co., Ltd., and the Company is the actual controller of Shenzhen Konka Precision Mold Manufacturing Co., Ltd., for the Company indirectly held 46.31% shares and 52.49 voting right of Kunshan Jielunte Mould Plastic Co., Ltd., which is combined into the consolidated financial statement.

⑤ Anhui Tongchuang is a limited company jointly invested and established by the Company and Chuzhou Tongchuang Construction Investment Co., Ltd. (hereinafter refer to as “Tongchuang Construction”) with registration capital of RMB 180 million, of which each party invested in RMB 90 million respectively on contract. As to 31 Dec. 2010, Anhui Tongchuang with a paid-up capital of RMB 120 million (including paid-up capital of RMB 90 million of the Company, 75.00% of total paid-up capital; and paid-up capital of RMB 30 million of Tongchuang Construction, 25.00% of total paid-up capital). According to contract sign by two parties, Tongchuang Construction has the rights of transferring stock ownership three years after the establishment of Anhui Tongchuang Company. Meanwhile, the Company can repurchase the said stock ownership and contracted with Tongchuang Investment Company that the Company shall receive fixed investment gains at 2% of actual capital invested by the Group annually.

So the Company can conduct actual control to Anhui Tongchuang Company, and combines it into the consolidated financial statement.

**2. In the reporting period, there existed no entities newly combined into consolidation scope and Entities no longer combined into consolidation scope during the reporting period**

**3. Main items in the financial statements and exchange rate of overseas business entities**

Item of assets and liabilities	
As at 31 Dec. 2012	As at 1 Jan. 2011
USD 1 = RMB 6.2855	USD 1 = RMB 6.3009
HKD 1 = RMB 0.81085	HKD 1 = RMB 0.8107
IDR 100 = RMB 0.06480	IDR 100 = RMB 0.06963
EUR 1 = RMB 8.3176	EUR 1 = RMB 8.1625
Item of income, expense and cash flow	
Y2012	Y2011
USD 1 = RMB 6.3131	USD 1 = RMB 6.4618
HKD 1 = RMB 0.8138	HKD 1 = RMB 0.8308
IDR 100 = RMB 0.06508	IDR 100 = RMB 0.07281
EUR 1 = RMB 8.1078	EUR 1 = RMB 8.4845

## VII. 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 Company), the beginning of the period refers to the day of 1 Jan. 2012; the end of the period refers to the day of 31 Dec. 2012; the current period refers to year 2012; and the previous period refers to year 2011.

### 1. Monetary funds

Item	Closing balance			Opening balance		
	Amount in foreign currency	Conversion rate	Amount in renminbi	Amount in foreign currency	Conversion rate	Amount in renminbi
<b>Inventory cash:</b>			<b>1,861,577.93</b>			<b>1,821,014.39</b>
RMB	—	—	1,858,311.95	—	—	1,797,916.42
HKD	586.00	0.81085	475.16	756.09	0.8107	612.96
USD	444.01	6.2855	2,790.82	238.86	6.3009	1,505.03
EUR	—	—	—	30,130,662.07	0.0006963	20,979.98
<b>Bank deposit:</b>			<b>822,181,591.</b>			<b>644,630,036.3</b>

				<b>44</b>		<b>1</b>
RMB	—	—	610,781,217.	—	—	464,377,184.4
				62		6
HKD	14,932,810.8	0.81085	12,108,269.7	14,544,576.12	0.8107	11,791,287.86
	8		0			
USD	31,371,330.0	6.2855	197,184,494.	26,273,639.70	6.3009	165,547,576.4
	0		72			1
EUR	206,307.43	8.3176	1,715,982.68	259,109.41	8.1625	2,114,980.56
GBP	1.32	10.1611	13.41	1.18	9.7116	11.50
MOP	—	—	—	324.85	6.4093	2,082.07
IDR	604,341,524.	0.00064	391,613.31	1,144,497,271	0.0006963	796,913.45
	59	80		.29		
Other monetary funds:			<b>904,903,341.</b>			<b>2,055,441,381</b>
			<b>74</b>			<b>.00</b>
RMB	—	—	904,336,296.	—	—	2,055,441,381
			87			.00
USD	90,214.76	6.2855	567,044.87	—	—	—
Total			<b>1,728,946,51</b>			<b>2,701,892,431</b>
			<b>1.11</b>			<b>.70</b>

Remark: The balance of other monetary funds at the end of the period includes marginal deposits that cannot be withdrawn freely, of which RMB 732,753,231.68 is used as USD loan pledge for NDF service; RMB 67,050,527.21 is used as credit deposit; and RMB 11,254,395.8 is used as engineering margins; RMB 67,093,672.41 is used as marginal deposits for internal guarantee and external loan; RMB 26,751,514.62 is used as marginal deposits for bank acceptance bills.

## 2. Notes receivable

### (1) Category of notes receivable

Category	Closing amount	Opening amount
Banker's acceptance bill	5,032,534,742.17	4,864,855,284.64
Commercial acceptance bill	521,262.80	1,108,201.45
<b>Total</b>	<b>5,033,056,004.97</b>	<b>4,865,963,486.09</b>

Note: The balance of notes used as pledge in the accounts receivable at the end of the period amounts to RMB 2,113,058,113.19.

### (2) Particulars on top five largest amount of mortgaged notes receivable at period-end

Issuing entity	Issuing date	Maturity date	Amount	Remark
Nanjing Procurement Centre of Suning Appliances Co., Ltd.	2012-10-18	2013-4-18	10,000,000.00	

Nanjing Procurement Centre of Suning Appliances Co., Ltd.	2012-10-18	2013-4-18	10,000,000.00	0
Suning Commerce Group Co., Ltd.	2012-10-18	2013-4-18	10,000,000.00	0
Suning Commerce Group Co., Ltd.	2012-10-18	2013-4-18	10,000,000.00	0
Suning Commerce Group Co., Ltd.	2012-10-26	2013-4-26	10,000,000.00	0
Total			<b>50,000,000.00</b>	<b>0</b>

(3) There was no particulars occurred as the issuing entity failed to accomplish commitment so converts notes receivable into accounts receivable.

(4) Notes that are endorsed but not due at the end of the period (top five in amount)

Issuing entity	Issuing date	Maturity date	Amount	Whether terminating confirmation or not	Remark
Shanghai Changning Suning Appliance Co., Ltd.	2012-10-11	2013-4-11	10,000,000.00	Yes	
Wuhan Suning Appliance Co., Ltd.	2012-11-23	2013-5-22	10,000,000.00	Yes	
Shanghai Changning Suning Appliance Co., Ltd.	2012-11-30	2013-5-30	10,000,000.00	Yes	
Shanghai Changning Suning Appliance Co., Ltd.	2012-11-30	2013-5-30	10,000,000.00	Yes	
Shanghai Changning Suning Appliance Co., Ltd.	2012-11-30	2013-5-30	10,000,000.00	Yes	
Total			<b>50,000,000.00</b>		

### 3. Interest receivable

#### (1) Interest receivable

Item	Opening amount	Increase in 2012	Decrease in 2012	Closing amount
Income from interest of pledged deposit of NDF compound business	14,030,636.73	—	14,030,636.73	—
Income from interest of pledged deposit of exchanging RMB into	12,207,299.68	7,092,928.27	19,300,227.95	—

USD				
Income of interest of fixed time deposit	17,388,623.03	63,726,733.30	73,943,357.60	7,171,998.73
<b>Total</b>	<b>43,626,559.44</b>	<b>70,819,661.57</b>	<b>107,274,222.28</b>	<b>7,171,998.73</b>

#### 4. Accounts receivable

(1) Accounts receivable are listed according to category

Category	Closing amount			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount and make independent provision for bad debt	103,357,300.00	4.61	5,167,865.00	5.00
Accounts receivable that make independent provision for bad debt by age combination	—	—	—	—
Age group	2,118,724,691.83	94.53	243,194,004.11	11.48
<b>Subtotal of combination</b>	<b>2,118,724,691.83</b>	<b>94.53</b>	<b>243,194,004.11</b>	<b>11.48</b>
Accounts receivable not with significant individual amount but make independent provision for bad debt	19,269,259.03	0.86	17,383,610.68	90.21
<b>Total</b>	<b>2,241,351,250.86</b>	<b>100.00</b>	<b>265,745,479.79</b>	<b>11.86</b>

(To be continued)

Category	Opening balance			
	Book balance		Bad debt reserves	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable with significant individual amount and make independent provision for bad debt	103,357,300.00	4.84	5,167,865.00	5.00
Accounts receivable that make independent provision for bad debt by age combination	—	—	—	—

Age group	2,030,804,344. 94	95.16	235,954,487.3 3	11.62
<b>Subtotal of combination</b>	<b>2,030,804,344. 94</b>	<b>95.16</b>	<b>235,954,487.3 3</b>	<b>11.62</b>
Accounts receivable not with significant individual amount but make independent provision for bad debt	—	—	—	—
<b>Total</b>	<b>2,134,161,644. 94</b>	<b>100.00</b>	<b>241,122,352.3 3</b>	<b>11.30</b>

(2) Accounts receivable are listed according to account age

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	1,842,965,053.49	82.23	1,760,096,724.60	82.47
One to two years	69,265,131.92	3.09	57,834,325.78	2.71
Two to three years	21,634,147.72	0.97	14,282,977.09	0.67
Three to four years	9,653,455.00	0.43	104,541,560.27	4.90
Four to five years	104,108,328.40	4.64	11,749,161.08	0.55
Over five years	193,725,134.33	8.64	185,656,896.12	8.70
<b>Total</b>	<b>2,241,351,250.86</b>	<b>100.00</b>	<b>2,134,161,644.94</b>	<b>100.00</b>

(3) Particulars on withdrawal of bad debt provision

① Particulars on accounts receivable not with significant individual amount but make independent provision for bad debt at period-end

Content	Book amount	Provision for bad debt	Withdrawal proportion	Reason
Beijing Pangu Investment Co., Ltd.	103,357,300.00	5,167,865.00	5%	Involving litigation, see note IX. 1
<b>Total</b>	<b>103,357,300.00</b>	<b>5,167,865.00</b>	<b>5%</b>	

②Accounts receivable that make independent provision for bad debt by Age group

Within the group, accounts receivable that make independent provision for bad debt by age analysis

Account age	Closing amount			Opening amount		
	Book amount		Bad debt provision	Book amount		Bad debt provision
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	1,823,695,794.46	86.08	36,476,541.94	1,760,096,724.60	86.67	38,082,568.82
1-2 years	69,265,131.92	3.27	3,463,256.60	57,834,325.78	2.85	2,891,716.29
2-3 years	21,634,147.72	1.02	4,326,829.54	14,282,977.09	0.70	2,856,595.42
3-4 years	9,653,455.00	0.46	4,826,727.50	1,184,260.27	0.06	592,130.14
4-5 years	751,028.40	0.03	375,514.20	11,749,161.08	0.58	5,874,580.54
Over 5 years	193,725,134.33	9.14	193,725,134.33	185,656,896.12	9.14	185,656,896.12
<b>Total</b>	<b>2,118,724,691.83</b>	<b>100.00</b>	<b>243,194,004.11</b>	<b>2,030,804,344.94</b>	<b>100.00</b>	<b>235,954,487.33</b>

③ Accounts receivable not with significant individual amount but make independent provision for bad debt

Content	Book balance	Withdrawal proportion (%)	Bad debt provision	Reason for withdrawal
Client	19,269,259.03	90.21	17,383,610.68	There was something wrong with the corporate operation.
<b>Total</b>	<b>19,269,259.03</b>	<b>90.21</b>	<b>17,383,610.68</b>	

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

(5) The amount of the top five accounts receivable totals RMB 589,908,413.64, taking up 26.33% of the total account receivable.

(6) For accounts of related parties, see item 6 in Note VIII Accounts receivable and payable of related parties.

(7) List of original amount of foreign accounts receivable and its exchange rate:

Item	Closing amount	Opening amount
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	Foreign currency amount	Exchange rate	RMB (Converted)	Foreign currency amount	Exchange rate	RMB (Converted)
USD	58,119,818.37	6.2855	365,312,118.37	57,260,121.95	6.3009	360,790,302.39
HKD	912,792.71	0.81085	740,137.97	1,237,823.63	0.8107	1,003,503.62
EURO	342,998.04	8.3176	2,852,920.50	—	—	—
IDR	11,776,465,774.85	0.000648	7,631,149.82	5,709,359,744.36	0.0006963	3,975,427.19

## 5. Other accounts receivable

(1) Other accounts receivable listed according to category

Category	Closing amount			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other accounts receivable with significant individual amount and make independent provision for bad debt	—	—	—	—
Other accounts receivable that make independent provision for bad debt by Age group	—	—	—	—
Age group	342,551,165.93	100.00	25,960,449.97	7.58
Subtotal of combination	<b>342,551,165.93</b>	<b>100.00</b>	<b>25,960,449.97</b>	<b>7.58</b>
Other accounts receivable not with significant individual amount but make independent provision for bad debt	—	—	—	—
Total	<b>342,551,165.93</b>	<b>100.00</b>	<b>25,960,449.97</b>	<b>7.58</b>

(To be continued)

Category	Opening amount			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other accounts receivable with significant individual amount and make independent provision for bad debt	—	—	—	—

Other accounts receivable that make independent provision for bad debt by Age group	—	—	—	—
Age group	153,482,074.33	100.00	19,148,789.63	12.48
Subtotal of combination	<b>153,482,074.33</b>	<b>100.00</b>	<b>19,148,789.63</b>	<b>12.48</b>
Other accounts receivable not with significant individual amount but make independent provision for bad debt	—	—	—	—
Total	<b>153,482,074.33</b>	<b>100.00</b>	<b>19,148,789.63</b>	<b>12.48</b>

(2) Other accounts receivable listed according to aging

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	295,547,016.92	86.28	123,211,427.81	80.28
1-2 years	16,893,232.69	4.93	12,589,330.20	8.20
2-3 years	12,488,300.00	3.64	1,134,020.35	0.74
3-4 years	1,084,020.35	0.32	2,853,325.54	1.86
4-5 years	2,844,625.54	0.83	1,209,844.76	0.79
Over 5 years	13,693,970.43	4.00	12,484,125.67	8.13
Total	<b>342,551,165.93</b>	<b>100.00</b>	<b>153,482,074.33</b>	<b>100.00</b>

(3) Particulars about withdrawal of bad debt provision

Among the group, other receivables that make provision for bad debt on the basis of age analysis

Aging	Closing amount			Opening amount		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	295,547,016.92	86.28	6,959,834.96	123,211,427.81	80.28	3,776,808.23
1-2 years	16,893,232.69	4.93	844,661.63	12,589,330.20	8.20	629,466.51
2-3 years	12,488,300.00	3.64	2,497,660.00	1,134,020.35	0.74	226,804.07
3-4 years	1,084,020.35	0.32	542,010.18	2,853,325.54	1.86	1,426,662.77
4-5 years				1,209,844.76	0.79	604,922.38

	2,844,625.54	0.83	1,422,312.77		
Over 5 years	13,693,970.43	4.00	13,693,970.43	12,484,125.67	8.13
Total	<b>342,551,165.93</b>	<b>100.00</b>	<b>25,960,449.97</b>	<b>153,482,074.33</b>	<b>100.00</b>
					<b>19,148,789.63</b>

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

(5) The amount of the top five accounts receivable totals RMB 231,988,484.00, taking up 67.72% of the total account receivable.

(6) For accounts of related parties, see item 6 in Note VIII Accounts receivable and payable of related parties.

(7) List of original amount of foreign accounts receivable and its exchange rate:

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	RMB (Converted)	Foreign currency amount	Exchange rate	RMB (Converted)
USD	451,223.81	6.2855	2,836,167.26	445,917.84	6.3009	2,809,683.72
HKD	69,341.10	0.81085	56,225.23	102,112.53	0.8107	82,782.63
Euro	583.42	8.3176	4,852.65	583.42	8.1625	4,762.17

## 6. Advance payment

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

Aging	Closing amount			Opening amount		
	Amount	Proportion (%)	Bad debt provision	Amount	Proportion (%)	Bad debt provision
Within 1 year	178,055,695.88	93.95	332,180.62	400,972,496.68	69.07	18,474.80
1-2 years	4,280,912.46	2.26	14,107.89	173,395,085.97	29.87	21,449.36
2-3 years	1,048,087.80	0.55	30,385.36	843,927.10	0.15	808,132.52
Over 3 years	6,146,144.74	3.24	6,146,144.74	5,302,217.64	0.91	5,302,217.64
Total	<b>189,530,840.88</b>	<b>100.00</b>	<b>6,522,818.61</b>	<b>580,513,727.39</b>	<b>100.00</b>	<b>6,150,274.32</b>

(2) The amount of the top five advance payment totals RMB 31,444,132.46, taking up 16.59% of the total account receivable.

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

(4) List of original amount of foreign accounts receivable and its

exchange rate:

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	RMB (Converted)	Foreign currency amount	Exchange rate	RMB (Converted)
USD	2,316,506 .38	6.2855	14,560,400.85	557,197.17	6.3009	3,510,843.65
HKD	6,354,270 .86	0.81085	5,152,360.53	4,972,319.95	0.8107	4,031,059.78
Yen	21,400,000 .00	0.073049	1,563,248.60	21,400,000.00	0.0811	1,735,540.00
Euro	4,840.5 8	8.3176	40,262.01	—	—	—

## 7. Inventories

### (1) Categories of inventories

Item	Closing amount		
	Book balance	Impairment reserve	Book value
Raw materials	1,511,033,412.83	354,267,390.10	1,156,766,022.73
Semi-finished products	396,059,068.96	144,510,959.16	251,548,109.80
Stock	2,499,040,813.22	262,423,287.29	2,236,617,525.93
Goods in transit	448,318.12	—	448,318.12
Turnover materials	11,195,627.07	1,136,395.24	10,059,231.83
Development cost	403,899,840.84	—	403,899,840.84
<b>Total</b>	<b>4,821,677,081.04</b>	<b>762,338,031.79</b>	<b>4,059,339,049.25</b>

(To be continued)

Item	Opening amount		
	Book balance	Impairment reserve	Book value
Raw materials	1,188,713,292.93	211,532,469.83	977,180,823.10
Semi-finished products	338,390,661.80	133,952,527.00	204,438,134.80
Stock	1,948,240,756.79	362,163,605.00	1,586,077,151.79
Goods in transit	4,951,935.32	—	4,951,935.32
Turnover materials	7,437,439.99	661,253.80	6,776,186.19
Development cost	50,167,528.21	—	50,167,528.21

Total	<b>3,537,901,615.04</b>	<b>708,309,855.63</b>	<b>2,829,591,759.41</b>
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(2) Details of development cost

Name of project	Time of starting operation	Predicted time of completion	Predicted total investment	Opening amount	Closing amount
Shui Yue Zhou Estate	Y2011	Y2018	RMB 2 billion	50,167,528.21	403,899,840.84
Total				<b>50,167,528.21</b>	<b>403,899,840.84</b>

Note: this project is developed by stages and the amount of capitalized borrowing among the development costs at the end of this year is RMB 3,784,432.03.

(3) Changes in impairment provision of inventories

Item	Opening amount	Amount of withdrawal this year	Decrease this year		Closing amount
			Recovered amount	Written-off amount	
Raw materials	211,532,469.83	142,734,920.27	—	—	354,267,390.10
Semi-finished products	133,952,527.00	10,558,432.16	—	—	144,510,959.16
Stock	362,163,605.00	36,896,730.95	—	136,637,048.66	262,423,287.29
Turnover materials	661,253.80	475,141.44	—	—	1,136,395.24
<b>Total</b>	<b>708,309,855.63</b>	<b>190,665,224.82</b>	<b>—</b>	<b>136,637,048.66</b>	<b>762,338,031.79</b>

(4) Provision for impairment of inventories and reason for recovery

Item	Basis for withdrawing provision for impairment of inventories	Reason for recovering provision for impairment of inventories this year	Proportion of recovered amount this year in closing balance of inventories
Raw materials	Net realizable value is lower than cost	—	—
Semi-finished products	Net realizable value is lower than cost	—	—
Stock	Net realizable value is lower than cost	—	—

Turnover materials	Net realizable value is lower than cost	—	—
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## 8. Financial assets available for sales

Item	Closing fair value	Opening fair value
Common share Vanke Co., Ltd.	1,187,177.20	876,305.70
Trading shares of Harbin Qiulin Company subjected to trading moratorium	—	5,531,760.00
<b>Total</b>	<b>1,187,177.20</b>	<b>6,408,065.70</b>

## 9. Long-term equity investment

### (1) Categories of long-term equity investment

Item	Opening amount	Increase in this period	Decrease in this period	Closing amount
Investment on jointly funded enterprises	—	—	—	—
Investment on affiliated enterprises	251,397,589.65	213,747,152.73	10,811,634.02	454,333,108.36
Other equity investments	21,975,424.83	—	2,000,000.00	19,975,424.83
Less: provisions for depreciation of long-term equity investments	2,185,000.00	—	300,000.00	1,885,000.00
<b>Total</b>	<b>271,188,014.48</b>	<b>213,747,152.73</b>	<b>12,511,634.02</b>	<b>472,423,533.19</b>

### (2) Details of long-term equity investment

Invested entity	Calculation method	Investment cost	Opening amount	Increase/decrease	Closing amount
Chongqing Jingkang Plastic Products Co., Ltd	Equity method	3,750,000.00	823,395.44	-135,227.45	688,167.99
Shenzhen Refond Optoelectronics Co., Ltd	Equity method	27,606,942.51	93,800,959.50	8,877,799.43	102,678,758.93
Enray Tek Optoelectronic Co., Ltd	Equity method	148,036,152.86	137,649,716.63	-8,607,053.27	129,042,663.36
Shenzhen Konka Energy Technology Co., Ltd	Cost 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

Fehong 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 Julong Optoelectronics Co., Ltd.	Cost method	2,000,000.00	2,000,000.00	-2,000,000.00	—
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	1,153,000.00	1,153,000.00	—	1,153,000.00
Shenzhen Digital TV National Engineering Lab Co., Ltd.	Cost method	2,400,000.00	2,400,000.00	—	2,400,000.00
Shanghai Digital TV National Engineering R&D Center Co., Ltd.	Cost method	2,400,000.00	2,400,000.00	—	2,400,000.00
KONRAY INTERNATIONAL DEVELOPMENT LIMITID	Equity method	15,473,790.00	15,473,790.00	—	15,473,790.00
Shanghai Konka Green Science and Technology Co., Ltd.	Equity method	202,800,000.00	—	202,800,000.00	202,800,000.00
Total			<b>273,373,014.48</b>	<b>200,935,518.71</b>	<b>474,308,533.19</b>

(To be 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 allotted of the current year	Cash dividends of the current year
			Impairment provision	Cash dividends		
Chongqing Jingkang Plastic Products Co., Ltd.	31.25	31.25	—	—	—	—
Shenzhen Refond	19.34	19.34	—	—	—	2,069,353

Optoelectronics Co., Ltd.							.30
Enray Tek Optoelectronic (Shanghai) Co., Ltd.	36.00	36.00	—	—	—	—	—
Shenzhen Konka Energy Technology Co., Ltd.	30.00	30.00	—	—	—	—	—
Shenzhen Dekon Electronic Co., Ltd.	30.00	30.00	—	—	—	—	—
Fehong 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	—	485,000.00	—	—	—
IGRS Information Technology Engineering Center Co., Ltd.	9.62	9.62	—	—	—	—	—
Shenzhen CTU Hi-tech Ltd.	11.50	11.50	—	—	—	—	—
Shenzhen Digital TV National Engineering Lab Co., Ltd.	6.00	6.00	—	—	—	—	—
Shanghai Digital TV National Engineering R&D Center Co., Ltd.	4.26	4.26	—	—	—	—	—
KONRAY INTERNATIONAL DEVELOPMENT LIMITID	38.00	38.00	—	—	—	—	—
Shanghai Konka Green Science and Technology Co., Ltd.	39.00	39.00	—	—	—	—	—
Total	—	—	—	1,885,000.00	—	—	—

Note: Because the Company did not participate in the management and operation of Shenzhen Konka Energy Technology Co., Ltd and Shenzhen Dekon Electronic Co., Ltd and the above two companies has closed down, cost method was employed.

(3) Particulars about affiliated entities

Invested entity	Nature of enterprise	Registration place	Legal representative	Business nature	Registered capital	Proportion of shares held in	Percentage of voting rights in the invested

						the	entity (%)
						invested	
						entity	
						(%)	
Chongqing Jingkang Plastic Products Co., Ltd.	Limit ed compa ny	Chongqi ng	Wang Xiaoyo ng	Manufactur e and process of mode products	RMB12,000,000.0 0	31.25	31.25
Shenzhen Optoelectronics Co., Ltd.	Limit ed compa ny	Shenzhe n	Gong Weibin	Manufactur ing and selling LEDs	RMB107,000,000. 00	19.34	19.34
Enray Tek Optoelectronic (Shanghai) Co., Ltd.	Limit ed compa ny	Shangha i	Zhang Rujing	Manufactur ing and selling LEDs	USD50,000,000.0 0	36.00	36.00
Shenzhen Energy Technology Co., Ltd.	Limit ed compa ny	Shenzhe n	Dong Yaping	New energy products for mobile equipment	RMB20,000,000.0 0	30.00	30.00
KONRAY INTERNATIO NAL DEVELOPMENT LIMITID	Limit ed compa ny	Hong Kong	Zhang Xiaohu i	Investment	HKD50,000,000.0 0	38.00	38.00
Shanghai Green Science Technology Ltd.	Konka Limit ed compa ny	Shangha i	Jiang Xiaoyi	Manufactur ing and selling LEDs	RMB520,000,000. 00	39.00	39.00

(To be continued)

Invested entity	Total amount of assets at the end of this year	Total amount of liabilities at the end of this year	Total amount of net assets at the end of this year	Total amount of operating revenue	Net profit	Asso ciat ed rela tion ship	Organiza tion code
Chongqing Jingkang Plastic Products Co., Ltd.	4,343,232.1 4	1,859,714.8 7	2,483,517.2 7	—	-432,727.84	Affi liat ed ente rpri se	62192113 6
Shenzhen	719,589,068	186,498,368	533,090,700	500,084,238	46,896,173.	Affi	71526660

Refond Optoelectronics Co., Ltd.	.60	.38	.22	.03	26	liat	3
Enray Tek Optoelectronic (Shanghai) Co., Ltd.	452,935,671.97	178,531,428.86	274,404,243.11	11,090,129.82	-23,908,481.31	liat ed ente rpri se	560133557
Shenzhen Konka Energy Technology Co., Ltd	13,771,194.93	1,643,585.59	12,127,609.34	—	-3,868.07	Unde r the same cont rol	715204357
KONRAY INTERNATIONAL DEVELOPMENT LIMITID	HKD5000 ten thousand	—	HKD5000 ten thousand	—	—	Affi liat ed ente rpri se	—
Shanghai Konka Green Science and Technology Co., Ltd.	520,000,000.00	—	520,000,000.00	—	—	Affi liat ed ente rpri se	05933302-9

(4) Details of provision for impairment of long-term equity investment

Item	Opening amount	Increase this year	Decrease this year	Closing amount
Shenzhen Julong Optoelectronics Co., Ltd	300,000.00	—	300,000.00	—
Shenzhen Make-plan Investment Development Co., Ltd.	485,000.00	—	—	485,000.00
Feihong Electronics Co., Ltd.	1,300,000.00	—	—	1,300,000.00
Shenzhen Association of Enterprises with Foreign Investment	100,000.00	—	—	100,000.00
<b>Total</b>	<b>2,185,000.00</b>	<b>—</b>	<b>300,000.00</b>	<b>1,885,000.00</b>

Note: Shenzhen Julong Optoelectronics Co., Ltd. has been cancelled this period, the long-term equity investment of the Company to the above company has been written off.

## 10. Investment property

Item	Opening amount	Increase this year	Decrease this year	Closing amount
I. Total of original value	<b>241,105,035.18</b>	—	—	<b>241,105,035.18</b>
House and buildings	241,105,035.18	—	—	241,105,035.18
II. Total of accumulated depreciation and amortization	—	<b>5,424,863.29</b>	—	<b>5,424,863.29</b>
House and buildings	—	5,424,863.29	—	5,424,863.29
III. Total of provision for impairment	—	—	—	—
House and buildings	—	—	—	—
IV. Total of book value	<b>241,105,035.18</b>	—	—	<b>235,680,171.89</b>
House and buildings	241,105,035.18	—	—	235,680,171.89

Note: Amount of depreciation and amortization this year reached RMB 5,424,863.29.

## 11. Fixed asset

### (1) Particulars on fixed asset

Item	Opening amount	Increase this year	Decrease this year	Closing amount
I. Total original book value	<b>3,157,960,574.87</b>	<b>271,551,669.33</b>	<b>126,182,568.46</b>	<b>3,303,329,675.74</b>
Including: housings and buildings	1,500,715,242.16	165,014,597.35	15,549,658.99	1,650,180,180.52
Mechanical equipment	1,100,018,921.03	62,261,696.99	69,595,538.51	1,092,685,079.51
Electronic equipment	277,221,524.60	10,425,803.37	9,295,319.32	278,352,008.65
Vehicles	79,868,218.22	7,246,024.60	6,821,831.93	80,292,410.89
Other equipment	200,136,668.86	26,603,547.02	24,920,219.71	201,819,996.17
II. Total accumulated depreciation	<b>1,353,108,219.57</b>	<b>135,645,900.78</b>	<b>97,109,758.25</b>	<b>1,391,644,362.10</b>
Including: housings and buildings	314,153,561.00	39,971,630.16	4,617,235.70	

buildings	9			349,507,955.5	5
Mechanical equipment	628,049,372.0	8	62402190.27	57703349.41	632,748,212.9
Electronic equipment	221,449,586.6	9	9,987,972.06	8,628,113.81	222,809,444.9
Vehicles	50,788,109.76		7,621,132.55	5,311,253.87	53,097,988.44
Other equipment	138,667,589.9	5	15,662,975.74	20,849,805.46	133,480,760.2
III. Total net book value	<b>1,804,852,355.30</b>				<b>1,911,685,313.64</b>
Including: housings and buildings	1,186,561,681.07				1,300,672,224.97
Mechanical equipment	471,969,548.9	5			459,936,866.57
Electronic equipment	55,771,937.91				55,542,563.71
Vehicles	29,080,108.46				27,194,422.45
Other equipment	61,469,078.91				68,339,235.94
IV. Total provisions for depreciation	<b>25,592,531.65</b>		—	<b>1,743,489.03</b>	<b>23,849,042.62</b>
Including: housings and buildings	1,412,531.97		—	—	1,412,531.97
Mechanical equipment	18,996,960.75		—	1,629,315.96	17,367,644.79
Electronic equipment	2,414,407.59		—	33,945.67	2,380,461.92
Vehicles	1,068,048.33		—	79,187.40	988,860.93
Other equipment	1,700,583.01		—	1,040.00	1,699,543.01

V. Total book value	1, 779, 259, 823 . 65	1, 887, 836, 271 . 02
Including: housings and buildings	1, 185, 149, 149 . 10	1, 299, 259, 693 . 00
Mechanical equipment	452, 972, 588. 2 0	442, 569, 221. 7 8
Electronic equipment	53, 357, 530. 32	53, 162, 101. 79
Vehicles	28, 012, 060. 13	26, 205, 561. 52
Other equipment	59, 768, 495. 90	66, 639, 692. 93

Note: Depreciation amount in 2011 was RMB 140, 217, 890. 79. Original value of fixed assets transferred from project in process in 2011 was RMB 142, 595, 856. 72.

(2) Particulars about fixed assets with restriction on ownership

The Company took housing and buildings with the book value reaching RMB 46, 520, 355. 17 and land use rights with the book value reaching RMB 5, 610, 764. 96 as the mortgage and achieved borrowing from the bank of RMB 55, 000, 000. 00 (for details see note VII, 19)

(3) Temporary idle fixed assets

Item	Book original value	Accumulated depreciation	Provision for impairment	Book value	Remark
House and buildings	34, 571, 929. 56	13, 250, 913. 87	164, 726. 07	21, 156, 289. 62	
Mechanical equipments	98, 170, 332. 26	79, 544, 040. 27	12, 838, 998. 45	5, 787, 293. 54	
Vehicles	6, 379, 536. 57	4, 547, 286. 32	1, 224, 381. 30	607, 868. 95	
Electronical equipments	25, 845, 169. 81	23, 097, 402. 66	893, 764. 87	1, 854, 002. 28	
Other equipments	10, 211, 200. 67	8, 536, 442. 43	359, 375. 12	1, 315, 383. 12	
Total	175, 178, 168. 87	128, 976, 085. 55	15, 481, 245. 81	30, 720, 837. 51	

(4) Fixed assets rent out by operational lease

Category of assets rent out by operational lease	Closing book value	Opening book value
Housing and buildings	93,788,150.40	56,156,217.37
<b>Total</b>	<b>93,788,150.40</b>	<b>56,156,217.37</b>

Note: This part of house and buildings was part for self usage and part for lease, the part of different usage wasn't be measured independently.

(5) Particulars about fixed assets whose certificates of title are not prepared

Item	Reason for the absence of certificate of title	Estimated time for winding up the certificate of title	Book value
Chongkang comprehensive building	The land property right hasn't transferred	Cannot be estimated	14,383,826.38
Yikang building Group headquarter	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	Cannot be estimated	62,840,211.34
Jingyuan office building	—	Cannot be estimated	14,076,475.52
Henan office building	Under progress	2013	5,675,016.52
Haikou office building	Under progress	2013	6,996,060.85
R&D mansion	Under progress	2013	210,173,554.43
Mudangjiang electric appliances etc.	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	Cannot be estimated	13,480,633.87
Office building of Changshu Konka Color TV etc.	The license for using state-owned land has not been obtained and the certificate of title to house property cannot be handled temporarily.	Cannot be estimated	1,826,104.32
Workshops and dormitory building of Kunshan Konka	Under progress	2013	58,873,334.47
Tongchuang Baidian Industrial Park	Under progress	2013	71,201,849.03

Total	459,527,066.73
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## 12. Construction in progress

### (1) Information about construction in progress

Item	Closing amount			Opening amount		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
1# supplemental plant project of Kunkang	—	—	—	33,552,765.74	—	33,552,765.74
Canteen and dormitory project of new industrial park	—	—	—	19,207,115.90	—	19,207,115.90
Plant and warehouse project of new industrial park	—	—	—	51,882,983.13	—	51,882,983.13
Supplemental project of new industrial park	—	—	—	904,869.20	—	904,869.20
Other small projects	17,427,622.05	—	17,427,622.05	13,357,274.95	—	13,357,274.95
Office building project	16,813,365.00	—	16,813,365.00	—	—	—
Hotel project	7,745,435.95	—	7,745,435.95	—	—	—
Gallery project	1,643,881.07	—	1,643,881.07	—	—	—
Project to be installed	7,052,589.78	—	7,052,589.78	—	—	—
<b>Total</b>	<b>50,682,893.85</b>	<b>—</b>	<b>50,682,893.85</b>	<b>118,905,008.92</b>	<b>—</b>	<b>118,905,008.92</b>

### (2) Change of significant construction in progress

Name of project	Budget	Opening amount	Increase of the current year	Amount of construction -in-progress	Other decrease	Closing amount
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				transferred to fixed assets in the current year		
1# supplemental plant project of Kunkang	4,690 ten thousand	33,552,765. 74	25,320,568. 73	58,873,334.4 7	—	—
Canteen and dormitory project of new industrial park	1,575 ten thousand	19,207,115. 90	—	19,207,115.9 0	—	—
Plant and warehouse project of new industrial park	5,916 ten thousand	51,882,983. 13	—	51,882,983.1 3	—	—
Supplemental project of new industrial park	1,342 ten thousand	904,869.20	—	904,869.20	—	—
Other small projects	4200 ten thousand	13,357,274. 95	15,937,901. 12	11,727,554.0 2	140,000.00	17,427,622.0 5
Office building project of Kunshan	2,900 ten thousand	—	16,813,365. 00	—	—	16,813,365.0 0
Hotel project of Kunshan	56,000 the thousand	—	7,745,435.9 5	—	—	7,745,435.95
Gallery project of Kunshan	2,300 ten thousand	—	1,643,881.0 7	—	—	1,643,881.07
Facilities to be installed	750 ten thousand	—	7,052,589.7 8	—	—	7,052,589.78
Total		118,905,008 .92	74,513,741. 65	142,595,856. 72	140,000.00	50,682,893.8 5

(3) Impairment provision of construction in process

Up to 31 Dec. 2012, there existed no book value of construction in process which exceeded the recoverable amount.

(4) Particulars about the progress of significant construction in process

Item	Progress	Remark
Office buildings project of Kunshan	57.98%	—
Hotel project of Kunshan	1.38%	—
Gallery project of Kunshan	7.15%	—

**13. Intangible assets**

(1) Details of intangible assets

Item	Opening amount	Increase of this year	Decrease of this year	Closing amount
<b>I. Total original book value</b>	<b>260,484,652.91</b>	<b>107,960,217.93</b>	—	<b>368,444,870.84</b>
Land use right	197,983,480.81	105,505,364.97	—	303,488,845.78
Trademark registration costs in foreign countries	3,007,341.61	—	—	3,007,341.61
Patents and proprietary technologies	41,519,762.51	555,411.36	—	42,075,173.87
Others	17,974,067.98	1,899,441.60	—	19,873,509.58
<b>II. Total accumulated damage</b>	<b>63,199,947.35</b>	<b>12,063,397.87</b>	—	<b>75,263,345.22</b>
Land use right	22,901,677.04	8,040,691.06	—	30,942,368.10
Trademark registration costs in foreign countries	2,736,982.56	270,359.05	—	3,007,341.61
Patents and proprietary technologies	29,930,759.18	1,840,118.43	—	31,770,877.61
Others	7,630,528.57	1,912,229.33	—	9,542,757.90
<b>III. Total provisions for depreciation</b>	<b>2,901,082.61</b>	—	—	<b>2,901,082.61</b>
Land use right	—	—	—	—
Trademark registration costs in foreign countries	—	—	—	—
Patents and proprietary technologies	2,901,082.61	—	—	2,901,082.61

Others	—	—	—	—
IV. Total book value	<b>194,383,622.95</b>			<b>290,280,443.01</b>
Land use right	175,081,803.77			272,546,477.68
Trademark registration costs in foreign countries	270,359.05			—
Patents and proprietary technologies	8,687,920.72			7,403,213.65
Others	10,343,539.41			10,330,751.68

Note: ①The amortized amount of the current year is RMB 12,063,397.87.

②A land use right with book value of RMB 5,610,764.96 and housing and buildings with book value of RMB 46,520,355.17 were mortgaged for bank loan of RMB 55,000,000.00 by the Group (see to No. 19 of Note VII).

#### 14. Goodwill

##### (1) Particulars about goodwill

Name of invested entity or items forming goodwill	Opening amount	Increase of the period	Decrease of the period	Closing amount	Impairment provision at the end of the period
Purchase of shares of subsidiary companies	3,943,671.53	—	—	3,943,671.53	—
<b>Total</b>	<b>3,943,671.53</b>	<b>—</b>	<b>—</b>	<b>3,943,671.53</b>	<b>—</b>

(2) For details about method to test goodwill impairment and provision for impairment, please refer to No. 17 in Note IV.

(3) By 31 Dec. 2011, the book value of the goodwill of the Company is not higher than the recoverable amount.

#### 15. Long-term expenses to be apportioned

Item	Opening amount	Increase of the current year	Amortization of the current year	Other decrease	Closing amount	Reason for other decrease
Decoration expenses	4,743,005.83	376,043.00	2,571,590.93	—	2,547,457.90	—
Development platform expenses	621,045.32	—	621,045.32	—	—	—
Other	4,788,152.51	2,702,870.29	3,777,194.25	—	3,713,828.55	—

Total	10,152,203.66	3,078,913.29	6,969,830.50	—	6,261,286.45	—
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### 16. Deferred income tax assets/Deferred income tax liabilities

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

#### ① Recognized deferred income tax assets

Item	Closing amount		Opening amount	
	Deferred income tax assets	Deductible temporary differences and deductible losses	Deferred income tax assets	Deductible temporary differences and deductible losses
Provision for impairment	205,571,058.00	964,464,486.76	193,208,892.50	881,429,512.43
Change of the fair value of the financial assets that are recorded into the capital reserves and available for sale	281,142.72	1,124,570.87	—	—
Compensated for unrealized internal profit	11,190,679.88	46,992,272.89	10,361,442.01	41,445,768.02
Warranty expenses	15,908,757.86	63,635,031.42	22,817,166.23	103,870,663.47
Other non-current liabilities-deferred income	25,525,174.64	117,882,202.55	27,917,410.00	112,967,332.01
Estimation by transactional financial instruments and derivative financial instruments	—	—	5,491,238.99	22,101,173.97
Deductible losses and others	52,426,863.46	240,212,290.74	67,501,450.49	292,221,156.76
<b>Total</b>	<b>310,903,676.56</b>	<b>1,434,310,855.23</b>	<b>327,297,600.22</b>	<b>1,454,035,606.66</b>

#### ② Recognized deferred income tax liabilities

Item	Closing amount		Opening amount	
	Deferred income tax assets	Taxable temporary differences	Deferred income tax assets	Taxable extemporary differences

Appraised increase of fixed assets	563,067.21	2,252,268.84	563,067.21	2,252,268.84
Fair value change in transactional financial assets	—	—	807,501.87	3,230,007.47
<b>Total</b>	<b>563,067.21</b>	<b>2,252,268.84</b>	<b>1,370,569.08</b>	<b>5,482,276.31</b>

(2) Particulars of unrecognized deferred income tax

Item	Closing amount	Opening amount
Deductible temporary differences	29,015,090.67	29,709,016.49
Deductible losses	63,665,559.14	21,172,160.47
<b>Total</b>	<b>92,680,649.81</b>	<b>50,881,176.96</b>

17. Particulars about impairment provision of assets

Item	Opening amount	Allotment of the current year	Decrease in current year		Closing amount
			Recovered amount	Written-off amount	
I. Bad debt provision	266,421,416.28	32,750,173.32	—	942,841.23	298,228,748.37
II. Inventory falling price reserves	708,309,855.63	190,665,224.82	—	136,637,048.66	762,338,031.79
III. Provisions for depreciation of long-term equity investments	2,185,000.00	—	—	300,000.00	1,885,000.00
IV. Provision for impairment of investment property	—	—	—	—	—
V. Provision for impairment of fixed assets	25,592,531.65	—	—	1,743,489.03	23,849,042.62
VI. Impairment provision of engineering materials	—	—	—	—	—
VII. Impairment provision of construction in progress	—	—	—	—	—
VIII. Impairment provision of intangible assets	2,901,082.61	—	—	—	2,901,082.61
IX. Impairment provision of goodwill	—	—	—	—	—
X. Others	—	—	—	—	—

Total	1,005,409,886.17	223,415,398.14	—	139,623,378.92	1,089,201,905.39
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### 18. Assets with restricted proprietary rights or use rights

Item	Closing amount	Reason for restriction
Subtotal of assets for guarantee:	52,131,120.13	—
Fixed assets	46,520,355.17	Applied for mortgaged loan
Intangible assets	5,610,764.96	Applied for mortgaged loan
Subtotal of assets with restricted proprietary rights of use rights caused by other reasons:	3,017,961,454.93	—
Other monetary capital	904,903,341.74	Applied for pledge loan and guarantee money
Notes receivable	2,113,058,113.19	Applied for comprehensive credit and pledge loan
Total	3,070,092,575.06	

### 19. Short-term borrowings

#### (1) Category

Item	Closing amount	Opening amount
Pledged borrowings	2,641,579,639.42	4,575,805,685.57
Mortgaged borrowings	55,000,000.00	58,000,000.00
Credit borrowings	2,659,771,847.06	1,813,276,090.19
Guarantee borrowings	—	35,000,000.00
Entrusted borrowings	100,000,000.00	—
Other borrowings	—	353,183,459.80
Total	5,456,351,486.48	6,835,265,235.56

Note: (1) For details about category and amount of mortgaged assets with mortgaged loan see No. 11 of Note VII, No. 13 of Note VII and No. 18 of Note VII.

(2) Mortgaged borrowings are USD loans obtained with the pledge of bank deposit and notes accountable to develop overseas payment for others. For details about pledged renminbi deposits, see No. 1 of Note VII and about notes accountable see No. 2 of Note VII.

### 20. Transactional financial liabilities

Item	Closing fair value	Beginning fair value
Derivative financial liabilities (NDF)	—	22,101,173.97
Total	—	22,101,173.97

### 21. Notes payable

Category	Closing amount	Opening amount
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Bank acceptance bill	846,746,137.62	789,094,173.72
Commercial acceptance bill	—	10,000,000.00
<b>Total</b>	<b>846,746,137.62</b>	<b>799,094,173.72</b>

Note: The amount due in the next accounting period is RMB 846,746,137.62.

## 22. Accounts payable

### (1) Particulars about accounts payable

Item	Closing amount	Opening amount
Within one year	2,686,331,707.29	2,457,600,655.13
One to two years	7,156,630.71	39,130,063.07
Two to three years	14,513,984.42	11,375,842.98
Three years or longer	27,991,465.10	22,245,625.24
<b>Total</b>	<b>2,735,993,787.52</b>	<b>2,530,352,186.42</b>

(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) Particulars about accounts payable to related parties

For details see No.6 of Note VIII. Accounts receivable and payable of related parties

(4) Explanation about accounts payable with a large amount and aging of over 1 year

Item	Amount	Reason for outstanding debts	Whether returning after the reporting period or not
Installation project	27,118,515.67	Unsettled	No
Outer walls project	6,924,545.63	Unsettled	No
Supervision and management expenses of projects	3,040,000.00	Unsettled	No
<b>Total</b>	<b>37,083,061.30</b>		

(5) List of original amount of advanced foreign accounts receivable and its exchange rate:

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	Renminbi (converted)	Foreign currency amount	Exchange rate	Renminbi (converted)
USD	143,914,124.30	6.2855	904,572,228.29	275,405,608.07	6.3009	1,735,303,195.89
HKD				68,678,658.01	0.8107	55,677,788.05

124,259,362.57 0.81085 100,755,704.14

### 23. Advance receipts

#### (1) List of advance receipts

Item	Closing amount	Opening amount
Within one year	418,357,441.25	327,188,528.90
One to two years	11,504,576.23	4,344,117.41
Two to three years	2,647,309.25	2,169,291.93
Three years or longer	9,327,140.36	15,842,324.69
<b>Total</b>	<b>441,836,467.09</b>	<b>349,544,262.93</b>

(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) Advance receipts with account age of more than one year are unsettled sales expense.

(4) List of original amount of advanced foreign currency and exchange rate:

Item	Closing amount			Opening amount		
	Foreign currency amount	Exchange rate	Renminbi (converted)	Foreign currency amount	Exchange rate	Renminbi (converted)
USD	17,073,688.94	6.2855	107,316,671.83	15,928,502.77	6.3009	100,363,903.10
HKD	408,434.56	0.81085	331,179.16	2,577,858.14	0.8107	2,089,869.59
Euro	17,678.62	8.3176	147,043.69	140,000.00	8.1625	1,142,750.00
CAD	—	—	—	8,924.99	6.1777	55,135.91

### 24. Remuneration payable

Item	Opening amount	Increase of this year	Decrease of this year	Closing amount
I. Payroll, bonus, allowance and subsidies	250,089,732.72	1,239,846,049.55	1,203,872,356.16	286,063,426.11
II. Welfare expenses	2,886,302.41	71,546,292.03	72,336,909.92	2,095,684.52
III. Social insurance expenses	5,031,936.87	166,110,611.76	165,649,381.57	5,493,167.06
Including: 1. Medical insurance	1,196,239.84	39,779,919.25	39,529,707.22	1,446,451.87
2. Basic endowment	3,473,581.15	113,105,624.62	113,047,192.54	3,532,013.23

insurance				
3. Pension expense	—	107,656.87	107,656.87	—
4. Unemployment insurance	124,186.24	5,915,242.98	5,814,094.33	225,334.89
5. Maternity insurance	112,348.84	2,697,778.90	2,686,052.62	124,075.12
6. Insurance against injuries at work	125,580.80	4,504,389.14	4,464,677.99	165,291.95
IV. Public reserve for housing construction	1,120,775.76	30,731,363.57	30,379,194.11	1,472,945.22
V. Labor union expenditure and expenses for education of employees	4,666,052.65	16,665,794.59	13,657,418.58	7,674,428.66
VI. Welfare for dismissing	651,324.26	1,845,406.18	2,332,819.91	163,910.53
VII. Other	2,907,720.46	29,546,163.94	30,414,029.77	2,039,854.63
<b>Total</b>	<b>267,353,845.13</b>	<b>1,556,291,681.62</b>	<b>1,518,642,110.02</b>	<b>305,003,416.73</b>

Note: ① Among the remuneration payable, there was no unpaid remuneration payable.

### 25. Tax payable

Item	Closing amount	Opening amount
VAT	-274,015,057.88	-32,374,859.22
Business tax	1,151,251.13	636,010.23
Corporate income tax	-6,187,617.27	29,358,042.52
Urban maintenance and construction tax	4,239,904.85	5,634,688.93
Educational Surtax	2,365,376.38	4,107,450.46
Personal income tax	2,876,020.13	1,208,924.06
Flood control fund, fund for embankment, fund for water conservancy and fund for river management	2,481,551.51	4,653,729.50
Fund for disposing abandoned appliances and electronic products	30,671,882.00	—
Others	5,328,852.55	19,950,921.60
<b>Total</b>	<b>-231,087,836.60</b>	<b>33,174,908.08</b>

Note: Income tax belongs to subordinated subsidiaries of the Company was taxed by locating area, and the Company made final accounts and clearance at the end of the year. For details please refer to No. 1 of Note. V.

## 26. Interest payable

Item	Closing amount	Opening amount
Interest of long-term borrowing with installment interests and principal paid at maturity	1,764,888.89	811,250.00
Interest payable of short-term borrowings	25,886,463.78	25,635,710.89
<b>Total</b>	<b>27,651,352.67</b>	<b>26,446,960.89</b>

## 27. Other payables

### (1) Particulars about other payables

Item	Closing amount	Opening amount
Within 1 year	1,181,207,444.47	770,012,290.81
1-2 years	120,523,681.87	181,502,423.11
2-3 years	29,156,204.12	42,661,459.51
Over 3 years	33,868,930.00	34,963,008.63
<b>Total</b>	<b>1,364,756,260.46</b>	<b>1,029,139,182.06</b>

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

### (3) Particulars about accounts payment to related parties

For details see No. 6 of Note VIII. Accounts receivable and payable of related parties

(4) Explanation about other accounts payable with a large amount and aging of over 1 year

Name of creditor	Amount	Reason for unsettlement	Whether returning after the reporting date or not
Shanghai Shensy Logistics Co., Ltd.	4,500,000.00	Guarantee money	No
Shanghai Yude International Logistics Co., Ltd.	2,650,000.00	Guarantee money	No
Shanghai Yongxin Color Picture Tube Company	2,075,485.15	Guarantee money	No
Chuzhou Jinshida Motor Transport Company	2,000,000.00	Guarantee money	No
Chuzhou Henglida Logistics Co., Ltd.	2,000,000.00	Guarantee money	No
Chuzhou Nanqiao Jingwei Motor Transport Co., Ltd.	2,000,000.00	Guarantee money	No
Xianyang Weiye Logistics Co., Ltd.	2,000,000.00	Guarantee money	No

Total	17,225,485.15	
(5) Explanation about other accounts payable with large amount		
Name of creditor	Closing amount	Nature or content
Zhenhua Group (Kunshan) Construction Engineering Co., Ltd.	10,040,000.00	Guarantee money
Gome Electronic Appliances Co., Ltd.	5,709,250.00	Subsidy for energy saving
Shanghai Shensy Logistics Co., Ltd.	4,500,000.00	Guarantee money
Shanghai Yude International Logistics Co., Ltd.	2,650,000.00	Guarantee money
Total	22,899,250.00	

## 28. Estimated liabilities

Item	Opening amount	Increase of this year	Decrease of this year	Closing amount
Reorganization or dismissal responsibility	20,163,356.00	—	17,651,541.46	2,511,814.54
Total	20,163,356.00	—	17,651,541.46	2,511,814.54

## 29. Non-current liabilities due within one year

### (1) Particulars about non-current liabilities due within one year

Item	Closing amount	Opening amount
Long-term borrowing due within one year (Note VII.30)	810,000,000.00	—
Total	810,000,000.00	—

### (2) Long-term borrowing due within one year

#### ① Particulars about long-term borrowing due within one year

Item	Closing amount	Opening amount
Credit borrowings	10,000,000.00	—
Entrust loans	800,000,000.00	—
Total	810,000,000.00	—

#### ③ Particulars about the top five long-term borrowing due within one year

Creditor	Beginning date of borrowing	Ending date of borrowing	Rate (%)	Currency	Closing amount		Opening amount	
					Foreign currency amount	RMB amount	Foreign currency amount	RMB amount
OCT Branch of CCB	2010.9.16	2013.8.1	3.70	RMB	—	100,000,000.00	—	—
OCT Branch of	2010.4.1	2013.7.3	5.42	RMB	—	100,000,000	—	—

CCB	5	1				.00		
OCT Branch of CCB	2010.12.31	2013.7.31	3.92	RMB	—	300,000,000.00	—	—
Jiangsu International Trust corporation Ltd.	2010.12.10	2013.12.10	0.30	RMB	—	10,000,000.00	—	—
Shenzhen Civic Center Branch of China CITIC Bank	2012.7.12	2013.7.31	4.96	RMB	—	300,000,000.00	—	—
<b>Total</b>						<b>810,000,000.00</b>		

### 30. Long-term borrowings

#### (1) Categories of long-term borrowings

##### ① Category

Item	Closing amount	Opening amount
Credit borrowings①	10,000,000.00	10,000,000.00
Entrust loans②	1,200,000,000.00	600,000,000.00
Less: long-term borrowing due within one year (Note VII. 29)	810,000,000.00	—
<b>Total</b>	<b>400,000,000.00</b>	<b>610,000,000.00</b>

##### ② Particulars about the top five long-term borrowing due within one year

Creditor	Beginning date of borrowing	Ending date of borrowing	Rate (%)	Currency	Closing amount		Opening amount	
					Foreign currency amount	RMB amount	Foreign currency amount	RMB amount
Shenzhen Civic Center Branch of China CITIC Bank	2012.1.9	2015.6.1	5.51	RMB	—	200,000,000.00	—	—
OCT Branch of CCB	2011.3.17	2016.3.4	5.67	RMB	—	100,000,000.00	—	100,000,000.00
OCT Branch of CCB	2012.1.9	2016.12.12	5.28	RMB	—	100,000,000.00	—	—
<b>Total</b>						<b>400,000,000.00</b>		<b>100,000,000.00</b>

### 31. Long-term payable accounts

#### (1) Long-term payable accounts listed by category

Item			Closing amount	Opening amount
Chuzhou Tongchuang Construction Investment Co., Ltd.			30,000,000.00	30,000,000.00
Total			<b>30,000,000.00</b>	<b>30,000,000.00</b>

(2) Particulars about the top five long-term payable accounts

Entity	Opening amount	Rate (%)	Accrued interest	Closing balance	Conditions for borrowing
Chuzhou Tongchuang Construction Investment Co., Ltd.	30,000,000.00	2.00	600,000.00	30,000,000.00	—
Total	<b>30,000,000.00</b>	<b>2.00</b>	<b>600,000.00</b>	<b>30,000,000.00</b>	—

**32. Other non-current liabilities**

Item	Content	Closing amount	Opening amount
Deferred income	Government subsidy	125,743,462.22	115,820,202.99
Total		<b>125,743,462.22</b>	<b>115,820,202.99</b>

Of which, details of deferred income is as follows:

Item	Closing amount	Opening amount
Government subsidy relevant to assets		
Subsidies for supporting equipment of Kunshan liquid crystal module project	24,570,000.00	28,080,000.00
Fund for flat panel display industry in year 2008	10,000,000.00	10,000,000.00
R&D and industrialization of large size liquid crystal display module	8,400,000.00	10,800,000.00
Key technology and industrialization of LED Backlight of flat TV set	5,000,000.00	5,000,000.00
Industrialization project of large size liquid crystal display module (LCM)	9,200,000.00	11,600,000.00
R&D and industrialization of integrated module of flat TV set	3,525,000.00	4,425,000.00
R&D and industrialization of integrated DTMB	6,149,999.96	7,790,000.00
Special fund for the development of strategic emerging industry ( high-end emerging electronic information)	5,400,000.00	—
R&D of mating core chip based on the terminal of AVS/DRA	3,750,000.00	—
R&D and industrialization of new-type smart television with man-machine interaction	3,750,000.00	—

Funds for scientific and technological innovation and special guidance of achievements transfer	3,000,000.00	—
R&D and industrialization of new-type terminal application service system of internet	3,000,000.00	—
Others	30,854,910.27	28,206,863.26
Government subsidy relevant to earnings		
Government subsidy on R&D of consumer appliances	—	7,465,468.75
Other	9,143,551.99	2,452,870.98
	<b>125,743,462.22</b>	<b>115,820,202.99</b>

### 33. Share capital

Item	Opening amount		Increase/decrease of the current year (+/-)					Closing amount	
	Amount	Proportion (%)	Newly issued shares	Share repurchase	Shares converted from public reserves	Other	Subtotal	Amount	proportion
I. Shares subject to trading moratorium									
1. Shares held by state	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned corporation	198,381,940.00	16.48	—	—	—	—	—	198,381,940.00	16.48
3. Shares held by domestic investors	6,600.00	—	—	—	—	-6,600.00	-6,600.00	—	—
Among which: shares held by domestic legal person	—	—	—	—	—	—	—	—	—
Shares held by domestic natural person	6,600.00	—	—	—	—	-6,600.00	-6,600.00	—	—

4. Shares held by foreign capital	—	—	—	—	—	—	—	—	—
Among which: shares held by foreign legal person	—	—	—	—	—	—	—	—	—
Shares held by foreign natural person	—	—	—	—	—	—	—	—	—
Total shares subject to trading moratorium	198,388,540.00	16.48						198,381,940.00	16.48
II. Shares not subject to trading moratorium									
1. RMB ordinary shares	599,908,360.00	49.83	—	—	—	6,600.00	6,600.00	599,914,960.00	49.83
2. Domestically listed foreign shares	405,675,804.00	33.69						405,675,804.00	33.69
3. Overseas listed foreign shares	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
Total shares not subject to trading moratorium	1,005,584,164.00	83.52	—	—	—	6,600.00	6,600.00	1,005,590,764.00	83.52
III. Total shares	1,203,972,704.00	100.00	—	—	—	—	—	1,203,972,704.00	100.00

### 34. Capital surplus

Item	Opening amount	Increase of the period	Decrease of the period	Closing amount
Capital premium	1,211,366,082.55	—	—	1,211,366,082.55
Other capital surpluses	64,320,179.67	233,153.62	3,499,087.38	61,054,245.91

Total	1, 275, 686, 262. 22	233, 153. 62	3, 499, 087. 38	1, 272, 420, 328. 4 6
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Note: increase of other capital surplus was due to changes in fair value of available-for-sale financial assets; decrease of this year was due to disposal of financial assets available for sale.

### 35. Surplus reserve

Item	Opening amount	Increase of this year	Decrease of this year	Closing amount
Statutory surplus public reserves	555, 245, 730. 23	17, 983, 211. 72	—	573, 228, 941. 9 5
Discretionary surplus public reserves	254, 062, 265. 57	—	—	254, 062, 265. 5 7
<b>Total</b>	<b>809, 307, 995. 80</b>	<b>17, 983, 211. 72</b>	<b>—</b>	<b>827, 291, 207. 5 2</b>

Note: In accordance with regulations of Company Law, Articles of Association, the Company withdraws surplus reserve at a rate of 10% of net profit. When the statutory surplus public reserves accumulated to over 50% of the registered capital of the Company, then the withdrawal can be ceased.

After the withdrawal of statutory surplus public reserves, the Group can withdraw discretionary surplus public reserves. With approval, discretionary surplus public reserves can be used to compensate prior year' s losses or increase share capital.

### 36. Undistributed profits

#### (1) Change of undistributed profits

Item	Amount of this year	Amount of last year	Withdrawal or distributed proportion
Undistributed profits at the end of the previous year before adjustment	709, 679, 408. 84	696, 746, 297. 76	
Total of undistributed profits at the beginning of the adjustment period (+/-)	—	—	
Undistributed profits at the beginning of the period after adjustment	709, 679, 408. 84	696, 746, 297. 76	
Add: Net income attributed to the parent company	45, 829, 234. 02	24, 972, 838. 12	
Making up losses with surplus public	—	—	

reserves			
Other transfer-ins	—		—
Less: Allotted statutory surplus public reserve	17,983,211.72		— 10%
Allotted discretionary surplus public reserves	—		—
Payable dividends for ordinary stocks	12,039,727.04	12,039,727.04	
Dividends of ordinary stock that are converted into capital shares	—		—
Undistributed profits at the end of the period	<b>725,485,704.10</b>	<b>709,679,408.84</b>	

(2) Explanation about profit distribution

According to resolutions made on the 26<sup>th</sup> Session of the 7<sup>th</sup> Board of Directors convened on 25 April 2012, the Company decided to distributed cash dividends of RMB 0.10 (taxed) to every ten shares for all shareholders based on total share capital of 1,203,972,704 shares of the Company shares as at the end of 2011, that is total of RMB 12,039,727.04 of dividends, the remaining profit will be carried forward and distributed in the following years.

(3) Particulars about subsidy withdrawing surplus reserves in the reporting period

Name of entity	Amount of withdrawn surplus reserves	Amount that attributable to the Company
Fittings Technology	25,790.66	25,790.66
Anhui Konka	3,833,030.68	2,989,763.93
Kunshan Konka	1,757,484.55	1,757,484.55
Dongguan Konka	2,078,616.13	2,078,616.13
Xutongda	571,964.95	264,876.97
Anhui Tongchuang	852,350.96	852,350.96
<b>Total</b>	<b>9,119,237.93</b>	<b>7,968,883.20</b>

### 37. Revenues and operating costs

(1) Revenues and operating costs

Item	Amount of the current year	Amount of last year
Revenues from main operations	18,189,759,356.68	16,074,752,627.63
Revenues from other operations	148,102,300.61	142,867,255.60
<b>Total revenues</b>	<b>18,337,861,657.29</b>	<b>16,217,619,883.23</b>
Costs of main operations	14,932,299,224.13	13,412,099,229.27
Costs of other operations	105,791,274.71	140,662,022.23

<b>Total costs</b>	<b>15,038,090,498.84</b>	<b>13,552,761,251.50</b>
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(2) Main operations (by industries)

Industry	Amount of the current year		Amount of the previous year	
	Revenues	Operating costs	Revenues	Operating costs
Electronic industry	18,189,759,356.68	14,932,299,224.13	16,074,752,627.63	13,412,099,229.27
<b>Subtotal</b>	<b>18,189,759,356.68</b>	<b>14,932,299,224.13</b>	<b>16,074,752,627.63</b>	<b>13,412,099,229.27</b>

(3) Main operations (by products)

Product	Amount of this year		Amount of last year	
	Revenues	Operating costs	Revenues	Operating costs
Color TV business	14,429,624,144.21	11,811,816,367.63	12,713,794,319.28	10,548,621,462.46
Mobile phone business	1,397,315,544.60	1,217,298,414.04	1,270,788,339.51	1,085,169,374.27
Consumer appliances business	1,280,831,893.05	1,031,814,437.98	1,291,790,935.54	1,033,014,718.40
Others	1,081,987,774.82	871,370,004.48	798,379,033.30	745,293,674.14
<b>Subtotal</b>	<b>18,189,759,356.68</b>	<b>14,932,299,224.13</b>	<b>16,074,752,627.63</b>	<b>13,412,099,229.27</b>

(4) Main operations (by regions)

Region	Amount of this year		Amount of last year	
	Revenues	Operating costs	Revenues	Operating costs
Domestic sales	14,383,077,390.26	11,374,679,033.33	12,402,705,254.88	10,183,670,752.58
Overseas sales	3,806,681,966.42	3,557,620,190.80	3,672,047,372.75	3,228,428,476.69
<b>Subtotal</b>	<b>18,189,759,356.68</b>	<b>14,932,299,224.13</b>	<b>16,074,752,627.63</b>	<b>13,412,099,229.27</b>

(5) Revenues from the top five customers

Period	Revenues from the top five customers	Proportion to current operating revenue (%)
2012	3,870,113,964.39	21.10
2011	3,096,414,861.85	19.09

38. Taxes and surtax

Item	Amount of the current year	Amount of the previous year
Business tax	3,455,784.48	1,622,371.17
Urban maintenance and construction tax	40,853,435.46	29,424,286.82
Educational Surtax	19,395,734.66	17,294,282.67
Local education surcharges	10,108,029.00	3,121,244.62
Others	482,121.45	886,747.22
<b>Total</b>	<b>74,295,105.05</b>	<b>52,348,932.50</b>

Note: For accounting standard for all taxes and surtax please refer to Note V. Tax.

### 39. Sales expenses

Item	Amount of the current year	Amount of the previous year
Payroll	499,652,744.18	482,962,448.56
Expenses for promotion activities	536,444,029.81	499,443,306.44
Expenses for logistics	329,532,873.01	289,748,342.76
Advertising expense	313,141,868.69	291,115,147.42
Maintenance charges	273,479,422.55	238,994,193.46
Travel charge	47,664,202.76	47,308,610.87
Social security charges	67,952,126.77	65,505,096.34
Rental charges	40,070,983.50	40,685,984.95
Entertainment expense	36,539,526.96	32,122,328.02
Employees welfare cost	20,657,570.36	18,598,276.39
Other	151,492,369.08	124,593,224.59
<b>Total</b>	<b>2,316,627,717.67</b>	<b>2,131,076,959.80</b>

### 40. Administrative expense

Item	Amount of the current year	Amount of the previous year
R & D expenses	207,195,763.12	169,709,157.82
Payroll	150,374,596.34	148,618,044.82
Depreciation expense	33,653,438.77	28,203,232.04
Taxes and fund	26,171,783.57	22,762,790.22
Entertainment expense	24,038,898.53	21,832,252.39
Consulting fees	21,963,034.13	9,400,648.48
Travel charge	18,703,798.34	18,292,626.01

Social security charges	19,392,800.92	17,933,599.83
Labor union expenditure	9,840,936.45	8,100,388.74
Water and electricity charges	9,086,755.51	7,941,879.18
Patent fee	3,827,390.45	6,589,624.05
Other	131,405,574.89	122,123,054.80
<b>Total</b>	<b>655,654,771.02</b>	<b>581,507,298.38</b>

#### **41. Financial expenses**

Item	Amount of the current year	Amount of the previous year
Interest expense	276,506,507.21	263,945,338.23
Less: Interest income	117,959,725.31	130,297,305.60
Less: Capitalization of interest amount	3,784,432.03	6,931,976.44
Gains or losses on exchange	15,837,639.05	-96,416,637.33
Less: Capitalization of gains or losses on interest amount	—	—
Other	8,916,290.40	18,385,695.15
<b>Total</b>	<b>179,516,279.32</b>	<b>48,685,114.01</b>

#### **42. Income from change of fair value**

Source of income from change of fair value	Amount of the current year	Amount of the previous year
Derivative financial instruments (NDF)	22,101,173.97	42,855,947.89
<b>Total</b>	<b>22,101,173.97</b>	<b>42,855,947.89</b>

#### **43. Investment income**

##### (1) Particulars about income items

Item	Amount of the current year	Amount of the previous year
Income from long-term equity investment measured by employing the equity method	2,204,872.01	-2,765,886.00
Investment income from disposing long-term equity investment	91,013.92	37,723,217.44
Investment income achieved during the period of holding assets available for sale	15,250.30	20,009.00
Investment income from disposing transactional financial assets	—	-390,953.92
Investment income from financial assets available for sale	5,110,011.59	—
<b>Total</b>	<b>7,421,147.82</b>	<b>34,586,386.52</b>

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

Invested entity	Amount of the current year	Amount of the previous year	Reason for change
Chongqing Jingkang Plastic Products Co., Ltd.	-135,227.45	-153,764.90	—
Shenzhen Refond Optoelectronics Co., Ltd.	10,947,152.73	7,774,315.13	—
Enray Tek Optoelectronic (Shanghai) Co., Ltd.	-8,607,053.27	-10,386,436.23	—
<b>Total</b>	<b>2,204,872.01</b>	<b>-2,765,886.00</b>	<b>—</b>

#### 44. Assets impairment loss

Item	Amount of the current year	Amount of the previous year
Loss of bad debts	32,750,173.32	8,665,642.76
Loss of inventory falling price	190,665,224.82	138,355,245.70
Loss of impairment of assets available for sale	—	—
Loss of impairment of long-term equity investment	—	785,000.00
Loss of impairment of investment property	—	—
Loss of impairment of fixed assets	—	6,253,480.40
Loss of impairment of construction in progress	—	—
Loss of impairment of intangible assets	—	—
Loss of impairment of goodwill	—	—
Other	—	—
<b>Total</b>	<b>223,415,398.14</b>	<b>154,059,368.86</b>

#### 45. Non-operating income

Item	Amount of the current year	Amount of the previous year	Amount recorded into current non-recurring gains or losses
Total gains from disposal of non-current assets	11,471,684.42	53,746,879.45	11,471,684.42
Including: Gains from disposal of fixed assets	11,471,684.42	3,746,879.45	11,471,684.42
Gains from disposal of intangible assets	—	50,000,000.00	—
Income from compensation	119,434.94	350.43	119,434.94

Income from penalty	5,161,133.91	4,292,848.41	5,161,133.91
Government grants (For details see the next statement: Details about government grants )	201,097,411.20	171,665,743.61	79,452,692.05
Other	5,447,396.09	13,955,187.38	5,447,396.09
Total	<b>223,297,060.56</b>	<b>243,661,009.28</b>	<b>101,652,341.41</b>

Details about government grants:

Item	Amount of the current year	Amount of the previous year	Explanation
R&D subsidy	6,740,000.04	8,973,331.25	
Social security subsidy	3,323,700.00	—	
Refund on tax of embedded software	121,644,719.15	129,939,759.44	
Subsidy for industrialization of 3D	—	2,415,000.00	
Special funds for transformation and upgrade of provincial industry in 2010	—	1,000,000.00	
Subsidy for equipment projects and technology	3,510,000.00	2,510,000.00	
Mating funds of land	—	2,000,000.00	
Special funds for technology reform	—	3,020,000.00	
Supporting funds	21,700,000.00	—	
Reward for electromechanical products and high technology	3,164,017.00	—	
Establishment of development center of digital television receiver	1,466,666.63	—	
Industrialization of large-size liquid crystal display module (LCM)	2,400,000.00	—	
Other	37,148,308.38	21,807,652.92	
Total	<b>201,097,411.20</b>	<b>171,665,743.61</b>	

**46. Non-operating expenses**

Item	Amount of the current year	Amount of the previous year	Amount recorded into current non-recurred gains or losses
Total losses from disposal of non-current assets	5,295,347.37	2,908,599.88	5,295,347.37
Including: losses from disposal of fixed assets	5,295,347.37	2,908,599.88	5,295,347.37

losses from disposal of intangible assets	—	—	—
Penalty expenses	2,661,624.64	1,875,983.37	2,661,624.64
External donation expenses	679,915.00	672,837.06	679,915.00
Others	2,618,297.93	3,260,103.59	2,618,297.93
<b>Total</b>	<b>11,255,184.94</b>	<b>8,717,523.90</b>	<b>11,255,184.94</b>

#### 47. Income tax expense

Item	Amount of the current year	Amount of the previous year
Income tax of the current year calculated according to the tax law and relevant regulations	29,712,443.44	61,381,515.51
Adjustment of deferred income tax	16,675,066.36	-75,994,105.56
<b>Total</b>	<b>46,387,509.80</b>	<b>-14,612,590.05</b>

#### 47. Basic earnings per share and diluted earnings per share

For the Company, the basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. In accordance with the specific terms and clauses of the issuance contract, the number of newly issued ordinary shares shall be calculated and decided as of the date of receivable consideration (generally the date of issuance of stocks).

Based on net profit attributable to ordinary shareholders of the Company of the current year, numerators of diluted earnings per share shall be determined after adjusting the following factors: (1) Interests of diluted potential ordinary shares recognized as expenses at the current year; (2) Incomes or expenses arising from the transfer of diluted potential ordinary shares; and (3) Income tax influence related to the aforesaid adjustment.

Denominators of diluted earnings per share equal to the sum of the following two items: (1) The weighted average number of ordinary shares issued by the parent company in basic earning per share; and (2) The weighted average number of ordinary shares which are newly added due to the transfer of the assumed diluted potential ordinary shares to ordinary shares.

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

(1) Basic earnings per share and diluted earnings per share of each period

Profits of the reporting period	Amount of the current year		Amount of the previous year	
	Basic earning per share	Diluted earnings per share	Basic earning per share	Diluted earnings per share
Net profit attributable to shareholder of ordinary shares of the Company	0.0381	0.0381	0.0207	0.0207
Net profit attributable to shareholders of ordinary shares of the Company after deducting non-recurring gains and losses	-0.0449	-0.0449	-0.0926	-0.0926

(2) Process of calculating basic earnings per share and diluted earnings per share

In the reporting period, the Company did not hold diluted potential common shares, so diluted earnings per share equaled to basic earnings per share.

①When basic earnings per share are being calculated, the net profits attributable to shareholders of ordinary shares are:

Item	Amount of the current year	Amount of the previous year
Net profits attributable to shareholders of ordinary shares of the current year	45,829,234.02	24,972,838.12
Of which: net profits attributable to sustainable operation	45,829,234.02	24,972,838.12
Net profits attributable to terminated operation	—	—
Net profits attributable to shareholders of ordinary shares of the Company after deducting non-recurring profits and losses	-54,088,758.02	-111,552,447.73
Of which: net profits attributable to sustainable operation	-54,088,758.02	-111,552,447.73
Net profits attributable to terminated operation	—	—

②While basic earnings per share are being calculated, the denominator is the average weighted number of ordinary shares issued publicly, and the calculation is as the following:

Item	Amount of the current year	Amount of the previous year
Ordinary shares publicly issued at the beginning of 2012	1,203,972,704.00	1,203,972,704.00
Add: Weighted average number of ordinary	—	—

shares issued in 2012		
Less: Weighted average number of ordinary share repurchased in 2012	—	—
Weighted average number publicly issued at the end of 2012	1,203,972,704.00	1,203,972,704.00

#### 49. Other comprehensive income

Item	Amount of the current year	Amount of the previous year
① Gains (losses) from available-for-sale financial assets	310,871.50	4,577,467.34
Less: Income tax influence of available-for-sale financial assets	77,717.88	1,130,892.24
Net amount written into other gains and transferred into gain/loss in previous terms	3,499,087.38	—
Subtotal	<b>-3,265,933.76</b>	<b>3,446,575.10</b>
② Interests in the investee entities' other comprehensive income as per equity method	—	—
Less: Effects on income tax generating from the interests in the investee entities' other comprehensive income as per equity method	—	—
Net amount transferred into profit and loss in the current period that recognized into other comprehensive income in previous period	—	—
Subtotal	—	—
③ Profits/(losses) from cash flow hedging instrument	—	—
Less: Effects on income tax generating from cash flow hedging instrument	—	—
Net amount transferred into profit and loss in the current period that recognized into other comprehensive income in previous period	—	—
The adjustment value that is the converted initial recognition amount of arbitrage project	—	—
Subtotal	—	—
④ Difference from translating of foreign currency financial statements	3,344,001.81	-5,302,955.09
Less: Net amount of disposing overseas business and transferred to current gain/loss	—	—
Subtotal	<b>3,344,001.81</b>	<b>-5,302,955.09</b>

⑤ Others	—	—
Less: Effects on income tax generating from the others that included into other comprehensive income	—	—
Net amount transferred into profit and loss in the current period that recognized into other comprehensive income in prior period	—	—
Subtotal	—	—
Total	<b>78,068.05</b>	<b>-1,856,379.99</b>

## 50. Notes of Cash Flow Statement

### (1) Other cash received relevant to operating activities

Item	Amount of the current year	Amount of the previous year
Income from government subsidy	119,058,465.13	63,085,107.14
Current accounts	141,828,217.59	89,359,273.34
Bargain money and deposit	77,261,594.19	61,469,669.04
Interest income from bank deposits	78,295,527.16	23,304,083.49
Income from waste	5,177,920.38	8,765,378.95
Repayment of individual borrowing	22,111,111.57	5,763,038.60
Insurance claims	229,479.38	2,726,468.15
Temporary received repair fund	3,939,272.20	446,462.46
Income from fine and penalty	1,738,318.63	426,804.58
Other	27,038,499.84	13,768,528.59
<b>Total</b>	<b>476,678,406.07</b>	<b>269,114,814.34</b>

### (2) Other cash paid related to operating activities

Item	Amount of the current year	Amount of the previous year
Expense for cash payment	923,014,976.71	1,022,020,578.50
Payment for pledges, guarantee and repair	114,898,784.30	88,767,883.47
Employee reserve fund	37,372,004.22	36,667,628.83
Advanced payment	23,791,639.37	35,678,318.26
Expense for bank handling charges	26,152,169.57	28,900,924.04
Donation expense	700,105.00	677,510.00
Other expense	42,537,047.30	98,485,855.04
<b>Total</b>	<b>1,168,466,726.47</b>	<b>1,311,198,698.14</b>

### (3) Other cash receipts relating to investment activities

Item	Amount of the current year	Amount of the previous year
Products such like short-term deposit etc.	937,689,984.14	—
<b>Total</b>	<b>937,689,984.14</b>	<b>—</b>
<b>(4) Other cash paid relevant to investment activities</b>		
Item	Amount of the current year	Amount of the previous year
Products such like short-term deposit etc.	—	911,000,000.00
<b>Total</b>	<b>—</b>	<b>911,000,000.00</b>
<b>(5) Other cash receipts relating to financing activities</b>		
Item	Amount of the current year	Amount of the previous year
Receipt and return of pledged RMB fixed deposits upon maturity	5,623,390,510.74	5,424,616,906.21
<b>Total</b>	<b>5,623,390,510.74</b>	<b>5,424,616,906.21</b>
<b>(6) Other cash payments relating to financing activities</b>		
Item	Amount of the current year	Amount of the previous year
Deposit of guarantee money used for pledge	4,525,478,841.70	4,365,833,871.07
<b>Total</b>	<b>4,525,478,841.70</b>	<b>4,365,833,871.07</b>

## 51. Supplementary information about the cash flow statements

(1) Information about converting net profits into cash for operating activities

Item	Amount of the current period	Amount of the last period
<b>① Information about converting net profits into cash for operating activities:</b>		
<b>Net income</b>	<b>45,438,574.86</b>	<b>24,179,368.02</b>
Add: Asset impairment reserves	223,415,398.14	154,059,368.86
Depreciation of fixed assets, oil and gases and productive biological assets	141,070,764.07	128,372,283.15
Amortization of intangible assets	12,063,397.87	7,957,516.58
Amortization of long-term expenses to be apportioned	6,969,830.50	8,666,405.87
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” means gains)	-6,176,337.05	-838,279.57
Losses on scrapping of fixed assets (“-” means gains)	—	—
Losses on change of fair value (“-” means gains)	-22,101,173.97	-42,855,947.89
Financial expenses (“-” means gains)	90,694,675.34	18,826,796.74

Investment losses ( “-” means gains)	-7,421,147.82	-34,586,386.52
Decrease in deferred income tax assets ( “-” means increase)	16,393,923.66	-75,994,105.56
Increase of deferred income tax liabilities ( “-” means decrease)	-807,501.87	—
Decrease in inventories ( “-” means increase)	-1,283,775,465.99	894,044,370.68
Decrease in operating receivables ( “-” means increase)	-25,594,622.96	-1,498,267,365.33
Increase of operating payables ( “-” means decrease)	440,661,511.41	-954,050,190.73
Other	9,923,259.23	—
<b>Net cash flows from operating activities</b>	<b>-359,244,914.58</b>	<b>-1,370,486,165.70</b>

**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	824,043,169.37	646,451,050.70
Less: Cash at the beginning of the period	646,451,050.70	569,524,994.01
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
<b>Net increase in cash and cash equivalents</b>	<b>177,592,118.67</b>	<b>76,926,056.69</b>

(2) There was no particular about acquisition, disposal of subsidiaries or other operation units.

(3) Constitution of cash and cash equivalents

Item	Closing amount	Opening amount
<b>① Cash</b>	824,043,169.37	646,451,050.70
Of which: cash in hand	1,861,577.93	1,821,014.39
Bank deposits available for payment at any time	822,181,591.44	644,630,036.31
Other monetary capital available for payment at any time	—	—
<b>② Cash equivalents</b>		
Of which: Bond investment due with 3 months	—	—
<b>③ Balance of cash and cash equivalents at the</b>	<b>824,043,169.37</b>	<b>646,451,050.70</b>

period-end

Note: The Company measured bank insurance balance as other monetary capital and this type of security deposit shall not be used for payment before maturity, then the Company make relevant deduction in cash flow statement.

### VIII. Related parties and related transactions

#### 1. Parent company of the Company

Name of the parent company	Relationship	Nature of enterprise	Registration place	Legal representative	Business nature
OCT Enterprises Co.	Parent company of the Company	State-owned holdings	Shenzhen	Ren Kelei	Tourism, real estate and electronic industry

(To be continued)

Name of the parent company	Registered capital	Proportion of shares held by the parent company (%)	Proportion of voting rights held by the parent company (%)	The final controller of the Company	Organization code
OCT Enterprises Co.	6.1 billion	19.00	19.00	SASAC	19034617-5

2. For information about subsidiary companies of the Company, see No. 1. of Note.

#### VI. Subsidiaries

3. Information about joint ventures and affiliated enterprises of the Company

Please see No. 9 (3) of Note. VII. Long-term equity investment

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.	Under the same actual controller	75252879-9
Shanghai OCT Investment Development Co., Ltd.	Under the same actual controller	78589775-0
Chengdu Tianfu OCT Industrial Development Co., Ltd.	Under the same actual controller	78012858-1
Beijing Century OCT Industrial Co., Ltd.	Under the same actual controller	74005033-7
Taizhou OCT Co., Ltd.	Under the same actual controller	79457788-X
Shanghai Tianxiang OCT Investment Co., Ltd.	Under the same actual controller	74805502-8

Anhui Huali Packaging Co., Ltd.	Under the same actual controller	76276957X
Chongqing Machinery & Electronics Holding (Group) Co., Ltd	Shareholder of subsidiary	45041726-8
OCT Hotel Group	Under the same actual controller	71524077-X
Shenzhen OCT Water and Power Co., Ltd	Under the same actual controller	19217869-7
Shanghai Huali Packaging Co., Ltd	Under the same actual controller	60737971-5
Shenzhen Huayou Packaging Co., Ltd	Under the same actual controller	76198355-8
Shenzhen Huali Packing & Trading Co., Ltd	Under the same actual controller	61881654-6
Huali Packaging (Huizhou) Co., Ltd.	Under the same actual controller	68061271-2
Shenzhen Overseas Chinese Town Gas Station Co., Ltd.	Under the same actual controller	79932011-9
Dongyangyi Industry Co., Ltd	Under the same actual controller	70849783-3
Wuhan OCT Industry Development Co., Ltd.	Shareholder of subsidiary	—
Shenzhen Overseas Chinese Town Gas Station Co., Ltd.	Under the same actual controller	69531802-2

## 5. Transactions among related parties

### (1) Transactions of buying commodities and accepting labor services

Related party	Transaction content	Transaction pricing principle and decision procedure	Amount of this year		Amount of last year	
			Amount	Percentage in amount of the same transactions (%)	Amount	Percentage in amount of the same transactions (%)
Anhui Packaging Co., Ltd	Purchasing materials	Pricing through negotiation	31,538,527.60	0.99	33,100,594.53	1.09
Shanghai Packaging Co., Ltd	Purchasing	Pricing through	13,234,080.07	0.41	22,776,697.77	0.75

	packaging materials	negotiation				
	Purchasing	Pricing				
Huali Packaging (Huizhou) Co., Ltd.	packaging materials	through negotiation	6,812,722.32	0.21	21,713,501.97	0.72
	Procuring	Pricing				
Huizhou Huali Packaging Co., Ltd.	packaging materials	through negotiation	6,663,933.09	0.21	—	—
	Water and power	Pricing				
Shenzhen OCT Water and Power Co., Ltd	Water and power	through negotiation	9,920,708.72	0.31	10,426,289.17	0.34
	—	Pricing				
Dongyangyi Industry Co., Ltd	—	through negotiation	—	—	6,390,680.22	0.21

(2) Transactions of selling commodities and providing labor services

Related party	Transaction content	Transaction pricing principle and decision procedure	Amount of this year		Amount of last year	
			Amount	Percentage in amount of the same transactions (%)	Amount	Percentage in amount of the same transactions (%)
Shenzhen OCT East Co., Ltd	Selling LCDs	Pricing through negotiation	—	—	1,256,410.26	1.28
Chengdu Tianfu OCT Industrial Development Co., Ltd.	Selling LCDs	Pricing through negotiation	324,786.32	0.34	1,760,683.76	1.79
Taizhou OCT Co., Ltd	Selling LCDs	Pricing through negotiation	12,393.16	0.01	1,052,991.45	1.07

on						
OCT Urban Entertainment Investment Company of Shenzhen	Selling LCDs	Pricing through negotiation	2,051,282.05	2.17	6,410,256.41	6.51
on						
Shenzhen OCT East Interlaken Hotel	Selling LCDs	Pricing through negotiation	—	—	1,438,843.60	1.46
on						
Wuhan OCT Industry Development Co., Ltd.	Selling LCDs	Pricing through negotiation	6,926,377.78	7.32	2,564,102.56	2.60
on						
Shenzhen OCT Hotel Co., Ltd.	Selling LCDs	Pricing through negotiation	1,188,034.19	1.25	—	—
on						
Shenzhen OCT Middle School	Selling LCDs	Pricing through negotiation	982,905.98	1.04	—	—
on						
Shenzhen Venice Hotel	Selling LCDs	Pricing through negotiation	76,068.37	0.08	—	—
on						
Shenzhen OCT Real Estate Co., Ltd.	Selling LCDs	Pricing through negotiation	48,717.95	0.05	—	—

(3) Inter-bank lending of capital of related parties

Related party	Amount borrowed and loaned	Starting date to ending date	Rate	Explanation
Borrowed:				
OCT Enterprises	100,000,000.00	2010.09.16 to 2013.08.01	3.70%	Entrusted loans
OCT Enterprises	100,000,000.00	2010.04.15 to 2013.07.31	5.42%	Entrusted loans
OCT Enterprises	300,000,000.00	2011.11.16 to 2013.07.31	3.92%	Entrusted loans
OCT Enterprises	100,000,000.00	2011.03.17 to 2016.03.04	5.67%	Entrusted loans

OCT Enterprises	100,000,000 .00	2012.01.09 to 2016.12.12	5.28%	Entrusted loans
OCT Enterprises	300,000,000 .00	2012.07.12 to 2013.07.31	4.96%	Entrusted loans
OCT Enterprises	200,000,000 .00	2012.07.23 to 2015.06.01	5.51%	Entrusted loans
OCT Enterprises	100,000,000 .00	2012.01.09 to 2013.01.09	5.36%	Entrusted loans

(4) Remuneration of key managements

Scope of annual remuneration	Amount of this year	Amount of last year
Total amount	RMB 640.59 ten thousand	RMB 749.82 ten thousand
Including: (number of each range of amount)		
Over RMB 1 million	—	1 person
RMB 0.5 to 1 million	9 persons	9 persons
RMB 100 to 500 thousand	1 person	1 person
Less than RMB 100,000	—	—

6. Receivables and payables of related parties

(1) Receivables and accounts paid in advance of related parties

Item	Closing amount		Opening amount	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable:				
Shenzhen OCT East Co., Ltd	697,815.00	139,563.00	1,107,015.00	22,140.30
Beijing Century OCT Industrial Co., Ltd	512.40	256.2	1,123,600.00	3,962.00
Shenzhen OCT East Interlaken Hotel	83,000.00	4,150.00	—	—
Taizhou OCT Co., Ltd.	61,600.00	3,080.00	198,100.00	—
OCT Urban Entertainment Investment Company of Shenzhen	2,033,400.00	86,568.00	570,000.00	11,400.00
Shenzhen Splendid China Development Co., Ltd.	76,500.00	72,675.00	—	—
Wuhan OCT Industry Development Co., Ltd.	1,243,374.00	24,867.48	—	—
Shenzhen OCT Hotel Co., Ltd.	69,500.00	1,390.00	—	—
Total	4,265,701.40	332,549.68	2,998,715.00	59,974.30
Notes receivable:				

Shenzhen OCT East Co., Ltd.	115,200.00	—	—	—
<b>Total</b>	<b>115,200.00</b>	—	—	—
Other accounts receivable:				
Shenzhen OCT Gas Station Co., Ltd	80,000.00	40,000.00	80,000.00	40,000.00
Shenzhen OCT Real Estate Co., Ltd		1,066,916.68	1,216,264.86	1,010,677.89
Shenzhen OCT Property Management Co., Ltd	77,402.65	72,554.48	77,402.65	77,402.65
Shenzhen OCT Water and Power Co., Ltd	348,938.41	6,978.77	963,359.57	19,267.19
<b>Total</b>	<b>1,715,405.92</b>	<b>1,186,449.93</b>	<b>2,337,027.08</b>	<b>1,147,347.73</b>

(2) Accounts payable and receivable in advance of related parties

Item	Closing amount	Opening amount
Accounts payable:		
Chongqing Jingkang Plastic Products Co., Ltd.	202,407.08	202,407.08
Shenzhen Dekon Electronic Co., Ltd	356,545.32	356,545.32
Anhui Huali Packaging Co., Ltd	4,344,588.65	3,213,768.67
Shenzhen Huali Packing and Trading Co., Ltd	13,957.02	13,957.02
Huali Packaging (Huizhou)Co.,Ltd.	305,679.11	2,832,456.06
Shanghai Huali Packaging Co., Ltd	3,237,533.41	1,164,324.73
<b>Total</b>	<b>8,460,710.59</b>	<b>7,783,458.88</b>
Notes payable:		
Huali Packaging (Huizhou)Co.,Ltd.	—	4,445,774.47
Anhui Huali Packaging Co., Ltd.	4,006,453.07	5,231,145.28
Shanghai Huali Packaging Co., Ltd.	787,910.72	3,364,866.44
<b>Total</b>	<b>4,794,363.79</b>	<b>13,041,786.19</b>
Accounts received in advance:		
Wuhan OCT Industry Development Co., Ltd.	—	1,286,988.00
<b>Total</b>	—	<b>1,286,988.00</b>
Other payables:		
Anhui Huali Packaging Co., Ltd.	480,000.00	480,000.00
Shenzhen Huali Packing and Trading Co., Ltd.	—	50,000.00
<b>Total</b>	<b>480,000.00</b>	<b>530,000.00</b>

IX. Contingent events

1. Contingent liabilities and financial effects caused by pending litigation or arbitration

As of 19 Dec. 2007, the Design, Manufacture and Erection Contract for the Beijing Pangu Large-scale Outdoors Full-Color LED Display Screen (Turn-key Project) (hereinafter referred to as the “Contract Agreement”) was made by and between the subsidiary of Company-Shenzhen Konka Video & Communication Systems Engineering Co., Ltd., (hereinafter referred to as Shenzhen Konka Video & Communication) and Beijing Pangu Investment Co., Ltd. (hereinafter referred to as the “Pangu Company”), stipulating that the total project period shall be 120 days, the contracted budget price of total engineering payment shall be RMB 103,357,500. With six apartments, hotels and commercial houses of 3,707.70 m<sup>2</sup> at a total price of RMB 103,357,500 located at Beisihuan M. Road, Chaoyang District, Beijing 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 [Y581455], [Y581458], [Y581459], [Y581460], [Y581461] and [Y581462]. Meanwhile, both parties have entered into the Supplementary Agreement with provisions as follows: ① Beijing Pangu, prior to 30 Mar. 2009, shall pay the total construction cost amounting to RMB 103,357,500 in a lump sum to Shenzhen Konka Video & Communication. ② If the conditions of terminating contract can not be met, Shenzhen Konka Video & Communication has the right to terminate or keep fulfilling the Advance Contract. ③ Termination of the Advance Agreement: The agreement terminates automatically where Beijing Pangu deposits the payment of RMB 103,357,500 to the account of Shenzhen Konka Video & Communication prior to 30 Mar. 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 Jul. 2008 prior to the start of Beijing Olympic Games. In Mar. 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 when the financial report was approved to issue, Shenzhen Konka Video & Communication did not receive the account receivable from Beijing Pangu amounting to RMB 103,357,500 and the Advance Agreement is not terminated. Shenzhen Konka Video & Communication raised a civil litigation to Beijing Higher People’s Court on 13 Jul. 2009 and submitted an application for

attachment at the same day to seal up Apartment 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 RMB 150,609,219.00.

On 17 Aug. 2009, Beijing Higher People's Court issued GMCZ (2009) No. 4237 Civil Ruling Paper and sealed up the property amounting to RMB 150,609,219 owned by Beijing Pangu.

After hearing, Beijing Higher People's Court consigned Beijing Price Certification Center to conduct the price identification for involved project. The certification center provided price certification conclusion paper on January 17, 2011, identifying object cost of RMB 100,837,125.00 Yuan. After the court opening for evidence, the certification center provided identified conclusion after adjustment on March 21. The conclusion is identifying that the object cost is RMB 99,396,113.73 Yuan according to the amount on volume method; the object cost is identified with RMB 103,274,987.25 Yuan according to the calculation of actual cost. On April 2, 2011, Beijing Higher People's Court held a court again for cross-examination with adjusted identification conclusion.

Beijing Higher People's Court issued on 15 May 2012 the first instance verdict as follows:  
A. Beijing Pangu Investment Co., Ltd. shall, within 10 days after this verdict takes effect, hand over the six real estate units of the Seven Star Morgan Square Apartments located on the North 4th Ring Middle Road, Chaoyang District, Beijing under the Commercial House Pre-sale Contract of Beijing to Shenzhen Konka Video & Communication Systems Engineering Co., Ltd.. And Beijing Pangu Investment Co., Ltd. shall handle the real estate transfer formalities for Shenzhen Konka Video & Communication Systems Engineering Co., Ltd., with Beijing Pangu Investment Co., Ltd. bearing all the expenses and taxes arising from these formalities. B. Other claims of Shenzhen Konka Video & Communication Systems Engineering Co., Ltd. are overruled. C. Other claims of Beijing Pangu Investment Co., Ltd. are overruled.

The two parties refused to accept the judgment and ruling of the first instance and appealed to the supreme people's court. The supreme people's court organized collegial panel and accepted the case on November 6, 2012. (2012) MYZZ No. 85 paper of civil judgment was made on December 15, 2012 with the decision: rejecting the appeal and affirming the original judgment.

Until the release date of the financial report, Beijing Pangushi Investment Co., Ltd could not fulfill judicial decisions. The Company has applied for compulsory execution to the court.

2. Use of letters of credit

In 2012, the Company has issued letters of credit with a total amount of RMB 4.099 billion, made payment with a total amount of RMB 5.921 billion; of which the amount of RMB 3.582 billion was used for the payment of letters of credit in 2011 and the amount of RMB 2.339 billion was used for the payment of letters of credit in 2012. The remaining payment was converted into RMB 1.744 billion, of which including pending payment of RMB 1.744 billion to Konka Household Appliances International Trading. The pending payment excluded payment that was due but non-required by the counter party or cancelled ones.

3. Other contingent liabilities and the effects on financial affairs  
As of 31 Dec. 2012, the Group had no other significant contingent events that need to be disclosed.

#### X. Commitments

##### 1. Significant commitments

##### (1) Commitments on capital

Unit: RMB Yuan		
Item	Closing amount	Opening amount
Contract with large amount which has been signed but not identified in financial statements	92,727,629.28	—
<b>Total</b>	<b>92,727,629.28</b>	<b>—</b>

##### (2) Commitments on operation lease

Up to the date of Balance Sheet, details about irrevocable contract of operation lease that the Group signed with foreign companies are as follows:

Unit: RMB Yuan		
Item	Closing amount	Opening amount
The lowest payment of irrecoverable operation lease:		
The first year after the balance sheet date	13,306,102.37	11,393,130.16
The second year after the balance sheet date	6,966,504.38	7,095,057.14
The third year after the balance sheet date	3,899,233.83	3,658,387.96
The following years	3,079,767.80	—
<b>Total</b>	<b>27,251,608.38</b>	<b>22,146,575.26</b>

##### (3) Other commitment events

Up to 31 Dec. 2012, the Company didn't have other commitments that need to be disclosed.

#### XI. Events after balance sheet date

On 25 Apr. 2013, the 42<sup>nd</sup> Session of the 7<sup>th</sup> Board of Directors of the Company approved Preplan of Profit Distribution for Y2012: the Company decided to distributed cash dividends of RMB 0.10 (including tax) per ten shares for all shareholders based on total share capital of 1,203,972,704 shares of the Company shares as at the end of 2012. The above plan for profit distribution still waits for approval of the Group.

## XII. Other significant events

### 1. Assets and liabilities measured in fair value

Item	Opening amount	Gains and losses from changes in fair value	Accumulated change in fair value which was recorded in the gain/loss from the change of fair value	Closing amount
<b>Financial assets</b>				
Financial assets available for sale				
	6,408,065.70	-5,220,888.50	-35,926.29	1,187,177.20
<b>Subtotal of financial assets</b>				
	<b>6,408,065.70</b>	<b>-5,220,888.50</b>	<b>-35,926.29</b>	<b>1,187,177.20</b>
<b>Financial liabilities</b>				
Financial liabilities measured by fair value with the changes being recorded in current gains and losses				
	22,101,173.97	22,101,173.97	—	—
<b>Total of financial liabilities</b>				
	<b>22,101,173.97</b>	<b>22,101,173.97</b>	<b>—</b>	<b>—</b>

### 2. Financial assets and liabilities in the form of foreign currency

Item	Opening amount	Gain/loss from the change of fair value in the period	Accumulated change in fair value which was recorded in the gain/loss from the change of fair value	Withdrawal of impairment in the period	Closing amount
<b>Financial assets</b>					
Monetary funds					
	180,275,949.81	—	—	—	211,970,684.68
Loans and accounts receivable					
	368,666,451.72	—	—	17,698,427.96	379,433,571.80

Accounts paid in advance	9,277,443.43	—	—	—	21,316,271.99
Subtotal of financial assets	<b>558,219,844.96</b>	—	—	—	<b>612,720,528.47</b>
Financial liabilities					
Accounts payable	1,790,980,983.94	—	—	—	1,005,327,932.43
Derivative financial liabilities (NDF)	22,101,173.97	—	—	—	—
Subtotal of financial liabilities	<b>1,813,082,157.91</b>	—	—	—	<b>1,005,327,932.43</b>

3. On 14 Oct. 2011, the 2<sup>nd</sup> Administration Bureau directly under the Urban Planning, Land and Resources Commission of Shenzhen Municipality unveiled the Circular on Plant Renewal Unit Planning (Draft) of the Headquarters of Konka Group in Nanshan District, Shenzhen on Shenzhen Economic Daily, which meant that the Company's Plant Renewal Unit Planning (Draft) of the Headquarters passed the examination of the Urban Planning, Land and Resources Commission of Shenzhen Municipality through a technological conference. In 2012, Land and Resources Commission of Shenzhen Municipality issued Reply to the examination and approval of Plant Renewal Unit Planning (Draft) of the Headquarters of Konka Group in Nanshan District. Plant Renewal Unit Planning (Draft) of the Headquarters of Konka Group in Nanshan District has been examined and approved by the Architecture and Environmental Art Commission of City Planning Commission of Shenzhen.

4. On November 8, 2012, the 33<sup>rd</sup> Conference of 7<sup>th</sup> Director Board of the Company had passed Bill on Share Transfer of Chongqing Konka. The Company had planned standard of assessed value of 60% share net asset of Chongqing Konka (RMB 69,369,600) for public listing of share transfer. However, until the release date of financial report, the Company had not listed the holding shares of Chongqing Konka in assets and equity exchange.

5. On 26 Dec. 2011, the Proposal on Transferring Equity Interests of Mudanjiang Arctic Ocean Appliances Co., Ltd. was reviewed and approved at the 21st Session of the 7th Board of Directors. Based on the above resolution of the Board of Directors, the Company has transferred the 60% equity of Mudanjiang Arctic Ocean Electronic Appliances Co., Ltd. with the price of RMB 4,322.22 ten thousand in Shanghai United Assets and Equity Exchange on 29 Dec. 2011. During the listing period, the potential

transferee and the Company had not reach an agreement on share transfer. The Company decided to stop listing transfer of the 60% shares.

6. Changshu Konka, the subsidiary of the Company is clearing accounts.

7. On 28 June 2012, the Company, Shenzhen Konka Communication Technology Co., Ltd. and Shenzhen Branch of Bank of China entered into the Credit Line Agreement numbered “2012 ZZYEX Zi No. 000016”, stipulating that the loan, valid from 28 June 2012 to 28 June 2013, shall not exceed the comprehensive credit line of RMB 5,300,000,000 (Of which, line of bank acceptance bill as RMB 2.4 billion, line of trading financing as RMB 2.5 billion, line of L/C without guarantee as RMB 0.3 billion, line of foreign currency transaction as RMB 0.1 billion). According to the Agreement, the Company shall be the accredited party, and Shenzhen Konka Communication Technology Co., Ltd. shall be the authorized withdrawer. On 28 June 2012, the Ceiling Amount Mortgage Contracts numbered ZZYEX Zi [2012] No. 000016 and ZZYSZE Zi [2012] No. 0003 were made between the Company and Shenzhen Branch of Bank of China, the Company’s subsidiary Konka Communication and Shenzhen Branch of Bank of China respectively. As stipulated, the Company’s banker’s acceptance bill of not less than RMB 1.3 billion and its margin account with No. 82100364308401001, shall be pledged to secure all liabilities incurred under the Credit Line Agreement.

8. On 21 Dec. 2012, the Company and Shenzhen Branch of HSBC (China) (hereinafter refer to as “HSBC”) signed the Band Credit Contract with number of S.N:120703&120824, agreed that the total line of financing shall not exceed USD 25 million from 21 Dec. 2011 to 21 Dec. 2013 (Of which, Credit for import not exceed USD 25 million or line of circulating loan not exceed USD 10 million, credit for supply chain financing not exceed 25 million or treasury credit not exceed 5 million).

9. On 7 Nov. 2012, the Company and Shenzhen Branch of China Citic Bank signed the Comprehensive Credit Contract with a number of (2012)Shen-Yin-Shi-Zong-Zi No. 007, agreed that the total line of comprehensive credit shall not exceed USD 400 million from 7 Nov. 2012 to 7 Nov. 2013. The line of comprehensive credit can be used for one or multiple business of the following: loan, notes acceptance, bills discount, establishment of letter of credit, packing loan, inward documentary bill, outward documentary bill, establishment of letter of guarantee or other types of credit business approved by Shenzhen Branch of China Citic Bank.

10. On 27 Nov. 2012, the Company and Shenzhen Branch of China Construction Bank signed the Comprehensive Financing Limit Contract with a number of (2012) 0698 Group, agreed that comprehensive financing amount shall not exceed 200 million from 7 Nov. 2012 to 7 Nov. 2013 (including current fund load of 120 million for current fund load, 200 million for guarantee amount, 200 million for commercial trade bill bank acceptance, 200 million

for import and export trade financing, and 200 million for other domestic trade financing for domestic letter of credit).

11. On 28 Feb. 2012, the Company and Shenzhen Branch of Bank of Communications signed *Comprehensive Credit Contract* with a number of Jiao-Yin-Shen 2012 Qiao-Cheng-Zong-Shou-Zi 001, agreed that the comprehensive credit shall not exceed 100 million from 28 Feb. 2012 to 28 Feb. 2014. Comprehensive credit limit in the Contract could be used for following businesses, including liquidity loans, establishment of bank acceptance, establishment of import credit, import bill, import inward collection, import remit financing, etc.

### XIII. Note to the Financial Statements of the Company

#### 1. Accounts receivable

(1) Accounts receivable are listed below according to the category

Category	Closing amount			
	Book balance		Bad debt provision	
	Proportion		Amount	Proportion (%)
	Amount	(%)		
Accounts receivable that are individually significant and individually withdrawn bad debt reserves	—	—	—	—
Accounts receivable withdrawn the bad debt reserves by group	—	—	—	—
Age group	1,439,080,437.54	99.77	205,470,879.79	14.28
Related parties group within the Group	3,323,422.60	0.23	—	—
Subtotal of group	1,442,403,860.14	100.00	205,470,879.79	14.25
Accounts receivable that are not individually significant but individually withdrawn bad debt reserves	—	—	—	—
Total	1,442,403,860.14	100.00	205,470,879.79	14.25

(To be continued)

Category	Opening amount			
	Book balance		Bad debt provision	
	Proportion		Amount	Proportion (%)
	Amount	(%)		
Accounts receivable that are	—	—	—	—

individually significant and  
individually withdrawn bad  
debt reserves

Accounts receivable withdrawn the bad debt reserves by group	—	—	—	—
Age group	1,410,932,829.02	95.63	202,639,314.02	14.36
Related parties group within the Group	64,499,648.17	4.37	—	—
Subtotal of group	<b>1,475,432,477.19</b>	<b>100.00</b>	<b>202,639,314.02</b>	<b>13.73</b>
Accounts receivable that are not individually significant but individually withdrawn bad debt reserves	—	—	—	—
Total	<b>1,475,432,477.19</b>	<b>100.00</b>	<b>202,639,314.02</b>	<b>13.73</b>

(2) Accounts receivable listed by age

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	1,240,859,843.86	86.03	1,288,966,548.21	87.36
1-2 years	17,433,776.51	1.21	5,819,116.98	0.39
2-3 years	4,743,247.12	0.33	1,562,489.30	0.11
3-4 years	1,556,408.29	0.11	573,883.72	0.04
4-5 years	469,028.40	0.03	912,347.52	0.06
Over 5 years	177,341,555.96	12.29	177,598,091.46	12.04
Total	<b>1,442,403,860.14</b>	<b>100.00</b>	<b>1,475,432,477.19</b>	<b>100.00</b>

(3) Withdrawal of bad debt reserves

① No accounts receivable that are individually significant and  
individually withdrawn bad debt reserves at the end of reporting period.

② Accounts receivable withdrawn the bad debt reserves by groups  
In the group, accounts receivable withdrawn bad debt reserves by aging  
analysis:

Age	Closing amount			Opening amount		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Proportion		Amount	Proportion (%)	

	(%)					
Within 1 year	1,237,536,421.2		25,296,267.	1,224,466,900		23,694,653.
	6	86.00	23	.04	86.79	23
1-2 years	17,433,776.51	1.21	871,688.83	5,819,116.98	0.41	290,955.85
2-3 years	4,743,247.12	0.33	948,649.42	1,562,489.30	0.11	312,497.86
3-4 years	1,556,408.29	0.11	778,204.15	573,883.72	0.04	286,941.86
4-5 years	469,028.40	0.03	234,514.20	912,347.52	0.06	456,173.76
Over 5 years			177,341,555	177,598,091.4		177,598,091
	177,341,555.96	12.32	.96	6	12.59	.46
Total	<b>1,439,080,437.5</b>		<b>205,470,879</b>	<b>1,410,932,829</b>		<b>202,639,314</b>
	<b>4</b>	<b>100.00</b>	<b>.79</b>	<b>.02</b>	<b>100.00</b>	<b>.02</b>

③ There existed no account receivable that are not individually significant but individually withdrawn bad debt reserves at the end of the reporting period.

(4) The total amount of the top five accounts receivable at the end of the current year is RMB 576,139,139.07, about 39.94% of the total accounts receivable.

(5) ) Accounts receivable from related parties

Name of entity	Relationship with the Company	Amount	Percentage in the total accounts receivable (%)
Anhui Konka	Subsidiary of the company	3,323,422.60	0.23

(6) Amount of foreign currency accounts receivable and the exchange rate

Item	Closing amount			Opening amount		
	Amount in foreign currency	Exchange rate	RMB (converted)	Amount in foreign currency	Exchange rate	RMB (converted)
USD	4,864,856.87	6.2855	30,578,057.86	2,030,839.52	6.3009	12,796,116.73
HKD	912,792.71	0.81085	740,137.97	914,592.71	0.8107	741,460.31
AUD	—	—	—	49,764.00	6.4093	318,952.41

## 2. Other receivables

(1) Other receivables are listed below according to the category

Category	Closing amount			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other accounts receivable that	—	—	—	—

are individually significant and individually withdrawn bad debt reserves				
Other accounts receivable withdrawn the bad debt reserves by groups				
Age groups	317,395,991.27	39.90	23,489,590.39	7.40
Related parties group within the Group	449,192,126.18	56.47		
Subtotal of group	<b>766,588,117.45</b>	<b>96.37</b>	23,489,590.39	<b>6.83</b>
Other accounts receivable that are not individually significant but individually withdrawn bad debt reserves	28,861,543.77	3.63	28,861,543.77	100.00
Total	<b>795,449,661.22</b>	<b>100.00</b>	<b>52,351,134.16</b>	<b>6.58</b>

(To be continued)

Category	Opening amount			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other accounts receivable that are individually significant and individually withdrawn bad debt reserves				
Other accounts receivable withdrawn the bad debt reserves by groups				
Age groups	65,499,099.40	10.33	15,691,056.86	23.96
Related parties group within the Group	568,746,676.39	89.67	27,887,027.95	4.90
Subtotal of group	<b>634,245,775.79</b>	<b>100.00</b>	<b>43,578,084.81</b>	<b>6.87</b>
Other accounts receivable that are not individually significant but individually withdrawn bad debt reserves				
Total	<b>634,245,775.79</b>	<b>100.00</b>	<b>43,578,084.81</b>	<b>6.87</b>

## (2) Other accounts receivable listed by age

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	680,133,226.08	85.50	351,740,709.77	55.46
1-2 years	25,879,778.61	3.25	209,719,441.29	33.07
2-3 years	32,732,584.85	4.12	9,348,669.02	1.47
3-4 years	1,341,978.28	0.17	32,248,578.38	5.08
4-5 years	24,178,507.30	3.04	10,368,862.88	1.64
Over 5 years	31,183,586.10	3.92	20,819,514.45	3.28
<b>Total</b>	<b>795,449,661.22</b>	<b>100.00</b>	<b>634,245,775.79</b>	<b>100.00</b>

## (3) Withdrawal of bad debt reserves

① There was no other accounts receivable that are individually significant and individually withdrawn bad debt reserves at the end of the reporting period.

② Other accounts receivable withdrawn bad debt reserves by group

In the group, other accounts receivable withdrawn bad debt reserves by aging analysis:

Age	Closing amount			Opening amount		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	272,689,657.12	85.91	6,232,680.11	42,606,420.33	65.05	637,171.03
1-2 years	24,551,980.71	7.75	1,227,599.04	4,287,927.40	6.55	214,396.37
2-3 years	2,169,712.26	0.68	433,942.45	2,819,738.85	4.31	563,947.77
3-4 years	2,520,388.89	0.79	1,260,194.45	2,557,856.63	3.91	1,278,928.32
4-5 years	2,258,155.90	0.71	1,129,077.95	461,085.64	0.70	230,542.82
Over 5 years	13,206,096.39	4.16	13,206,096.39	12,766,070.55	19.48	12,766,070.55
<b>Total</b>	<b>317,395,991.27</b>	<b>100.00</b>	<b>23,489,590.39</b>	<b>65,499,099.40</b>	<b>100.00</b>	<b>15,691,056.86</b>

③ Other accounts receivable that are not individually significant but individually withdrawn bad debt reserves at the end of the reporting period

Content	Book balance	Withdrawal proportion (%)	Bad debt provision	Reason for withdrawal
Chongqing Konka	15,681,199.94	100.00	15,681,199.94	Stopping

			production and under deficit
Chongqing Electronic	13,180,343.83	100.00	Stopping production and under deficit
<b>Total</b>	<b>28,861,543.77</b>	<b>28,861,543.77</b>	

(4) No other accounts receivable were due from the shareholders of the Company who held over 5% (including 5%) shares with voting rights during the reporting period.

(5) The total amount of top five other accounts receivable reached RMB 617,061,103.86, occupying 77.57% in other accounts receivable.

(6) Other accounts receivable from related parties

Name of entity	Relationship with the Company	Amount	Percentage in total other account receivables (%)
Video & Communication Systems Engineering	Subsidiary of the Company	117,283,922.97	14.74
Konka Electronic	Subsidiary of the Company	19,268,191.97	2.42
Dongguan Konka	Subsidiary of the Company	88,183,007.15	11.09
Boluo Konka	Subsidiary of the Company	21,991,930.15	2.76
Information Network	Subsidiary of the Company	108,586,449.77	13.65
Dongguan Mould Plastic	Subsidiary of the Company	1,866,890.50	0.23
Boluo Precision	Subsidiary of the Company	79,049,173.97	9.94
Nanhai Institute	Subsidiary of the Company	642,962.34	0.08
Kunshan Kangsheng	Subsidiary of the Company	108,642.17	0.01
Xutongda	Subsidiary of the Company	12,205,955.19	1.53
Beijing Konka	Subsidiary of the Company	5,000.00	0.00
Chongqing Konka	Subsidiary of the Company	15,681,199.94	1.97
Chongqing Electronic	Subsidiary of the Company	13,180,343.83	1.66

Shenzhen OCT Gas Station Co., Subsidiary of the Ltd.	ultimate controller	80,000.00	0.01
Shenzhen OCT Real Estate Co., Subsidiary of the Ltd.	ultimate controller	1,209,064.86	0.15
Shenzhen OCT Property Management Co., Ltd.	Subsidiary of the ultimate controller	77,402.65	0.01
Total		<b>479,420,137.46</b>	<b>60.25</b>

### 3. Long-term equity investment

#### (1) Category of long-term equity investment

Item	Opening amount	Increase of this year	Decrease of this year	Closing amount
Investment on subsidiary companies	1,584,259,154.56	—	—	1,584,259,154.56
Investment on joint ventures	—	—	—	—
Investment on associated enterprises	—	202,800,000.00	—	202,800,000.00
Other equity investments	14,838,000.00	—	2,000,000.00	12,838,000.00
Less: provisions for depreciation of long-term equity investments	106,479,984.69	—	300,000.00	106,179,984.69
<b>Total</b>	<b>1,492,617,169.87</b>	<b>202,800,000.00</b>	<b>1,700,000.00</b>	<b>1,693,717,169.87</b>

#### (2) Details about long-term equity investment

Invested entity	Accounting method	Investment cost	Opening amount	Increase/decrease	Closing amount
Mudanjiang Konka	Cost method	36,000,000.00	—	—	36,000,000.00
Shaanxi Konka	Cost method	44,869,809.80	—	—	44,869,809.80
Anhui Konka	Cost method	122,780,937.98	—	—	122,780,937.98
Dongguan Konka	Cost method	274,783,988.91	—	—	274,783,988.91
Hong Kong Konka	Cost method	781,828.61	—	—	781,828.61
Chongqing Konka	Cost method	27,000,000.00	—	—	27,000,000.00
Anhui Household Appliances	Cost method	5,278,509.85	—	—	5,278,509.85

Konka Europe	Cost method	261,482.50	—	—	261,482.50
Nanhai Konka	Cost method	500,000.00	—	—	500,000.00
Kunshan Konka	Cost method	350,000,000.00	—	—	350,000,000.00
Plastic Products	Cost method	4,655,000.00	—	—	4,655,000.00
Konka Household Appliances	Cost method	10,732,484.69	—	—	10,732,484.69
Telecommunication Technology	Cost method	90,000,000.00	—	—	90,000,000.00
Konka America	Cost method	8,062,500.00	—	—	8,062,500.00
Information Network	Cost method	22,500,000.00	—	—	22,500,000.00
Shushida	Cost method	31,500,000.00	—	—	31,500,000.00
Video & Communication Systems Engineering	Cost method	9,000,000.00	—	—	9,000,000.00
Chongqing Electronic	Cost method	17,100,000.00	—	—	17,100,000.00
Fittings Technology	Cost method	48,750,000.00	—	—	48,750,000.00
Kunshan Kangsheng	Cost method	350,000,000.00	—	—	350,000,000.00
Anhui Tongchuang	Cost method	69,702,612.22	—	—	69,702,612.22
Konka Optoelectronic	Cost method	10,000,000.00	—	—	10,000,000.00
Wankaida	Cost method	10,000,000.00	—	—	10,000,000.00
Shenzhen Julong Optoelectronics Co., Ltd	Cost method	2,000,000.00	—	2,000,000.00	—
Feihong Electronics Co., Ltd.	Cost method	1,300,000.00	—	—	1,300,000.00
Shenzhen Association of Enterprises with	Cost method	100,000.00	—	—	100,000.00

Foreign Investment						
Shenzhen Make-plan Investment Development Co., Ltd.	Cost method	485,000.00	—	—	485,000.00	
IGRS Information Technology Engineering Center Co., Ltd.	Cost method	5,000,000.00	—	—	5,000,000.00	
Shenzhen CTU Hi-tech Ltd.	Cost method	1,153,000.00	—	—	1,153,000.00	
Shenzhen Digital TV National Engineering Lab Co., Ltd.	Cost method	2,400,000.00	—	—	2,400,000.00	
Shanghai Digital TV National Engineering R&D Center Co., Ltd.	Cost method	2,400,000.00	—	—	2,400,000.00	
Beijing Konka Electronic	Cost method	30,000,000.00	—	—	30,000,000.00	
Shenzhen Shushida Logistics Service Co., Ltd.	Cost method	10,000,000.00	—	—	10,000,000.00	
Shanghai Konka Green Science and Technology Co., Ltd.	Equity method	—	202,800,000.00	—	202,800,000.00	
Total		1,599,097,154.56	202,800,000.00	2,000,000.00	1,799,897,154.56	

(To be continued)

Invested entity	Proportion of shares held in the invested entity (%)	Proportion of voting rights in the invested entity (%)	Explanations on difference between the shareholding proportion and voting rights proportion in the invested entity	Impairment provision	Impairment provision withdrawn at the current year	Cash dividends at the current year
Mudanjiang Konka	60.00	60.00	—	36,000,000.00	—	—
Shaanxi	60.00	60.00	—	—	—	—

Konka							
Anhui Konka	78.00	78.00	—	—	—	—	—
Dongguan Konka	100.00	100.00	—	—	—	—	—
Hong Kong Konka	100.00	100.00	—	—	—	—	—
Chongqing Konka	60.00	60.00	—	27,000,000.00	—	—	—
Anhui Household Appliances	6.55	97.45	Anhui Konka indirectly held 4.48% equities of Anhui Household Appliances, while Anhui Tongchuang indirectly held 86.42% shares of Anhui Household Appliances.		—	—	—
Konka Europe	100.00	100.00	—	—	—	—	—
Nanhai Konka	100.00	100.00	—	—	—	—	—
Kunshan Konka	100.00	100.00	—	—	—	—	—
Plastic Products	100.00	100.00	—	—	—	—	—
Konka Electronic	51.00	51.00	—	10,732,484.69	—	—	—
Telecommunication Technology	75.00	100.00	—	—	—	—	—
Konka America	100.00	100.00	—	8,062,500.00	—	—	—
Information Network	100.00	100.00	—	22,500,000.00	—	—	—
Shushida	100.00	100.00	—	—	—	—	—
Video & Communication Systems	60.00	60.00	—	—	—	—	—

Engineering						
Chongqing Electronic	57.00	57.00	—	—	—	—
Fittings Technology	100.00	100.00	—	—	—	—
Kunshan Kangsheng	100.00	100.00	—	—	—	—
Anhui Tongchuang	100.00	100.00	—	—	—	—
Konka Optoelectronic	100.00	100.00	—	—	—	—
Wankaida	100.00	100.00	—	—	—	—
Shenzhen Julong Optoelectronics Co., Ltd	10.00	10.00	—	—	—	—
Feihong Electronics Co., Ltd.	8.33	8.33	—	1,300,000.00	—	—
Shenzhen Association of Enterprises with Foreign Investment	-	-	—	100,000.00	—	—
Shenzhen Make-plan Investment Development Co., Ltd.	1.00	1.00	—	485,000.00	—	—
IGRS Information Technology Engineering Center Co., Ltd.	9.62	9.62	—	—	—	—
Shenzhen CTU Hi-tech	11.50	11.50	—	—	—	—

Ltd.						
Shenzhen Digital TV National Engineering Lab Co., Ltd.						
	6.00	6.00	—	—	—	—
Shanghai Digital TV National Engineering R&D Center Co., Ltd.						
	4.26	4.26	—	—	—	—
Shenzhen Shushida Logistics Service Co., Ltd.						
	100.00	100.00	—	—	—	—
Beijing Konka Electronic Co., Ltd.						
	100.00	100.00	—	—	—	—
Shanghai Konka Green Science and Technology Co., Ltd.						
	39.00	39.00	—	—	—	—
			106,179,984			
Total				.69		

Note: Note: The reason for the difference between the investment ratio and voting rights of Anhui Tongchuang was that the Company signed a cooperative agreement with Administrative Committee of Chuzhou Economic Development Zone (hereinafter referred as ‘Administrative Committee’), agreeing on that the Administrative Committee could transfer its equities of Anhui Tongchuang after three years since Anhui Tongchuang’s establishment, besides, the Company could repurchase the equities with Administrative Committee gaining 2% of its investment amount as the fixed income.

#### 4. Operating revenues and operating costs

##### (1) Operating revenues and operating costs

Item	Amount of this year	Amount of last year
Revenues from main business	14,871,176,606.68	13,548,818,907.94

Revenues from other business	4,023,887,805.91	3,070,582,209.36
<b>Total operating revenues</b>	<b>18,895,064,412.59</b>	<b>16,619,401,117.30</b>
Costs of main business	12,500,370,919.06	11,616,681,732.14
Costs of other business	3,998,194,012.55	3,091,939,765.57
<b>Total operating costs</b>	<b>16,498,564,931.61</b>	<b>14,708,621,497.71</b>

(2) Main business (by industries)

Name of industry	Amount of this year		Amount of last year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Electronic industry	14,871,176,606.68	12,500,370,919.06	13,548,818,907.94	11,616,681,732.14
<b>Total</b>	<b>14,871,176,606.68</b>	<b>12,500,370,919.06</b>	<b>13,548,818,907.94</b>	<b>11,616,681,732.14</b>

(3) Main business (by products)

Name of product	Amount of this year		Amount of last year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Color TV business	13,875,900,266.20	11,576,603,266.66	12,381,161,885.25	10,525,600,112.52
Consumer appliances business	712,234,677.57	645,759,172.19	1,160,866,309.61	1,074,580,152.57
Others	283,041,662.91	278,008,480.21	6,790,713.08	16,501,467.05
<b>Total</b>	<b>14,871,176,606.68</b>	<b>12,500,370,919.06</b>	<b>13,548,818,907.94</b>	<b>11,616,681,732.14</b>

(4) Main business (by regions)

Region	Amount of this year		Amount of last year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Domestic revenues	12,703,553,913.40	10,352,348,667.45	11,666,159,061.99	9,756,281,557.65
Overseas revenues	2,167,622,693.28	2,148,022,251.61	1,882,659,845.95	1,860,400,174.49
<b>Total</b>	<b>14,871,176,606.68</b>	<b>12,500,370,919.06</b>	<b>13,548,818,907.94</b>	<b>11,616,681,732.14</b>

(5) Operating revenues from the top five customers

Period	Total operating revenues from the top five customers	Proportion in the total operating revenue at the same period (%)
Y2012	3,165,357,399.54	16.75

Y2011	3,096,414,861.85	18.63
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## 5. Investment income

### (1) List of investment income items

Invested entity	Amount of this year	Amount of last year
Income from long-term equity investment measured by adopting the cost method	118,578,038.03	450,000.00
Income from long-term equity investment measured by adopting the equity method	—	—
Income from disposal of long-term equity investment	91,013.92	36,614.47
Investment income from holding transactional financial assets	—	—
Investment income from holding mature investment	24,475,699.99	—
Investment income from holding financial assets available for sale	15,250.30	20,009.00
Investment income from disposal of transactional financial assets	—	—
Investment income from disposal of mature investment	—	—
Investment income from disposal of financial assets available for sale	5,110,011.59	—
<b>Total</b>	<b>148,270,013.83</b>	<b>506,623.47</b>

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

### (2) Income from long-term equity investment measured by adopting the cost method

Invested entity	Amount of this year	Amount of last year
Shaanxi Konka		450,000.00
Anhui Konka	118,578,038.03	
<b>Total</b>	<b>118,578,038.03</b>	<b>450,000.00</b>

## 6. Supplementary information to cash flow statement

Item	Amount of this year	Amount of last year
<b>(1) Reconciliation of net profit to net cash flows generated from operating activities</b>		
Net profit	179,832,117.22	-149,882,436.01
Add: Provision for assets impairment	121,009,956.25	76,112,058.77
Depreciation of fixed assets, of oil-gas assets, of productive biological assets	38,014,032.20	29,716,664.00

Amortization of intangible assets	3,070,981.48	2,050,352.99
Amortization of long-term deferred expense	2,030,310.49	2,124,062.50
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gains: negative)	-6,385,300.67	-2,296,949.39
Loss on retirement of fixed assets (gains: negative)	—	—
Losses from variation of fair value (gains: negative)	-21,760,628.97	-42,845,842.55
Financial cost (gains: negative)	65,916,491.95	-60,834,168.19
Investment loss (gains: negative)	-148,270,013.83	-506,623.47
Decrease in deferred income tax assets (gains: negative)	26,422,790.05	-56,748,873.75
Increase in deferred income tax liabilities (decrease: negative)	-807,501.87	—
Decrease in inventory (gains: negative)	-746,579,065.28	884,201,715.20
Decrease in accounts receivable from operating activities (gains: negative)	-232,226,027.97	-1,097,835,020.49
Increase in payables from operating activities (decrease: negative)	-1,492,489,888.57	2,552,153,618.95
Other	4,250,809.29	—
<b>Net cash flows generated from operating activities</b>	<b>-2,207,970,938.23</b>	<b>2,135,408,558.56</b>
<b>(2) Investing and financing activities that do not involving cash receipts and payment:</b>	—	—
Conversion of debt into capital	—	—
Convertible bond due within one year	—	—
Fixed assets financed by finance leases	—	—
<b>(3) Changes in cash and cash equivalents</b>	—	—
Closing balance of cash	365,891,615.75	275,892,342.99
Less: Opening balance of cash	275,892,342.99	255,364,835.76
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net increase in cash and cash equivalents	<b>89,999,272.76</b>	<b>20,527,507.23</b>

#### XIV. Supplementary Information

##### 1. Non-recurring gains and losses

Item	Amount of this year	Amount of last year
Gains and losses on disposal of non-current assets	6,267,350.97	50,838,279.57
Return reduction and exemption of taxes surpassing approval, without official approval document, or temporary refund on tax, remitting of tax	—	—
Government grant recognized in current year, except for those acquired in the ordinary course of business or granted continuously in certain standard quota according to relevant national laws and regulations	79,452,692.05	41,725,984.17
Included in current profit and loss against the non-financial enterprises funds occupation fee collected	—	—
Profits and losses arising from business combination when the combined cost is less than the recognized fair value of net assets of the combined company	—	—
Profit and loss of non monetary asset exchange	71,191.44	—
Gains and losses from consigned others to invest or manage the assets	—	—
Allotted asset depreciation reserves incurred by occasional cause such as natural calamities	—	—
Debt restructuring gains and losses	—	—
Enterprise restructured expenses such as staffing and integration expense, etc.	—	-20,163,356.00
Profit and loss from transactions with obvious unfair transaction price	—	—
Subsidiaries' Year-to-Date net profit/loss arising from business combination of entities controlled by a same company	—	—
Profits and losses arising from other accrued liabilities which are not related to company's main business	—	—
Gains and losses on change in fair value from tradable financial assets and tradable financial liabilities, as well as investment income from disposal of tradable financial assets and tradable financial liabilities and financial assets available for sales except for effective hedging related with normal businesses of the Company	27,226,435.86	42,485,002.97
Impairment reserves reversal of account receivables individually taking the impairment tests	—	—
Gains and losses from outside entrusted loans	—	—

Gains and losses from change in fair value of investment real estate adopting the fair value mode to do the follow-up measurement	—	—
The influence of the once-off adjustment of current year gains and losses on the gains and losses in current year in accordance with the laws and rules of tax and accounting	—	—
Fee and commission incomes arising from trusted customer asset management business	—	—
Other non-operating income and expense other than above mentioned	4,696,935.93	12,439,462.20
Other non-recurring gains and losses in line with the definition of profit and loss items	—	37,723,217.44
<b>Subtotal</b>	<b>117,714,606.25</b>	<b>165,048,590.35</b>
Effect on income tax	11,106,708.03	25,328,935.86
Effect on minority interest (After tax)	6,689,906.18	3,194,368.64
<b>Total</b>	<b>99,917,992.04</b>	<b>136,525,285.85</b>

Note: In the above table, “+” means gains or income, “-” means losses or expenditure.

The recognition of the items of non-recurring gains and losses by the Company is in accordance with Explanatory Public Notice on Information Disclosure Of Companies Issuing Securities Publicly No. 1 — Non-recurring gains and losses of CSRC (ZJH Public Notice [2008] No. 43).

## 2. Return on equity (ROE) and earnings per share (EPS)

Profit as of the reporting period	Weighted average ROE	EPS (RMB/share)	
		Basic EPS	Diluted EPS
Net profit attributable to common share holders of the Company	1.14%	0.0381	0.0381
Net profit attributable to common share holders of the Company after deducting non-recurring gains and losses	-1.34%	-0.0449	-0.0449

Notes: (1) Weighted average ROE based on the net profit attributable to common share holders of the Company =  $45,829,234.02 / (4,009,723,963.82 + 45,829,234.02 / 2 - 3,265,933.76 * 6 / 12 + 3,3$

44,001.81\*6/12-12,039,727.04\*5/12)

Weighted average ROE based on the net profit attributable to common share holders of the Company after deducting non-recurring gains and losses =  
(45,829,234.02-99,917,992.04)  
/(4,009,723,963.82+45,829,234.02/2-3,265,933.76\*6/12+3,344,001.81\*6/12-12,039,727.04\*5/12)

(2) See No. 48 of Note VII for calculation of basic and diluted EPS.

### **3. Explanation about abnormalities of major items in consolidated financial statements and the reasons**

(1) Monetary funds stood at RMB 1,728,946,511.11 Yuan as at 31 Dec. 2012, down 36.01% as compared to the ending amount. This was mainly because short-term borrowings in this period were returned.

(2) Prepayments in ending period stood at RMB 183,008,022.27 Yuan as at 31 Dec. 2012, down 68.14% as compared to the opening amount. This was mainly because land use certificate of Item of Kunshan Kang Sheng Zhou Estate was completed, pre-paid land purchase amount was transferred to inventory (developing costs) and intangible assets accounting.

(3) Interest receivable in ending period stood at RMB 7,171,998.73 Yuan as at 31 Dec. 2012, down 83.56% as compared to the opening amount. This was mainly because structural deposits were reduced.

(4) Other receivables in ending period stood at RMB 316,590,715.96 Yuan as at 31 Dec. 2012, up 135.68% as compared the opening amount. This was mainly because allowance receivable of national energy conservation in this period was increased.

(5) Inventories stood at RMB 4,059,339,049.25 as at 31 Dec. 2012, up 43.46% as compared to the opening amount. This was mainly because sales scale of color TV, inventory preparation for early spring and inventory scale were increased, and land prepayments of Kunshan Konka turned into inventory accounting (developing costs).

(6) Available-for-sale financial assets stood at RMB 1,187,177.20 Yuan as at 31 Dec. 2012, down 81.47% as compared to the opening amount. This was mainly because all shares of ST Churin in this period were sold.

(7) Long-term equity investment stood at RMB 472,423,533.19 Yuan as at 31 Dec. 2012, up 74.21% as compared to the opening amount. This was mainly because investment of Shanghai Konka Green Science and Technology Co., Ltd was increased.

(8) Projects under construction stood at RMB 50,682,893.85 Yuan as at 31 Dec. 2012, down 57.38% as compared to the opening amount. This was mainly because Anhui Tontru plant turned into fixed assets and module AIO machine production line turned into fixed assets.

(9) Intangible assets stood at RMB 290,280,443.01 Yuan as at 31 Dec. 2012, up 49.33% as compared to the opening amount. This was mainly because land use certificate of Kunshan Kangsheng turned into intangible assets accounting and land use certificate of Kunshan Geraint increased.

(10) Long-term unamortized expenses stood at RMB 6,261,286.45 Yuan as at 31 Dec. 2012, down 38.33% as compared to the opening amount. This was mainly because new long-term unamortized expenses in this period decreased.

(11) Transactional financial liabilities stood at RMB 0 as at 31 Dec. 2012, down 100% as compared to the opening amount. This was mainly because NDF business of last year was delivered and no new businesses in this period grew.

(12) Advance collections stood at RMB 441,836,467.09 Yuan as at 31 Dec. 2012, up 26.40% as compared to the opening amount. This was mainly because sales volume in this period was increased and prepayments rose up.

(13) Tax payable stood at RMB -231,087,836.60 Yuan as at 31 Dec. 2012, down 796.57% as compared to the opening amount. This was mainly because input tax in this period was increased.

(14) Long-term borrowings stood at RMB1,200,000,000.00 Yuan as at 31 Dec. 2012, up 96.72% as compared to the opening amount. This was mainly because entrust loans of OCT Group in this period was increased.

2. Anticipation liabilities stood at RMB2,511,814.54 Yuan as at 31 Dec. 2012, down 87.54% as compared to the opening amount. This was mainly because anticipation liabilities of dismissal welfare of Shaanxi Konka were reduced.

(16) Deferred income tax liabilities stood at RMB563,067.21 Yuan as at 31 Dec. 2012, down 58.92% as compared to the opening amount. This was mainly because holding ST Churin shares were sold and deferred income tax liabilities were reduced.

(17) Operating gross revenue stood at RMB 18,337,861,657.29 Yuan as of 2012, up 13.07% over last year. This was mainly because sales volume of color TV was increased due to subsidy policy of national energy conservation and influences of Japanese brands.

(18) Operating costs stood at RMB 15,039,274,941.74 Yuan as of 2012, up 10.97% over last year. This was mainly because sales volume by costs, transformation of production line, production of module AIO machine, and product gross profits were increased.

(19) Business taxes and surtaxes stood at RMB 74,295,105.05 Yuan as of 2012, up 41.92% over last year. This was mainly because increased turnover tax payable in this year caused increase in urban construction tax and educational surtax.

(20) Selling expenses stood at RMB 2,316,627,717.67 Yuan as of 2012, up 8.71% over last year. This was mainly because treatment funds of waste electric appliances and labor charges were increased.

(21) Administration expense stood at RMB 655,654,771.02 Yuan as of 2012, up 12.75% over last year. This was mainly because development input and research expenditure was increased.

(22) Financial expense stood at RMB 179,516,279.32 Yuan as of 2012, up 268.73% over last year. This was mainly because loan interest and losses caused by changes in exchange rate were increased.

(23) Assets impairment loss stood at RMB 222,230,955.24 Yuan as of 2012, up 44.25% over last year. This was mainly because inventory falling price reserves were increased.

(24) Income from fair value changes stood at RMB 22,101,173.97 Yuan as of 2012, down 48.43% over last year. This was mainly because NDF contracts were due and gains/losses on fair value changes were reversed.

(25) Non-operating income stood at RMB 223,297,060.56 Yuan as of 2012, down 8.36% over last year. This was mainly because there was no land reserve income.

(26) Non-operating expenditure stood at RMB 11,255,184.94 Yuan as of 2012, up 29.11% over last year. This was mainly because partial fixed assets were disposed.