

Konka Group Co., Ltd

The 1st Quarterly Report 2007

§1. Important Notes

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

1.2 None of the directors, supervisors, senior management demonstrated uncertainty or disagreement about the truthfulness, accuracy, and completeness of this quarterly report.

1.3

Absent Director	Reason for absent	Assignee
Xiao Zhuoji	Absent with ill	Failed to consign other directors to perform voting right.

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 work Mr. Ruan Renzong hereby declare that they can guarantee the authenticity and completeness of the Financial Report in this Quarterly Report.

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

§2. Company Profile

2.1 Major accounting data and financial indicators

Unit: RMB

	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	9,361,608,446.21	10,019,526,991.31	-6.57
Owners' equity (or Shareholders' equity)	3,395,363,964.92	3,369,057,575.42	0.78
Net assets per share	5.640	5.597	0.77
	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	752,654,139.44		1569.59
Net cash flow from operating activities per share	1.25		1569.59
	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 profit	26,258,875.51	26,258,875.51	8.24
Basic earnings per share	0.0436	0.0436	Increase RMB 0.0033
Dilute earnings per share	0.0436	0.0436	Increase RMB 0.0033
Return on equity	0.7734%	0.7734%	Decrease 0.0083 percentage points
Return on equity deducting non-recurring gains and losses	0.7670%	0.7670%	Decrease 0.0264 percentage points

Items of non-recurring gains and losses

Unit: RMB

Items of non-recurring gains and losses	Amount from year-beginning to the end of report period
Non-operating income	2,475,246.74
Non-operating expense	-2,257,600.82
Total	217,645.92

2.2 Total number of shareholders and shares held the top ten shareholders holding circulating shares with on restrictions on sales at the end of the report period Unit: share

Total number of shareholders at the end of the report period		109,218
Particulars of top ten shareholders not subject to moratorium		
Name of shareholder	Amount of shares not subject to moratorium	Type
HONG KONG CHINA TRAVEL SERVICE (GROUP) CO., LTD.	28,810,660	B share
GAO-LING FUND,L.P.	15,000,000	B share
China Agriculture Bank - 大成精选增值混合型证券投资基金	10,264,106	A share

SVA Information Industry Co., Ltd	9,215,436	A share
NOMURA SECURITIES CO.LTD	6,750,000	B share
ABLEWELL INVESTMENTS IMITED	4,295,060	B share
LGT BANK IN LIECHTENSTEIN AKTIENGESELLSCHAFT	3,795,850	B share
Chuangli (Hong Kong) Development Co., Ltd.	2,568,800	B share
NAM NGAI	2,171,405	B share
CSFB S/A QINHAN CHINA MASTER FUND (CAYMAN) LTD	2,100,000	B share

§ 3 Significant Events

3.1 particulars of great changes on main accounting statement, financial index of the Company and its reasons

Applicable Inapplicable

<p>1. In the report period, the increment of sale return resulted in the capital fund increased by 107.43%.</p> <p>2. In the report period, the increment of sales amount resulted in the total profit and period expenses increased.</p> <p>3. In the report period, non-operating income was more than non-operating expense, which resulted the 157.47% increments of non-operating gains/ losses.</p> <p>4. In the report period, increment of sale returns in the Company resulted in 1569.59% increment of net cash flows.</p>
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3.2 Analysis on and explanation of significant events and the influence and solutions

Applicable Inapplicable

Particulars of daily transactions during the Jan. to Mar. this year:					
				Unit: RMB	
Type of related transaction	Further classification according to product or labor service	Related parties	Total actual transaction	Proportion taking up the amount of the same kind of transactions	
Purchase of raw materials	Raw materials of packing	Shanghai Huali Packing Co., Ltd.	2,660,933.39	37,413,928.32	0.10%
		Mudanjiang Huali Packing Co., Ltd.	4,466,411.33		0.47%
		Shenzhen Huali Packing Trade Co., Ltd.	11,934,628.36		0.18%
		Anhui Huali Packing Trade Co., Ltd.	16,248,064.03		0.64%
		Shenzhen HuaYou Packing Trade Co., Ltd.	2,103,891.21		0.08%

The Company has published the Forecasting Public Notice on Routine Related Transaction (public notice No. 2007-05) in Securities Times, Shanghai Securities News, China Securities Journal and Ta Kung Pao and Internet website designated by CSRC <http://www.cninfo.com.cn> on Apr. 19, 2007. 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 fulfillment of promises made by the Company shareholders and actual controllers

Applicable Inapplicable

<p>OCT Group Co. promised that pay 35% of consideration plan on share merger reform, which needed fulfilled by it, for former non-current shareholders --- Anhui Tianda Enterprise (Group) Co., Ltd. and THOMSON INVESTMENT GROUP LIMITED.</p> <p>Anhui Tianda Enterprise (Group) Co., Ltd. and THOMSON INVESTMENT GROUP LIMITED promised that repay all shares provided by OCT Group Co. in share merger reform, before list & current application of A shares holding by the Company.</p> <p>OCT Group Market, Anhui Tianda Enterprise (Group) Co., Ltd. and THOMSON INVESTMENT GROUP LIMITED promised that: (1) non-tradable shares held by Konka Group would not be listed, transacted or transferred within 24 months since the day of listing and circulating option in the A</p>

share market. (2) After the commitment period, every non-tradable shareholders would sell no more than 5% of total shares of Konka Group within 12 months listed and transacted in Stock Exchange and no more than 10% within 24 months.

3.4 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 of reason

Applicable Inapplicable

3.5 Explanation on the differences between shareholders' equity in the year-beginning 2007 of balance sheet in this quarter report, and that in "Adjustment Sheet on Difference of Shareholders' equity in New & Old Accounting Standard"

Applicable Inapplicable

§ 4 Appendix

4.1 Consolidated income statement

For the period from January to March

	Jan.-Mar. 2007	Jan.-Mar. 2006
	RMB'000	RMB'000
Turnover	3,366,504	3,187,048
Cost of sales	<u>(2,834,665)</u>	<u>(2,675,047)</u>
Gross profit	531,839	512,001
Other revenue	9,791	8,629
Distribution costs	(388,774)	(360,037)
Administrative costs	(121,044)	(129,928)
Operating profit	31,811	30,665
Finance costs	(6,582)	(1,828)
Share of loss from associates	-	-
Profit before taxation	25,229	28,837
Income tax	<u>(3,310)</u>	<u>(3,038)</u>
Profit for the year	<u><u>21,919</u></u>	<u><u>25,799</u></u>
Attributable to :		
Equity holders of the parent	22,686	28,837
Share of results of minority interests	(768)	(3,038)
Profit attributable to equity holders of the parent	<u><u>21,919</u></u>	<u><u>25,799</u></u>
Profit per share to equity holders of the parent - basis	<u><u>RMB0.039</u></u>	<u><u>RMB0.042</u></u>

Chairman of the Board:Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

4.2 Consolidated Balance Sheet

As of March 31, 2007

	Mar. 31, 2007	Mar. 31, 2006
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,266,989	1,308,162
Land use rights - non-current portion	26,428	26,428

Goodwill	4,840	4,840
Intangible assets	19,188	16,341
Deferred income tax assts	46,508	46,151
Interests in associates	70,122	-
Other investments	23,325	15,290
	<u>1,457,400</u>	<u>1,417,212</u>
Current assets		
Land use rights - current portion	630	630
Inventories	2,640,080	3,551,897
Properties held for sale	4,172	4,172
Account receivables	801,995	950,048
Prepayments, deposits and other receivables	147,529	276,215
Note receivables	2,903,823	3,144,956
Cash and bank balances	1,406,876	678,240
	<u>7,905,105</u>	<u>8,606,158</u>
Total assets	<u>9,362,505</u>	<u>10,023,370</u>

Chairman of the Board;Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

Consolidated Balance Sheet (Con.)

As of March 31, 2007

Capital and reserves		
Share capital	601,986	601,986
Reserves	2,737,512	2,704,106
	<u>3,339,498</u>	<u>3,306,092</u>
Equity attributable to equity holders of the parent		
Minority interests	238,847	243,669
	<u>3,578,344</u>	<u>3,549,761</u>
Total equity		
Non-current liabilities		
Deferred income	7,495	7,495
Deferred tax liabilities	563	-
Other long-term liabilities	27,977	27,495
	<u>36,035</u>	<u>34,990</u>
Current liabilities		
Tax payable	(27,332)	10,088
Account payables	1,144,781	1,217,777
Other payables and accrued expenses	953,334	1,081,080
Note payables	3,662,342	4,114,674
Short-term bank loans	15,000	15,000
	<u>5,748,125</u>	<u>6,438,619</u>
Total liabilities	<u>5,784,161</u>	<u>6,473,609</u>
Total equity and liabilities	<u>9,362,505</u>	<u>10,023,370</u>

Chairman of the Board;Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

4.3 Consolidated Cash Flow Statement

For the period from January to March, 2007

	Jan.–Mar. 2007 RMB'000	Jan.–Mar. 2006 RMB'000
Cash flow from operating activities		
Operating profit before taxation	25,229	28,837
Adjustment items :		
Interest income	1,468	1,251
Income from government grant	-	-
Other payables waived	-	-
Interest expenses	-	-
Depreciation of property, plant and equipment	27,017	34,210
Loss on disposal of property, plant and equipment	1,211	214
Reversal for impairment loss on property, plant	-	-
	(70,685)	-
Amortization of land use rights	-	-
Impairment loss on goodwill	-	-
Amortization of intangible assets	(411)	3,423
Profit on partial disposal of a subsidiary	1,592	1,939
Share of results from associates	-	-
Reversal for impairment loss on associates	-	-
Provision for inventory obsolescence	-	-
Inventories written off	-	-
Provision for doubtful debts on account receivables	-	-
Provision for doubtful debts on other receivables	-	-
Net operating cash inflow before movements	(14,578)	69,874
Exchange reserve movement	-	(139)
(Increase)/decrease in inventories	911,817	431,453
Increase in account receivables	148,053	153,927
Increase in prepayments, deposits and other receivables	128,686	-
(Increase)/decrease in note receivables	241,133	-
Increase/(decrease) in account payables	(72,996)	(705,679)
Increase/(decrease) in other payables and accrued charges	(127,746)	-
Increase/(decrease) in note payables	(452,332)	-
Cash generated from/(absorbed in) operations	762,038	(50,564)
Interest paid	(5,114)	(8,274)
Corporate and profits tax paid	-	-
Net cash inflow/(outflow) from operating activities	756,924	(58,838)
Investing activities		
Interest received	-	-
Purchases of property, plant and equipment	(23,741)	(11,876)
Proceeds from disposal of property, plant	65	269
Purchase of intangible assets	-	-
Returns from partial investment in associates	(1,000)	-
Increase of investment in associates	-	-
Repayments to associates	2	(7,000)
Acquisition of other investments	-	-
Net cash outflow from investing activities	(24,674)	(18,607)
Financing activities		
Bank loans repaid	-	-
Other long-term liabilities raised	-	-
Dividend paid to minority interests	(2,577)	-

Increase/(decrease) in minority interests	(<u>1,037</u>	(<u>790</u>
Net cash outflow from financing activities	(<u>3,614</u>	(<u>790</u>
Increase/(decrease) in cash and cash equivalents		728,636	(78,235)
Cash and cash equivalents as at		<u>678,240</u>		<u>629,160</u>
Cash and cash equivalents as at end of the year		<u>1,406,876</u>		<u>550,925</u>

Chairman of the Board;Hou Songrong Chief Financial Official: Yang Guobin Organizer:Ruan Renzong

4.4 Audit report

Auditing opinion: un-audit

Board of Directors of
Konka Group Co., Ltd.
April 26, 2007