

# Konka Group Co., Ltd

## 3<sup>rd</sup> Quarterly Report 2006

### §1. Important Notes

1.1 The Board of Directors, the Supervisory Committee as well as the directors, supervisors and senior managers of Konka Group Co., Ltd (hereinafter referred to as “the Company”) hereby confirm that there are no false records, misleading statements or significant omissions in this report, and will shoulder any individual and joint responsibility concerning the authenticity, accuracy and completeness of the content.

1.2 No director, supervisor or senior manager has declared that he or she could not guarantee the authenticity, accuracy or completeness of this Quarterly Report or that he or she had objections.

1.3 This Quarterly Report has been examined and approved by all the directors (voting by fax) at the 18<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of the Company.

1.4 The Financial Report of this quarter has not been audited.

1.5 Chairman of the Board Mr. Hou Songrong, C.F.O. Mr. Yang Guobin and the person in charge of accounting organs Mr. Ruan Renzong hereby declare that they can guarantee the authenticity and completeness of the Financial Report in this Quarterly Report.

### §2. Company Profile

#### 2.1 Basic information

Stock abbreviation	Shen Konka A	Shen Konka B
Stock code	000016	200016
	Secretary of the Board	Securities Affairs Representative
Name	Mr. Xiao Qing	Mr. Xu Wenxiao
Address	Konka Group Co., Ltd, Overseas Chinese Town, Shenzhen, China	Konka Group Co., Ltd, Overseas Chinese Town, Shenzhen, China
Telephone	0755-26608866	0755-26608866
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#### 2.2 Financial materials

##### 2.2.1 Major accounting data and financial indicators

Unit: RMB

Item	At the end of the report period	At the end of the last year	Increase / decrease at the end of the report period compared with that at the end of the last year (%)
Total assets	9,483,446,127.92	9,120,452,267.93	3.98
Shareholders' equity (excluding minority interests)	3,250,534,196.16	3,211,212,304.03	1.22
Net assets per share	5.400	5.334	1.22
Net assets per share after adjustment	5.234	5.085	2.93
Item	The report period	From the beginning of the year to the end of the report period	Increase / decrease of this report period year-on-year (%)
Net cash flows arising from operating activities	-	207,941,656.44	-
Earnings per share	0.0249	0.0804	Up by 0.0058
Return on equity	0.4616%	1.4881%	Up by 0.1037 percentage points
Return on equity deducting non-recurring gains and losses	0.4603%	1.5421%	Up by 0.0973 percentage points

<b>Items of non-recurring gains and losses</b>	<b>Amount</b>
Investment yields	-758,783.07
Non-operating income	3,327,006.45
Non-operating expense	4,321,825.43
Total	-1,753,602.05

## 2.2.2 FINANCIAL REPORT

### 2.2.2.1 Consolidated Balance Sheet

#### Konka Group Co., Ltd.

#### Consolidated balance sheet as at September 30, 2006

	<b>Sep. 30, 2006 RMB'000</b>	<b>Dec.31,2005 RMB'000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,292,914	1,332,475
Land use rights – non-current portion	26,744	27,059
Goodwill	4,868	989
Intangible assets	17,207	19,928
Interests in associates	49,610	44,284
Other investments	17,290	10,290
	<u>1,408,633</u>	<u>1,435,025</u>
<b>Current assets</b>		
Land use rights – current portion	630	630
Inventories	3,899,789	3,385,558
Properties held for sale	4,172	4,172
Account receivables	860,487	676,234
Prepayments, deposits and other receivables	233,144	231,918
Note receivables	2,342,754	2,759,689
Cash and bank balances	734,052	629,160
	<u>8,075,028</u>	<u>7,687,361</u>
<b>Total assets</b>	<u><u>9,483,661</u></u>	<u><u>9,122,386</u></u>

*(to be cont'd)*

#### Konka Group Co., Ltd.

#### Consolidated balance sheet as at September 30, 2006

*(cont'd)*

	<b>Sep. 30, 2006 RMB'000</b>	<b>Dec.31,2005 RMB'000</b>
<b>Equity and liabilities</b>		

<b>Capital and reserves</b>		
Share capital	601,986	601,986
Reserves	2,899,597	2,871,709
	<hr/>	<hr/>
<b>Equity attributable to equity holders of the parent</b>	3,253,800	3,211,973
<b>Minority interests</b>	247,783	261,722
	<hr/>	<hr/>
<b>Total equity</b>	3,501,583	3,473,695
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<b>Non-current liabilities</b>		
Deferred income	8,244	10,493
Other long-term liabilities	48,614	20,179
	<hr/>	<hr/>
	56,858	30,672
	<hr/>	<hr/>
<b>Current liabilities</b>		
Tax Payable	23,476	4,536
Account payables	1,154,234	1,430,260
Other payables and accrued expenses	952,029	813,038
Note payables	3,782,481	3,342,185
Short-term bank loans	13,000	28,000
	<hr/>	<hr/>
	5,925,220	5,618,019
	<hr/>	<hr/>
<b>Total liabilities</b>	5,982,078	5,648,691
	<hr/>	<hr/>
<b>Total equity and liabilities</b>	9,483,661	9,122,386
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Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

## 2.2.2.2 Consolidated income statement

### Konka Group Co., Ltd. Consolidated income statement

for the period from July to September, 2006

	Jul.-Sep.,2006 RMB ' 000	Jul.-Sep.,2005 RMB'000
<b>Turnover</b>	3,021,808	2,544,585
<b>Cost of sales</b>	( 2,516,510 )	( 2,111,055 )
	<hr/>	<hr/>
<b>Gross profit</b>	505,298	433,530
Other revenue	6,186	7,269

Distribution costs	( 371,151 )	( 329,830 )
Administrative expenses	( 119,161 )	( 97,054 )
<b>Operating profit</b>	21,172	13,915
Finance costs	( 1,803 )	( 1,473 )
Share of loss from associates	0	( 87 )
<b>Profit before taxation</b>	19,369	12,355
Income tax	( 5,361 )	( 4,427 )
<b>Profit for the year</b>	14,008	7,928
<b>Attributable to :</b>		
Equity holders of the parent	9,467	11,506
Share of results of minority interests	4,541	( 3,578 )
	14,008	7,928
<b>Profit per share to equity holders of the parent - basic</b>	RMB0.016	RMB0.019

Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

**Konka Group Co., Ltd.**  
**Consolidated income statement**

**for the period from January to September, 2006**

	Jan.-Sep.,2006 RMB'000	Jan.-Sep.,2005 RMB'000
<b>Turnover</b>	8,559,934	8,009,241
<b>Cost of sales</b>	( 7,081,092 )	( 6,769,303 )
<b>Gross profit</b>	1,478,842	1,239,938
Other revenue	17,947	17,615
Distribution costs	( 1,080,557 )	( 963,982 )
Administrative expenses	( 346,568 )	( 256,244 )
<b>Operating profit</b>	69,664	37,327
Finance costs	( 7,749 )	( 6,040 )
Share of loss from associates	( 501 )	( 399 )
<b>Profit before taxation</b>	61,414	30,888
Income tax	( 13,709 )	( 5,962 )

<b>Profit for the year</b>	47,705	24,926
<b>Attributable to :</b>		
Equity holders of the parent	43,142	36,353
Share of results of minority interests	4,563	( 11,427 )
	47,705	24,926
<b>Profit per share to equity holders of the parent - basic</b>	RMB0.072	RMB0.060

Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

### 2.2.2.3 Consolidated Cash Flow Statement

#### Konka Group Co., Ltd.

#### Consolidated cash flow statement for the year ended September 30, 2006

	Jan. – Sep. 2006	Jan. – Sep. 2005
	RMB'000	RMB'000
<b>Cash flow from operating activities</b>		
Operating profit	43,142	36,353
Adjustment items:		
Depreciation of fixed assets	85,144	98,846
Amortization of intangible assets	4,820	4,301
Amortization of deferred expenditure	4,295	12,505
Loss on rejection or sale of fixed assets	1,294	804
Loss on disposal of properties held for sale	0	0
Interest expenses	1,497	1,706
Dividend income	0	399
Government subsidy income	0	(1,634)
Balance difference from foreign currency exchange	(1,490)	(989)
(Increase)/decrease in account receivables	435,423	701,630
(Increase)/decrease in inventories	(556,036)	395,645
Decrease in account payables	174,654	(1,312,100)
Income tax paid	13,709	5,962
<b>Net cash inflow from operating activities</b>	206,452	(56,572)
<b>Investing reward and financing expenses</b>		
Interests received	0	648
Interests paid	(1,708)	(2,045)
Dividend paid	0	0

<b>Cash outflow from investing reward and financing expenses</b>	(1,708)	(1,397)
Investing activities		
Purchases of fixed assets	(81,226)	(67,738)
Proceeds from disposal of fixed assets	1,238	1,505
Deferred expenses paid	0	0
Net cash inflow/( expenditure )from acquisition of associates	0	8,850
Investment in associated company	0	0
Purchases of long-term investment	(14,507)	0
Proceeds from disposal/return of other investments	24,672	0
<b>Net cash outflow from investing activities</b>	<b>(69,823)</b>	<b>(57,383)</b>
<b>Net cash outflow before financing activities</b>	<b>134,921</b>	<b>(115,352)</b>

(to be cont'd)

**Konka Group Co., Ltd.**

**Consolidated cash flow statement for the year ended September 30, 2006**

(cont'd)

	<b>Jan.- Sep. 2006</b>	<b>Jan.- Sep. 2005</b>
	<u>RMB'000</u>	<u>RMB'000</u>
Financing activities		
Additional bank loans	10,395	20,082
Repayment for bank loans	(25,000)	(40,267)
Expenditure of financing lease	0	0
Contribution from minority shareholders on formation of new subsidiary	0	0
Dividend paid to minority shareholders	(15,424)	(16,278)
<b>Net cash inflow from financing activities</b>	<b>(30,029)</b>	<b>(36,463)</b>
Cash and cash equivalents at beginning of the period	629,160	851,762
Cash and cash equivalents at end of the period	734,052	699,947
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>104,892</b>	<b>(151,815)</b>
Analysis of balances of cash and cash equivalents		
Monetary funds	734,052	699,947

Chairman of the board: Hou Songrong Chief financial official: Yang Guobin Organizer: Ruan Renzong

2.3 Total number of shareholders and shares held by the top ten shareholders holding circulating shares at the end of the report period

Total number of shareholders at the end of the report period		117,245	
Shares held by the top ten shareholders holding circulating shares not subject to moratorium			
No.	Name of shareholder (full)	Number of circulating shares not subject to moratorium at the end of the period	Type (A, B, H shares or others)
1	HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	28,810,660	B share
2	BUILD UNITED LIMITED	20,079,900	B share
3	ABLEWELL INVESTMENTS LIMITED	14,100,000	B share
4	NO. 1 SHANGHAI SECURITIES CO., LTD	11,941,282	B share
5	SVA INFORMATION INDUSTRY CO., LTD	8,736,630	A share
6	ANHUI DEVELOPMENT & INVESTMENT CO., LTD	7,601,170	A share
7	NOMURA SECURITIES CO., LTD.	6,750,000	B share
8	DBS VICKERS (HONG KONG) LTD A/C CLIENTS	3,805,850	B share
9	CHANGLI DEVELOPMENT (HONG KONG) CO., LTD	2,568,800	B share
10	BANK OF CHINA – E-FUND SHEN 100ETF	2,411,711	A share

### §3. Discussion and analyses of the management team

#### 3.1 General analyses on the overall operation in the report period

In the report period, the Company has continued to focus on the three projects, i.e. the quality project, the excellent product project and the creation project, and practice the value operation strategy. For quality, the Company has been practicing the three iron disciplines, i.e. “iron heart, iron face, iron hand”; for the excellent product strategy, the Company has been working hard on the sub-core technologies like the appearance design and functions, etc; as to creation, the Company has taken started from the appearance design and boldly applied new materials and new techniques. The Company has advanced the product value through original designs and launched differentiated competitions according to market needs. This way, the Company has avoided close confrontation with its competitors and well maintained profit room. The profitability and profit level of the Company has increased incessantly. During the report period, the revenue from main operations amounts to RMB 3.02billion, up by 18.75% than the same period last year; the net profit totals RMB 15.00million, up by 30.41% year-on-year. From January to September, the accumulated sales revenue of the Company amounts to RMB 8.56billion,, increased by 6.88% year-on-year; the net profit RMB 48.37million, up by 38.79% year-on-year; and the earnings per share RMB 0.0804.

In the report period, the Company has followed the value operation strategy in the Color TV business, laid emphasis on differentiated competition according to customers’ different needs and realized the harmonious development of scale and profit; in the meantime, the Company has invested more in the high-end Color TV products, continued to consolidated its leading position in the digital high definition TV and flat panel TV area and realized fast growth in the sales revenue of high-end products. From January to September, the Color TV business of the Company has maintained the growth momentum, with the sales revenue totaling RMB 7.25billion, up by 6.97% year-on-year, and the domestic market share still leads in the same industry.

In the report period, the Company mainly played the “ Ultra-Thin ” and “ Quality ” cards; focused on the maximization of profit; moved the control points down to each effective termination; changed the management target from the results to the efficiency; put new cell phone products on sale incessantly and the proportion of medium and high-end cell phones has climbed up continuously. The Company also tried to reduce expenses and increase efficiency, which has contributed to the large margin increase of the gross profit ratio of a single cell phone. From January to September, the sales revenue from the cell phone business has amounted to RMB 1.31billion, up by 6.37% year-on-year.

##### 3.1.1 Main industries or products taking up over 10 percent of the income or the total

profit from main operations

Applicable    Inapplicable

Unit: RMB'0000

Main operations classified according to industry			
	Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)
Manufacture of household electronic appliances	725,131.94	599,056.92	17.38
Manufacture of communication and relevant equipment	130,861.51	108,899.51	16.78
Including: related transactions	0	0	0
Main operations classified according to product			
Color TV	725,131.94	599,056.92	17.39
Cell phone	130,861.51	108,899.51	16.78
Including: related transactions	0	0	0

3.1.2 Seasonal or periodical characteristics of the operations of the Company

Applicable    Inapplicable

3.1.3 Breakdown of profit in the report period (significant changes of the proportions of the total profit taken up by the profit from main operations, profit from other operations, period expenses, investment yield, subsidy income and net non-operating income or expense, and explanations on the reasons)

Applicable    Inapplicable

3.1.4 Significant changes of the main operations and their structure compared with the last report period and explanations on reasons

Applicable    Inapplicable

3.1.5 Material change of profitability of main operations (gross profit ratio) compared with the previous report period and explanation on reasons

Applicable    Inapplicable

3.2 Analysis on and explanation of significant events and the influence and solutions

3.2.1 non-operating capital occupation and clearing process

Applicable    Inapplicable

3.2.2 regular related transactions

Routine related transactions from January to September this year are as follows:

Unit: RMB

Type of related transaction	Further classification according to product or labor service	Related parties	Estimate total amount		Proportion taking up the amount of the same kind of transactions
Purchase of raw materials	Raw materials of packing	Shanghai Huali Packing Co., Ltd.	37,205,043.61	55,457,642.59	0.58%
		Mudanjiang Huali Packing Co., Ltd.	7,052,490.16		0.11%
		Shenzhen Huali Packing Trade Co., Ltd.	11,200,108.82		0.18%

The Company has published the Forecasting Public Notice on Routine Related Transaction (public notice No. 2006-16) in Securities Times, Shanghai Securities News, China Securities Journal and Ta Kung Pao and the Internet website designated by CSRC <http://www.cninfo.com.cn> on Apr. 28, 2006. In the report period, the pricing base, transaction price, transaction amount and settlement methods of raw material

purchased by the Company from the aforesaid three related parties was basically in compliance with the forecasting.

3.3 Particulars about accounting policy, accounting estimation, change of consolidation scope and significant accounting errors and explanation on reasons

Applicable            Inapplicable

3.4 Relevant explanation of the Board of Directors and the Supervisory Committee under the situation of being audited and issued “Qualified Opinion”

Applicable            Inapplicable

3.5 Estimation of accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation on the reasons

Applicable            Inapplicable

3.6 Rolling adjustment of annual business plan or budget ever disclosed

Applicable            Inapplicable

3.7 Special commitments made by the original shareholders of non-tradable share during share merger reform and their implementation

Applicable            Inapplicable

Name of shareholder	Special commitments	Implementation of commitments
Overseas Chinese Town Group Corporation	(1) They had promised not to trade or transfer the non-circulating shares of Konka Group within 24 months since the day those shares were authorized with listing and circulating rights at the A-share market.	Up to now, no shares subject to moratorium have been traded or transferred.
Anhui Tianda Enterprise (Group) Co., Ltd		
Thomson Investment Group Corporation		(2) After the expiration of the aforesaid commitment, the total former non-circulating shares of Konka Group sold by each shareholder of non-circulating shares through listing at the Stock Exchange would not exceed 5 percent of the Konka Group’s total share number within 12 months, and not exceed 10 percent within 24 months.

3.8 Explanations by companies that have not entered into the share merger reform by the disclosure date of the 3rd quarterly report

Applicable            Inapplicable

**Konka Group Co., Ltd**

**Board of Directors**

Oct. , 2006