

**KONKA GROUP CO., LTD.**  
**SEMI-ANNUAL REPORT 2003**

**Konka Group Co., Ltd.**

**Chairman of the Board: Ren Kelei**

**August 20, 2003**

# KONKA GROUP CO., LTD.

## SEMI-ANNUAL REPORT 2003

### Important Notice

Board of Directors and of KONKA GROUP CO., LTD. (hereinafter referred to as the Company) all Directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Director, Mr. Wei Qing entrusted Director, Mr. Ren Kelei to be present at the meeting and vote on his behalf and Director, Mr. Liang Rong was absent in the meeting due to the work.

Chairman of the Board of the Company Mr. Ren Kelei, Chief Financial Supervisor Mr. Yang Guobin and General Manager of Financial Department Ms. Yang Rong hereby confirm that the Financial Report of the Semi-annual Report is true and complete.

The financial report of the semi-annual report of the Company is not audited.

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## I. Company Profile

### (I) Basic information

1. Legal Name of the Company:

In Chinese: 康佳集团股份有限公司 (Abbr.: 康佳集团)

In English: KONKA GROUP CO., LTD. (Abbr.: KONKA)

2. Registered (Office) Address: Overseas Chinese Town, Nanshan District, Shenzhen

Post Code: 518053

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

E-mail: [szkonka@konka.com](mailto:szkonka@konka.com)

3. Legal Representative: Mr. Ren Kelei (Chairman of the Board)

4. Secretary of Board of Directors: Mr. Chen Xuri

Authorized Representative in Charge of Securities Affairs: Mr. Chen Xuri and Mr. Yang Guobin

Contact Address: Konka Group Co., Ltd., Overseas Chinese Town, Shenzhen

Tel: (86) 755-26608866

Fax: (86) 755-26600082

E-mail: [chenxuri@konka.com](mailto:chenxuri@konka.com), [yangguobin@konka.com](mailto:yangguobin@konka.com)

5. Newspaper Chosen for Disclosing the Information of the Company:

China Securities, Securities Times and Ta Kung Pao, etc.

Internet Website Designated by CSRC for Publishing the Annual Report:

<http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed:

Secretariat of Board of Directors of the Company

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: Shen Konka - A, Shen Konka - B

Stock Code: 000016, 200016

7. Date of the Initial Registration: Oct.1, 1980

Place of the Initial Registration: Shenzhen.

8. Registered Code of Enterprise Legal Person's Business License: QGYSZ Zi No. 100476

9. Registered Code of Tax: 440301618815578

10. Certified Public Accountants Engaged by the Company

Name: Shenzhen Dahua Tiancheng Certified Public Accountants

Address: Room 1102-1103, on the 11<sup>th</sup> Floor, Tower B, Lianhe Plaza, No. 5022, Binhai Av., Futian District, Shenzhen

### (II) Accounting data and business data

1. Major accounting data and financial indexes (unit:RMB)

Items	June 30, 2003	Dec.31, 2002	Increase/decrease (%)
Current assets	5,912,400,024.24	5,326,387,140.19	11.00%
Current liabilities	4,377,447,356.03	3,796,306,416.05	15.31%
Total assets	7,613,937,739.47	7,005,974,161.16	8.68%

Shareholders' equity (excluding minority shareholder)	2,983,823,775.44	2,953,508,827.21	1.03%
Net assets per share	4.957	4.906	1.04%
Net assets per share after adjusted	4.770	4.787	-3.55%
Items	Jan.1, 2003-June 30, 2003	Jan.1, 2002-June 30, 2002	Increase/decrease (%)
Net profit	30,264,392.86	24,199,186.01	25.06%
Net profit after deducting non-recurring gains and losses	42,931,790.59	32,040,299.94	33.99%
Earnings per share	0.0503	0.0402	25.12%
Ratio of return on equity (%)	1.0143%	0.8252%	22.92%
Net amount of cash flows per share from operating activities	-53,821,836.86	386,498,442.05	-113.93%

## 2、Items of non-recurring gains and losses (unit: RMB)

Items of non-recurring gains and losses	Amount
Income from non-business	1,971,324.85
Expenditure from non-business	-14,483,257.09
Subsidy income	3,025.00
Transfer-in of consolidated price difference	-158,490.49
Total	-12,667,397.73

## 3. Difference of Chinese and international accounting standard

	Net assets	Net profit
As audited IAS	2,976,768,525.44	31,763,142.86
Prior year adjustment on capital reserves	6,978,000.00	0
Prior year adjustment on statutory surplus reserves	-17,909,000.00	0
Government grant transfer from capital reserves as deferred income	23,980,000.00	0
Government grant recognized as income	-5,993,750.00	-1,498,750
As audited CAS	2,983,823,775.44	30,264,392.86

## II. Changes in Share Capital and Particular about Shareholders

1. In the report period, the shares of senior executives held by the original director, Mr. Chen Weirong and the original Deputy President, Mr. Lin Han-hui has been unfrozen to circulate according to relevant regulations and it caused that the shares of senior executives at the period-end decreased 25,384 shares and normal shares increased 25,384 shares. In addition, the number and composing of shares have no change.

2. Ended the period, the number of shareholders is 151,212 including 135,474 A shares and 15,738 B shares.

3. Shares held by top ten shareholders

Full name of Shareholders	Increase / decrease in the report year (share)	Holding shares at the year-end	Proportion (%)	Type of shares	Number of share pledged/ frozen	Nature of shareholders
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Overseas Chinese Town Group Company	0	174,949,746	29.06	Non-circulated A share	174,949,741	State-owned shareholder
Overseas Chinese Town (Hong Kong) Co., Ltd.	-3,371,085	73,161,487	12.15	Circulated B share	Unknown	Domestic shareholders
Hong Kong China Travel Service (Group) Co., Ltd.	0	45,416,337	7.54	Circulated B share	Unknown	Domestic shareholders
Fenghe Value Securities Investment Fund	+5,816,887	5,816,887	0.96	Circulated A share	Unknown	Overseas shareholder
NOMURA TB/NOMURA ITM	+50,000	2,500,000	0.41	Circulated B share	Unknown	Domestic shareholders
TOYO SECURITIES ASIA LIMITED A/C CLIENT	-120,730	2,239,971	0.37	Circulated B share	Unknown	Domestic shareholders
South Solidity Development Securities Investment Fund	+1,944,805	1,944,805	0.32	Circulated A share	Unknown	Domestic shareholder
Kai Yuan Securities Investment Fund	+679,972	1,852,800	0.31	Circulated A share	Unknown	Domestic shareholder
Longyuan Securities Investment Fund	-92,200	1,788,028	0.30	Circulated A share	Unknown	Domestic shareholder
Xin Ming	0	1,249,868	0.21	Circulated B share	Unknown	Nature person

3. In the report period, the shareholder of share controlling and the actual controller of the Company has no change.

### **III. Changes in Shares Held by Directors, Supervisors and Senior Executives**

1. Particulars about shares held by the current directors, supervisors and senior executives of the Company did not change.

2. In the report period, the Company did not recruit or dismiss any directors, supervisors and senior executives.

### **IV. Discussions and Analysis of the Management**

#### **(I) Analysis to the operating results**

The Company, which belongs to industry of electron manufacture and communication manufacture at present, is mainly engaged in the production and operation of color TVs, digital mobile telephones and their accessory products such as high frequency mould, plastic injection, packaging and etc..

According to the arrangements at the beginning of the year, tightly surrounding the core rhythm of “Development and Advancement”, the Company caught the market opportunity with the spirit of openness and fighting, innovated the thought and faced the competition, which resulted that the Company gained relatively large development in all three businesses of color TVs, mobile telephones and overseas business.

In the business of color TVs, according to the thought of “Maximum profits in a certain scale”, the Company enhanced the proportion of products with high technology through implementing “High Definition Engineering” and had relatively large breakthrough in “High Definition” series color TVs such as progressive scan, digital, rear projector, plasma and etc.. In May and June, the market share of LCD TVs exceeded 30%. At the same time, according to the data supervised by the authorities, in the first half of the year, the domestic market share of Konka color TVs took in the top three steadily with the monthly average rate of market share exceeding 16%, of which it reached No. 1 in March, May and June.

In the business of mobile telephones, in compliance with the principle of “Maximum scale under the premise of certain profits”, catching the good opportunity of rapid increase of color screen

mobile telephones, the Company enlarged the market input and promotion through channels innovation with sale of mobile telephones realized per month in average amounting to 400,000 pieces, realized the rapid increase of sale and established the image of “color screen pioneer”. The Company had entered into the top five in the industry of domestic mobile telephones and top three in the homemade brands and had realized spanning from the Line No.2 and No.3 of brand to Line No.1. Along with the reflection of scale enlargement and cost advantage, it was hopeful for the Company to increase the gross profit ratio in the second half of the year.

In the overseas business, the Company overcame the influence arising from the “War in Iraq”, “SARS” and “Anti0-dumping” etc. and put great efforts to develop the OEM business through expanding the new market, looked for international cooperation, which made the sales volume and income increase by a comparatively large margin than that of the same period of last year.

Ended June 30, in the first half of the year, the Company totally sold 3,204,900 pieces of color TVs, among which, the domestic sale amounted to 2,880,200 pieces, an increase of 27.19% than that of the same period of last year, and foreign sale amounted to 324,700 pieces, an increase of 70.27% than that of the same period of last year. The mobile telephones sold were 2,341,400 pieces, an increase of 318.48% than that of the same period of last year. In Jan.-June, the total sales income realized was RMB 6.00 billion, an increase of 57.71% than that of the same period of last year, among which, the income from the business of mobile telephones increased by 258.02%, taking 36.27% of the total income. The net profit was RMB30.26 million, an increase of 25.06 % than that of the same period of last year, and earnings per share was RMB 0.0503.

**(II) Analysis to financial indexes (Unit: RMB)**

Items	Jan.-June 2003	Jan.-June 2002	Increase/decrease than that of the same period of last year
Income from core business	6,001,551,536.87	3,805,488,465.25	57.71%
Cost of core business	5,211,576,251.50	3,210,310,822.63	62.34%
Profit of core business	789,376,120.68	594,507,414.55	32.78%
Management expenses	129,027,884.24	117,875,061.97	9.46%
Financial expenses	19,859,277.81	19,693,914.29	0.84%
Net profit	30,264,392.86	24,199,186.01	25.06%
Net increase in cash and cash equivalents	-127,627,745.46	-140,394,178.15	-
Items	June 30, 2003	Dec. 31, 2002	Increase/decrease than that of the same period of last year
Total assets	7,613,937,739.47	7,005,974,161.16	8.68%
Shareholders' equity	2,983,823,775.44	2,953,508,827.21	1.03%
Accounts receivable	340,765,773.40	278,685,788.32	22.28%
Fixed assets	1,361,786,845.03	1,350,234,447.15	8.56%
Undistributed profits	-584,399,854.93	-614,664,247.79	-

Explanation and analysis of main change items:

The reasons of large changes in income and cost of core business were that the sales situation of all businesses was good and the business of mobile telephones even developed in a quick way. However, at the same time due to the influence of price competition and other factors, the change rate of cost was larger than the change rate of income than that of the same period of last year. The reason for the change of accounts receivable was that the sales scale of the Company was

enlarged in the report period, the total amount of credit sale increased relatively and the repayment period was still not in expiration.

**(III) Particulars about core business classified according to industries, products and areas and statement of their comparison with those of the same period of last year**

Industries	Products (areas)	Income from core business (RMB)	Cost of core business (RMB)	Gross profit ratio (%)	Comparison with that of the same period of last year		
					Increase/decrease of income (%)	Increase/decrease of cost (%)	Increase/decrease of gross profit ratio (%)
Household appliances	Color TVs (domestic sale)	3,611,564,450.48	3,055,453,245.29	15.40	19.02	19.70	-3.04
	Color TVs (overseas sale)	211,950,761.90	191,012,542.38	9.88	30.32	25.46	54.50
	Total household appliances (domestic sale)	3,823,515,212.28	3,246,465,787.67	15.09	19.59	20.02	-2.01
Communication	mobile phones	2,178,036,324.49	1,965,110,463.83	9.78	258.02	288.77	-42.20

Note: There existed no related transactions in the above.

**(IV) Operation of controlling companies whose investment earnings impacted over 10% influence on the net profit of the Company**

Name of share-holding company	Shenzhen Konka Communication Technology Co., Ltd.		
Investment earnings contributed in the period (RMB)	12,116,790.16	Proportion in the net profit of listed company	40.04%
Share-holding company	Operation scope	Development, production and operation of digital mobile communication equipments and mobile telephone products	
	Net profit (RMB)	12,116,790.16	

**V. Significant Events**

**(I) The Company's administration**

The actual situation of the Company's administration complied with the requirement of relevant documents of CSRC.

**(II) Profit distribution, capitalization of public reserve and issuance**

The Company had no profit distribution or capitalization of public reserve into share capital in the mid-year.

**(III) Material lawsuits and arbitrations**

By the end of the report period, the Company existed no significant lawsuits and arbitrations.

**(IV) Material purchase, sale and reorganization of assets**

By the end of the report period, the Company existed no significant purchase, sale and reorganization of assets

**(V) Material related transactions**

The Company is the holding subsidiary of OCT Group Company. Hong Kong Konka Co., Ltd. (Hereinafter referred to as Hong Kong Konka is the full capital subsidiary of the Company set in Hong Kong. Hong Kong OCT Co., Ltd. (hereinafter referred to as Hong Kong OCT Co., Ltd.) is the full capital subsidiary of OCT Group Company set in Hong Kong. OCT Group Company holds 45% equity of OCT Real Estate Co., Ltd. (hereinafter referred to as OCT Real Estate Co., Ltd.)

1. The Company cooperated with OCT Real Estate Co., Ltd. to operate D and E building of OCT PORTOFINO•SWAN CASTLE Real Estate Project

The acreage available for sale of the real estate items after development is 590,590,100 sq.m. and 41,443.36 sq.m. has been sold in 2002. The income from sale is RMB 372,470,394.00 and distributable profit is RMB 125,000,773.38. The profit for the Company in 2002 is RMB 75,000,464.03, which has been reckoned in the earnings from investment in 2002 and taken back on Dec.31, 2002 and took back RMB 65,000,000 investment. According to the cooperation contract between the two parties, the project of real estate is settled annually and has not earning in this period.

2. The Company cooperated with OCT Real Estate Co., Ltd. to operate the 3rd phase of Jinxiu Garden real estate project.

The Project is located in the east of Shenzhen OCT, occupies an area of 33700 m<sup>2</sup> with total construction area of 115000 m<sup>2</sup>(including basement of 18000 m<sup>2</sup>). The project started from October 2001, with a construction term of about 2 years. The project has a total investment of RMB 0.5 billion, among which, investment of the Company reached RMB0.1 billion, taking 20% of the total investment and investment of OCT Real Estate Co., Ltd. of RMB 0.4 billion, taking 80% of the total investment. The Company and OCT Real Estate Co., Ltd. were distributed profit (settled annually) and took relevant risks according to the above-mentioned investment proportion. At present, the sale of the project is good. According to the cooperation contract between the two parties, the project of real estate is settled annually and has not earning in this period.

In addition, there were related transactions between the Company and the subsidiaries of the Company's control shareholder, OCT Group. The transactions including paying storage, estate expense, land use fee and purchasing goods are fair according to the market price and did not damage the interest of the Company and other shareholders of the Company. Please refer to (3) Related transactions and (4) Current of related companies of Note 6 in the accounting statements of financial report.

#### **(VI) Material contracts and their implementations**

1. In the report period, the Company had never kept as custodian, contracted or leased any other company's assets and vice versa.
2. In the report period, the Company had never offered guarantee for external parties.
3. In the report period, the Company had never entrusted financing.

#### **(VII) Commitments of the shareholders**

By the end of report period, the Company and the shareholders holding 5% shares of the Company existed no commitment.

#### **(VIII) Other significant events**

In the report year, there existed no such event resulted in inspection, administrative punishment or circulating notice of criticism from China Securities Regulatory Commission and other administration departments or public blame from the Shenzhen Stock Exchange against the Company, the Board of Directors or any directors.

#### **(IX) Indexes of information disclosure of other significant events**

1.2002 Annual Report Summary, Public Notice on Resolutions of the 11<sup>th</sup> Meeting of the 4<sup>th</sup> Bureau of Directors, Public Notice on Resolutions of the 7<sup>th</sup> Meeting of the 4<sup>th</sup> Supervisory Committee, Notification of Holding 2002 Annual Shareholders' General Meeting, Public Notice

of Konka Group Co., Ltd. were published on Page 21 of China Securities, Page 21 and 22 of Securities Times, Page 12 of Shanghai Securities News and Page A15 of Ta Kung Pao dated Apr.21, 2003.

2.The 1<sup>st</sup> Quarterly Report of 2003, Public Notice on Resolutions of the 12<sup>th</sup> Meeting of the 4<sup>th</sup> Bureau of Directors and Public Notice of Konka Group Co., Ltd. were published on Page 25 of China Securities, Page 37 of Securities Times, Page 52 of Shanghai Securities News and Page C7 of Ta Kung Pao dated Apr.22, 2003.

3.Public Notice of Change of Place of the Shareholders' General Meeting was published on Page 16 of China Securities and Page C7 of Ta Kung Pao dated May 15, 2003.

4.Public Notice on Resolution of 2002 Annual Shareholders' General Meeting and Law Opinion of 2002 Annual Shareholders' General Meeting were published Page 8 of China Securities, Page 37 of Securities Times, Page 52 of Shanghai Securities News and Page A10 of Ta Kung Pao dated May 23, 2003.

The above information of public notice was published on the web of CNINFO, namely [www.cninfo.com.cn](http://www.cninfo.com.cn).

## **VI. Financial Report**

2003 semi-annul financial report was attached.

## **VII. Documents Available for Reference**

- 1.Original of semi-annul report carried with Chairman of the Bureau of the Directors;
- 2.Originals of the financial report carried with the seal of principal of the Company, person in charge of accounting and person in charge of accounting organization;
- 3.Originals of all documents and manuscripts of public notices disclosed on the newspapers designated by CSRC in the report period;
- 4.Original of Articles of Association;
- 5.Other relevant materials.

**Board of Directors of  
Konka Group Co., Ltd.  
Aug. 20, 2003**

KONKA GROUP CO., LTD.

For the period ended June 30, 2003

# **Financial Report (for B shares)**

(Un-audited)

## **Contents**

- 1. Consolidated Balance Sheet**
- 2. Consolidated Profit and Loss Account**
- 3. Consolidated Statement of Cash Flow**
- 4. Notes to Financial Statements**

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**Legal Representative: Ren Ke-lei**

**Financial Controller: Yang Guo-bin**

**Accountants in Charge: Yang Rong**

Konka Group Co., Ltd.  
(Incorporated in the People's Republic of China)  
Consolidated income statement  
For the half year ended Jun. 30, 2003

	Note	Jan. – Jun. 2003	Jan. – Jun. 2002
		<u>RMB' 000</u>	<u>RMB' 000</u>
Turnover	5	6,001,552	3,805,488
Cost of sales		(5,211,576)	(3,210,311)
Gross profit		789,976	595,177
Other revenue		(6,186)	17,579
Distribution costs		(597,583)	(434,744)
Administrative expenses		(129,028)	(117,875)
Other operating expenses		(599)	(670)
Profit from operating activities		56,580	59,467
Finance costs		(19,860)	(19,694)
Share of profit of associated companies		(84)	111
Profit before taxation		36,636	39,884
Taxation	6	(3,248)	(12,966)
Profit before minority interests		33,388	26,918
Share of profit of minority interests		(1,625)	(1,220)
Net profit in the interim period of 2003		31,763	25,698
Retained profit at the year-beginning		(610,169)	(653,292)
Profit attributable to shareholders		(578,406)	(627,594)
Profit distribution:			
Transferring into reserves			
Dividends			
Issue of bonus shares			
Retained profit at end of the interim period		(578,406)	(627,594)
Earnings/(loss) per share - basic	7	RMB 0.05	RMB 0.04

Konka Group Co., Ltd.  
(Incorporated in the People's Republic of China)  
Consolidated statement of recognized gains and losses  
For the half year ended Jun. 30, 2003

	Note Jan. – Jun. 2003	Jan. – Jun. 2002
	RMB' 000	RMB' 000
Exchange differences arising on foreign 19 currencies	(308)	2,355
Net profit not recognized in the financial statement	(308)	2,355
Net profit for the year	31,763	25,698
	31,763	28,053

Konka Group Co., Ltd.  
(Incorporated in the People's Republic of China)  
Consolidated Balance Sheet  
For the half year ended Jun. 30, 2003

	Note	Jun. 30, 2003	Dec. 31, 2002
		<u>RMB' 000</u>	<u>RMB' 000</u>
Non-current assets			
Fixed assets	8	1,394,094	1,383,137
Goodwill	9	1,426	1,585
Intangible assets		7,950	8,674
Interests in associates	10	57,236	53,993
Other investments	11	210,290	211,790
		<u>1,670,996</u>	<u>1,659,179</u>
Current assets		5,928,008	5,343,439
Bank balances and cash		917,271	1,044,899
Inventories	12	3,045,575	2,578,796
Properties held for sale	13	4,172	4,172
Note receivables		1,422,919	1,205,139
Account receivables	14	332,196	277,156
Prepayments, deposits and other receivables	15	205,875	233,277
		<u>5,928,008</u>	<u>5,343,439</u>
Current liabilities		(4,342,756)	(3,770,733)
Tax payable		(3,248)	(3,508)
Short-term bank loans	16	(141,000)	(164,000)
Note payables		(2,569,628)	(1,903,760)
Account payables		(1,053,373)	(872,733)
Other payables and accrued expenses		(575,507)	(826,732)
		<u>(4,342,756)</u>	<u>(3,770,733)</u>
Net current assets		<u>1,585,252</u>	<u>1,572,706</u>
Total assets less current liabilities		<u>3,256,248</u>	<u>3,231,885</u>
		=====	=====

Consolidated Balance Sheet (Con.)  
For the half year ended Jun. 30, 2003

	Note s	Jun. 30, 2003	Dec. 31, 2002
		RMB' 000	RMB' 000
Total assets less current liabilities		3,256,248	3,231,885
Long-term account receivables of financing lease			
Long-term bank loans	17		
Deferred income		(17,986)	(19,485)
Other long-term liabilities		(24,083)	(24,283)
		(42,069)	(43,768)
Minority interests		(237,411)	(243,162)
		2,976,768	2,944,955
		=====	=====
Shareholders' equity			
Share capital	18	601,986	601,986
Reserves	19	2,374,782	2,342,969
Shareholders' equity		2,976,768	2,944,955

(The accompanying notes are an integral part of these consolidated financial statements)

Financial consolidated statement has been approved by the Board of Directors dated Aug. 20, 2003

Konka Group Co., Ltd.  
(Incorporated in the People's Republic of China)  
Consolidated Cash Flow Statement  
For the half year ended Jun. 30, 2003

	Jan. – Jun. 2003	Jan. – Jun. 2002
	RMB' 000	RMB' 000
Cash flow from operating activities		
Operating profit	31,763	25,698
Adjustment items:		
Depreciation of fixed assets	63,002	73,056
Amortization of intangible assets	1,541	5,808
Amortization of deferred expenditure	7,950	17,368
Loss on rejection or sale of fixed assets	1,034	3,257
Loss on disposal of properties held for sale	0	-
Interests income	10,498	(6,361)
Balance difference from foreign currency exchange	(615)	(145)
(Increase)/decrease in account receivables	(275,123)	150,071
(Increase)/decrease in inventories	(470,736)	324,714
Decrease in account payables	573,002	(220,070)
Income tax paid	3,248	12,966
	(54,436)	386,362
Investing reward and financing expenses		
Interests received		
Interests paid	(10,834)	(16,329)
Dividend paid		
	(10,834)	(16,329)
Cash outflow from investing reward and financing expenses		
	(10,834)	(16,329)
Investing activities		
Purchases of fixed assets	(106,063)	(36,522)
Proceeds from disposal of fixed assets	2,354	9,302
Deferred expenses paid	0	-
Net cash inflow/ ( expenditure ) from acquisition of associates	59,353	34,092
Investment in associated company		(265,000)
Purchases of long-term investment	(975)	(30)
Net cash outflow from investing activities	(45,331)	(258,158)
Net cash outflow before financing activities	(110,601)	111,875

Consolidated Cash Flows Statement (Con.)  
For the half year ended Jun. 30, 2003

	Jan. – Jun. 2003	Jan – Jun. 2002
	RMB' 000	RMB' 000
Financing activities		
Additional bank loans	7,500	28,250
Repayment for bank loans	(30,927)	(279,716)
Expenditure of financing lease	(100)	(8)
Contribution from minority shareholders on formation of new subsidiary	6,500	5,500
Dividend paid to minority shareholders	0	(795)
Net cash inflow from financing activities	(17,027)	(252,269)
Cash and cash equivalents at beginning of the period	1,044,899	994,857
Cash and cash equivalents at end of the period	917,271	854,463
Net increase/(decrease) in cash and cash equivalents	(127,628)	(140,394)
	=====	=====
Analysis of balances of cash and cash equivalents		
Monetary funds	917,271	854,463

## Konka Group Co., Ltd.

### Notes to the financial statements for the period ended June 30, 2003

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#### 1. General information

Konka Group Co., Ltd. (“the Company”), formerly known as Shenzhen Konka Electronic Group Co., Ltd., obtained approval from Shenzhen Municipal People’s Government to reorganize into a limited stock company in August 1991. On the approval of the People’s Bank of China, Shenzhen Branch, the Company issued “A” shares and “B” shares, which have then been listed on the Shenzhen Exchange. On August 29, 1995, the Company changed its name to Konka Group Co., Ltd.

The principal activities of the Company and its subsidiaries (“the Group”) include the manufacture and sale of color television, stereo recorders, hi-fi component systems, facsimile machines and telecommunication products, property development and investment.

#### 2. Basis of preparation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Accounting Standards (“IAS”) issued by the International Federation of Accountants. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IAS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at June 30, 2003 and on the operating results for the period are included in note 22 to the financial statements. In addition, Apart from certain fixed asset items that are recorded at valuation basis and short-term investments that are recorded at the lower of cost and market value/net realizable value, the financial statements have been prepared under the historical cost convention.

#### 3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to June 30 each year. Except for those subsidiaries not consolidated for the reasons stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

##### (a) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment and/or has the power to cast the majority of votes at meetings of the board of directors/management committee. As at June 30, 2003., the Company held the following subsidiaries :

## (a) Subsidiaries (cont'd)

Name of the company	Place of incorporation/ registration	Registration capital RMB'000	Percentage of interest held		Principal activities
			Direct %	Indirect %	
Dongguan Konka Electronic Co., Ltd.	PRC	RMB200,000	100	-	Production of TV sets, hi-fi, etc
Konka Pacific Pty. Ltd. *	Australia	AUD1,000	100	-	Sale of electronic products
Konka (U.S.A.) Ltd. *	U.S.A.	USD3,000	100	-	Research and development
Hong Kong Konka Limited	Hong Kong	HKD500	100	-	Trading of electronic products
Anhui Konka Electronic Co., Ltd.	PRC	RMB128,500	65	-	Manufacture and sale of TV sets
Mudanjiang Konka Industrial Co., Ltd.	PRC	RMB68,000	60	-	Manufacture and sale of TV sets
Chongqing Konka Electronic Co., Ltd.	PRC	RMB45,000	60	-	Manufacture and sale of TV sets
Shenzhen Konka Electrical Co., Ltd.	PRC	RMB8,300	51	-	Manufacture and sale of electronic products
Shenzhen Konka Telecommunications Technology Co., Ltd.	PRC	RMB120,000	75	25	Manufacture and sale of mobile phones
Shenzhen Shushida Electronic Co., Ltd.	PRC	RMB42,000	75	25	Manufacture and sale of electronic products
Shenzhen Konka Communication Network Co., Ltd.	PRC	RMB30,000	75	25	Manufacture and sale of digital network products
Chongqing Qingjia Electronic Co., Ltd.	PRC	RMB15,000	50	10	Manufacture and sale of electronic parts
Shenzhen Konka Precision Mould Co., Ltd.	PRC	RMB14,500	49	51	Production of mould
Shenzhen Konka Injected Plastic Manufactory Co., Ltd.	PRC	RMB9,500	49	51	Production of plastic products
Shanxi Konka Electronic Co., Ltd.	PRC	RMB69,500	45	15	Manufacture and sale of TV sets
Dongguan Konka Packaging Co., Ltd.	PRC	RMB10,000	-	100	Production of plastic products
Hong Din International Trade Limited	Hong Kong	HKD500	-	100	International trade
Hong Din Investment Development Limited	Hong Kong	HKD500	-	100	Investment holding
Indonesia Konka	Indonesia	USD500	-	100	Trading

Trading Limited *						
Konka Electronics (India) Co., Ltd. *	India	USD1,160	-	70	Production of color TV sets	
Changshu Konka Electronic Co., Ltd.	PRC	RMB24,650	-	60	Manufacture and sale of electronics products	
Boluo Konka Printed Co., Ltd.	PRC	RMB40,000	-	51	Manufacture and sale of electronic	
Anhui Konka Home Appliances Co., Ltd	PRC	RMB1,000	-	55	Manufacture and sale of electronic	
Shenzhen Vision Systems Engineering Co., Ltd	PRC	RMB1,500	60	40	Manufacture and sale of electronic	

\* The results and the financial position of these companies are not required to be consolidated because they had ceased the business.

\*\* The company is changed from Shenzhen Xintianwo Mould Co., Ltd. and the Company has 60% equity of it.

\*\*\* The company was newly established this year and the Company has actual control right

of it.

#### (b) Associates

An associate is a company in which the Company holds, directly or indirectly, not less than 20% and not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company. The investments in associates are accounted for by the Group using the equity method of accounting.

The associates held by the Company as at June 30, 2003 are shown in note 10 to the financial statements.

### 4. Significant accounting policies

#### (a) Property, plant and equipment

Property, plant and equipment other than construction-in-progress is stated at cost less depreciation and amortization. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalized as an additional cost of the assets.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives, taking into account the estimated

residual value of 10% of the cost or revalued amount, as follows :

Land use rights	Over the lease terms
Buildings	2.25%
Leasehold improvements	20%
Machinery and equipment	9%
Electronic equipment	18%
Motor vehicles	18%

The valuation of the property, plant and equipment includes the costs of buildings, machinery and furniture, and also the interest expenses and exchange differences arising from bank loans that finance the construction.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value, which is the difference between the recoverable amount and the carrying amount.

(b) Construction-in-progress

Construction-in-progress is stated at cost, which includes all construction costs and other direct costs (including borrowing costs capitalized), attributable to such projects. The latter include factories, office buildings and facilities. Construction-in-progress is not depreciated until completion. Costs on completed construction works are transferred to the relevant category of property, plant and equipment when completed.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over the estimated useful lives, which are on average 10 years.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

(d) Intangible assets

The cost of technical know-how is amortized on a straight-line basis over its profit-generating period.

Trademarks are measured initially at cost and amortized on a straight-line basis over their estimated useful lives, which are on average 5 years.

(e) Investments

Long-term investments are stated at cost less impairment loss that is other than temporary whilst short-term investments are stated at the lower of cost and market value or net realizable value.

(f) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises direct materials, direct labor cost and an appropriate portion of overheads. Cost is calculated using the weighted average method. Net realizable value is calculated as the estimated selling price less all further costs of production and the related costs of marketing, selling and distribution.

(g) Properties held for sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realizable value is estimated by the directors based on prevailing market prices, on an individual property basis.

(h) Deferred taxation

Tax liabilities arising from timing differences, which are probable to be crystallized in the foreseeable future, are recognized as deferred tax liabilities.

(i) Deferred income

Long-term government grants towards research and technical know-how development are recognized as income on a straight-line basis over the period of the grant.

(j) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily available to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and the stage of completion of the transactions can be measured reliably :

- i) Revenue from sales of goods is recognized when the risks and rewards of ownership of the goods are substantially transferred to customers.
- ii) For properties held for sale, revenue is recognized on the execution of an unconditional binding sales agreement.

- iii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- iv) Dividend income from investments is recognized when the shareholders' rights to receive payments have been established.

(l) Foreign currency conversion

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated at the rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates prevailing at the balance sheet date.

Exchange differences arising from translation of foreign currency borrowings for the purpose of financing the construction of office buildings, plant and machinery and other major assets, for periods prior to their being in a condition to enter into service, are included in the cost of the assets concerned. Other exchange differences are dealt with in the consolidated income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated to Renminbi at the rates of exchange prevailing at the balance sheet date. The resulting translation differences are included in the exchange reserve.

(m) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

(n) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation subsequent to a past event, which will result in a probable outflow of economic benefits that can be reasonably estimated.

## 5. Turnover

	Year 2003	Proportion in total amount
	RMB'000	
Inland of China	5,764,050	96.04%
Hong Kong	237,502	3.96%
Other areas	-	0.00%
<b>Total</b>	<b>6,001,552</b>	<b>100%</b>

## 6. Taxation

	Year 2003	Year 2002
	RMB'000	RMB'000
PRC corporate income tax	3,021	10,410
Hong Kong profits tax	227	2,556
<b>Total</b>	<b>3,248</b>	<b>12,966</b>

## 7. Earnings per share

The basic earnings per share is calculated as the deserved earnings of the shareholders this year amounting to RMB31,763 thousand (earnings in 2002: RMB25,698 thousand) and the weighted average share capital amounting to 601,986,352 shares listed publicly this year.

## 8. Fixed assets

The Group				
<b>Kind of fixed assets</b>	<b>Balance at the period-beginning</b>	<b>Increase in this period</b>	<b>Decrease in this period</b>	<b>Amount at the period-end</b>
<b>Original value</b>	RMB'000	RMB'000	RMB'000	RMB'000
Land use right	31,326	-	-	31,326
House and constructions	788,092	38,785	80	826,797
Fitment of leased real estates	21,393	511	-	21,904
Machinery equipment	733,777	15,660	5,770	743,667
Electronic equipment	297,475	63,543	15,855	345,163
Transportation equipment	70,995	4,762	6,088	69,668
Construction in process	133,654	20,334	48,398	105,590
<b>Total</b>	<b>2,076,712</b>	<b>143,594</b>	<b>76,191</b>	<b>2,144,115</b>
<b>Accumulated depreciation</b>				
Land use right	2,010	306	-	2,316
House and constructions	110,680	13,558	6	124,232
Fitment of leased real estates	17,807	800	-	18,607
Machinery equipment	312,856	31,451	5,197	339,110
Electronic equipment	204,405	19,515	5,967	217,952
Transportation equipment	45,817	6,593	4,607	47,803
Construction in process	-	-	-	-
<b>Total</b>	<b>693,575</b>	<b>72,223</b>	<b>15,776</b>	<b>750,021</b>
<b>Net amount</b>	<b>1,383,137</b>			<b>1,394,094</b>

## 9. Goodwill

	2003	2002
	RMB'000	RMB'000
<b>Goodwill from purchase of equity of subsidiaries</b>	<b>3,170</b>	<b>3,170</b>

<b>Accumulated amortization</b>	(1,744)	(1,585)
<b>Net value at the period-end</b>	1,426	1,585

#### 10. Deserved rights and interests of affiliated companies

	2003	2002
	RMB'000	RMB'000
Net value in assets	62,830	61,413
Depreciation deserve	(5,594)	(5,594)
Accounts receivable from affiliated companies	7,692	1,530
Accounts payable to affiliated companies	(14,932)	(3,356)
<b>Total</b>	<b>49,996</b>	<b>53,993</b>

Ended as of June 30, 2003, the Company owned the affiliated companies as follows:

Name of affiliated companies	Registered place	Proportion of held share		Scope of main business
		Direct	Indirect	
Huadoushi Longfeng Properties Development Co., Ltd.	Macau	50%	—	Investment holding and property investment
Shenzhen OCT International Media Co., Ltd.	PRC	30%	—	Media advertising
Shenzhen Shangyongtong Investment & Development Co., Ltd.	PRC	20%	30%	Investment in industrial field, etc.
Shenzhen Dekon Electronics Co., Ltd.	PRC	—	30%	Manufacture & sale of electronic products
Shenzhen Konka Energy Technology Co., Ltd.	PRC	—	30%	Manufacture & sale of electronic parts
Chongqing Jingkang Plastics Material Co., Ltd.	PRC	—	25%	Production of moulds

#### 11. Other investment

	2003	2002
	RMB'000	RMB'000
Credit investment of unconsolidated subsidiaries	136,567	136,567
Depreciation reserve	(136,567)	(136,567)
Listed shares, cost	9,805	9,805
Unlisted shares, cost	1,885	3,385
Items of joint venture	200,000	200,000
Governmental bond	-	-
Depreciation reserve	(1,400)	(1,400)
<b>Total</b>	<b>210,290</b>	<b>211,790</b>

\*The above listed share is legal person share and only can be transferred among the legal persons and its market price is not easy to confirm.

#### 12. Inventories

	2003	2002
	RMB'000	RMB'000
Raw materials	1,220,613	1,124,186
Work-in-progress	60,771	24,540
Finished goods	1,886,036	1,548,023
Provision for diminution in value	(121,845)	(117,953)
<b>Total</b>	<b>3,045,575</b>	<b>2,578,796</b>

**13. Properties held for sale**

	2003	2002
	RMB'000	RMB'000
Cost at year-beginning	4,172	3,944
Additions/(sale)	-	228
Cost at year-end	<b>4,172</b>	<b>4,172</b>

**14. Accounts receivable**

	2003	2002
	RMB'000	RMB'000
Accounts receivable	442,276	387,763
Provision for doubtful debts	(110,080)	(110,607)
	<b>332,196</b>	<b>277,156</b>

As at June 30, 2003, the aging of amount receivables is analyzed as follows :

	2003	2002
	RMB'000	RMB'000
Within one year	192,459	111,626
In the second year	38,609	91,007
In the third year	75,754	64,742
Over three years	135,454	120,388
	<b>442,276</b>	<b>387,763</b>

**15. Prepayments, deposits and other receivables**

	2003	2002
	RMB'000	RMB'000
Advance payments	22,413	76,338
Expense to be amortized	36,051	25,000
Other receivables	135,488	138,843
Others	20,693	-
	<b>214,645</b>	<b>240,181</b>
Provision for doubtful debts	(8,770)	(6,904)
	<b>205,875</b>	<b>233,277</b>

**16. Short-term bank loans**

	2003	2002
	RMB'000	RMB'000
Bank loans, unsecured	34,500	105,000
Bank loans, secured	102,000	27,000
Short-term portion of long-term bank loans (note 16)	4,500	32,000
	<b>141,000</b>	<b>164,000</b>

**17. Long-term bank loans**

	2003	2002
	RMB'000	RMB'000
Secured	-	-
Unsecured	-	-
<b>Total</b>	-	32,000

**To be repaid in the following period:**

Within one year	-	32,000
In the second year		-
From three years to five years	-	-
After five years		
<b>Total</b>	-	32,000
Listed as current liabilities	-	(32,000)
Long-term part	-	-

## 18. Share capital

	2003	2002
	RMB'000	RMB'000
Registered, issued and paid-up		
“A” shares of RMB1 each	399,148	399,148
“B” shares of RMB1 each	202,838	202,838
<b>Total</b>	601,986	601,986
“A” shares, listed and tradable	224,199	224,199
“B” shares, listed and tradable	202,837	202,837
<b>Total</b>	427,036	427,036
Listed but temporarily not tradable	174,950	174,950
<b>Total</b>	<b>601,986</b>	<b>601,986</b>

The “A” and “B” shares carry equal rights with respect to the distribution of the Company’s assets and profits, and rank pari passu in all other respects. The “A” shares are held by PRC investors with settlement in Renminbi, whereas “B” shares are held by both PRC investors and foreign investors, and are settled in Hong Kong dollars.

## 19. Reserves

According to the corporation law and relevant regulations of a joint stock limited company, the Company’s specified profit should be classified as capital reserves, which include share premium, surplus on revaluation of fixed assets and other investments, etc. Capital reserves are normally used for transfer to share capital, or for write-off or permanent provision when foreign investments are revalued. The Company is required to transfer an amount of not less than 10% of the profit after making up the accumulated loss to statutory reserve until it is up to 50% of the registered share capital. Statutory reserve can be used to cover current year loss or for issue of new shares. The amount of statutory reserve to be utilized for issue of new shares should not exceed an amount such that the balance of the reserve will fall below 25% of the registered share capital after the issue of new shares.

The movements of reserves and retained earnings during the period are as follows :

	Capital reserves	Surplus capital reserve (include public welfare fund)	Accumulated profit/(loss)	Dividend reserve	Exchange reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at Dec.31, 2002	1, 820, 452	1, 133, 044	(610, 169)	-	(358)	2, 342, 969
Profit (loss) for the year	-	-	31, 763	-	-	31, 763
Dividend paid	-	-		-	-	0
Balance of Surplus capital reserve in prior years	-	-	-	-	-	-
Adjustment of goodwill in prior years	-	-	-	-	-	-
Exchange difference arising	-	-	-	-	50	50

from translation of foreign operations						
<b>June 30, 2003</b>	1,820,452	1,133,044	(578,406)	-	(308)	2,374,782

## 20. Contingent liabilities

At June 30, 2003, the Group did not have any significant contingent liabilities.

## 21. Related party transactions

Ended as of June 30, 2003 The Group had certain material transactions with related parties with details as follows:

		2003	2002
		RMB'000	RMB'000
Overseas Chinese Town	Utilities and building management fee paid	3,440	2,307
Shenzhen Dekon Electronics Co., Ltd.	Purchase of merchandises	32,388	20,216
Shanghai Huali Packing Co., Ltd.	Purchase of merchandises	26,837	22,175
Shenzhen Huali Packing Trade Co., Ltd.	Purchase of merchandises	15,286	14,313
		<b>77,951</b>	<b>59,011</b>

## 22. Impact on results attributable to shareholders and net asset value

as reported by the PRC Certified Public Accountants according to IAS

	Profit attributable to shareholders	Net asset value
	RMB'000	RMB'000
As reported by PRC Certified Public Accountants	30,264	2,983,823
Adjustments to conform to IAS :		
Prior year adjustment on capital reserves	-	(6,978)
Prior year adjustment on statutory surplus reserves	-	17,909
Change in percentage ownership for subsidiaries	-	-
Government grant transfer from capital reserves as deferred income	-	(23,980)
Government grant recognized as income	1,499	5,994
As restated in conformity with CAS	<b>31,763</b>	<b>2,976,768</b>

## 23. Financial instruments

Financial assets of the Group include cash and bank balances, note receivables, account receivables, prepayments, deposits and other receivables. Financial liabilities include bank loans, note payables, account payables, other payables and accrued expenses.

### (1) Credit risk

Cash and bank balances : Substantial amounts of the Group's cash balances are deposited with the Bank of China, China Merchants Bank, Shenzhen Development Bank, Industrial and Commercial Bank of China, Construction Bank of China and Agricultural Bank of China.

Account receivables : The Group does not have a significant exposure to any individual customer or counterpart. The major concentrations of credit risk arise from exposures to a substantial number of account receivables that are mainly located in the PRC.

(2) Fair value

The fair value of financial assets and financial liabilities is not materially different from their carrying amount.

The carrying value of short-term bank loans is estimated to approximate its fair value based on the borrowing terms and rates of similar loans.

The fair value of long-term bank loans is estimated, by applying discounted cash flow method

using carrying market interest rates for similar financial instruments, to approximate its carrying value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in

nature and involve uncertainties on matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**24. Other explanation**

The translated English version of financial statements is for reference only. Should any disagreement arise, the Chinese version shall prevail.