

KONKA GROUP CO., LTD.

2001 ANNUAL REPORT

April 11, 2001

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I. IMPORTANT NOTICE

Board of Directors and all Directors of KONKA GROUP CO., LTD. (hereinafter referred to as the Company) 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. This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

**Board of Directors of
KONKA GROUP CO., LTD.**

II. COMPANY PROFILE

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. Office Address and Registered Address:

East Industrial Zone of Overseas Chinese Town, Shenzhen

Post Code: 518053

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

E-mail: szkonkas@sz.gd.cninfo.net, or szkonka@konka.com

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

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

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

Tel: (86) 755-6608866

Fax: (86) 755-6600082

E-mail: chenxuri@konka.com

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

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. Registration Number of Enterprise Juristic Person's Business License:
QGYSZ Zi No. 100476

9. Registration Number of Taxation: 440301618815578

10. Certified Public Accountants Engaged by the Company

Name: Shenzhen Dahua Tiancheng Certified Public Accountants

Address: 11/F of B Block, Lianhe Plaza, No. 5022, Binhai Av., Futian District, Shenzhen

III. FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Major accounting data as of the year 2001

Unit: In RMB

Items	Amount
Total profit	(687,254,170.31)
Net profit	(699,791,454.32)
Net profit after deducting non-recurring gains and losses	(719,894,370.88)
Profit from main business lines	566,414,837.14
Profit from other business lines	11,079,940.92
Operating profit	(727,461,888.08)
Investment income	(274,493.81)
Subsidy income	781,000.00
Net income / expenditure from non-operating	39,701,211.59
Net cash flows arising from operating activities	723,225,728.81
Net increase / decrease of cash and cash equivalents	(423,327,219.81)

2. Major financial index over the recent three years

Unit: In RMB

Index	2001	2000		1999
		After adjustment	Before adjustment	
Net profit	(699,791,454.32)	214,392,305.38	224,883,253.48	497,527,792.65
Net profit after deducting non-recurring gains and losses	(719,894,370.88)	215,154,080.72	225,660,761.17	502,050,963.47
Earnings per share (fully diluted)	(1.1625)	0.3574	0.3736	0.9091
Earnings per share (weighted average)	(1.1625)	0.3574	0.3736	1.0832
Return on equity	(21.61%)	6.10%	6.22%	14.32%
Net cash flows per share arising from operating activities	1.2014	(0.0223)	(0.0092)	0.70

Items	Dec. 31, 2001	Dec. 31, 2000		Dec. 31, 1999
		After adjustment	Before adjustment	
Income from main business lines	6,748,122,042.36	8,953,781,004.78	9,016,554,732.77	10,127,098,593.31
Total assets	7,211,736,823.48	9,980,417,959.42	10,063,013,806.96	9,769,410,621.91
Equity-debt ratio	56.26%		61.50%	62.19%
Shareholders' equity (excluding minority interests)	2,893,912,961.21	3,583,066,424.80	3,614,840,673.89	3,475,067,642.44
Net assets per share	4.8073	5.9571	6.0049	6.35
Net assets per share after adjustment	4.5859	5.6448	5.6549	6.15

3. Supplementary statement of profit in the report year

Profit as of the year 2001	Return on equity (%)		Earnings per shares (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main business lines	19.57%	17.52%	0.9409	0.9409
Operating profit	(25.14%)	(22.50%)	(1.2084)	(1.2084)
Net profit	(24.18%)	(21.64%)	(1.1625)	(1.1625)
Net profit after deducting non-recurring gains and losses	(24.88%)	(22.27%)	(1.1959)	(1.1959)

4. Items and amount of non-recurring gains and losses

Unit: In RMB

Items	2001	2000		1999
		After adjustment	Before adjustment	
Gains on disposal of assets	26,375,791.24	9,796,212.46	9,801,912.71	155,169.29
Losses on disposal of assets	(7,576,088.55)	(8,065,462.45)	(8,086,895.05)	(2,851,501.78)
Subsidy income	781,000.00	150,000.00	150,000.00	152,429.60
Amortization of consolidated price difference	(3,158,800.13)	(2,642,525.35)	(2,642,525.35)	(3,062,339.53)
Investment income from stock assignment	3,681,014.00	--	--	--
Interest of frozen subscription fund for new shares	--	--	--	1,083,071.60
Total	20,102,916.56	(761,775.34)	(777,507.69)	(4,523,170.82)

5. Changes in shareholders' equity in the report year

Unit: In RMB

Items	Amount at the year-begin	Increase in this year	Decrease in this year	Amount at the year-end	Reason for changes
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Share capital	601,986,352.00		601,986,352.00	
Capital public reserve	1,821,290,840.28	11,980,000.00	1,833,270,840.28	
Surplus public reserve	1,121,489,823.50		6,354,849.80	1,115,134,973.70
Statutory public welfare fund	244,037,647.68		3,177,424.90	240,860,222.78
Retained profit	45,002,326.36		699,791,454.32	(654,789,127.96) Deficit as of 2001
Total	3,583,066,424.80		689,153,463.59	2,893,912,961.21

Notes:

1. In accordance with the relevant regulation in Management Measure on Special Fund of National Bond for State Key Technical Innovation Projects and GJM [2001] No. 931 Document, special fund for the technical innovation project amounting to RMB 11,980,000.00 received by the Company were reckoned in capital public reserve.

2. The retained profit as of the year 2000 was RMB 70,421,725.63 originally. The Company implemented the Accounting Regulations for Enterprise from 2001, according to which, the Company withdrew a provision for devaluation of fixed assets amounting to RMB 7,515,053.55; amortized the organization expenses amounting to RMB 23,050,542.12; carried the net losses on disposal of current assets in suspense amounting to RMB 14,570.00; offset the enterprise income tax arising from previous year amounting to RMB 1,194,083.42. Since the above adjustment were stated after taxation, so such adjustment affected not the income tax but the retained profit and surplus public reserve by respectively RMB 31,774,249.09 and RMB 6,354,849.82 reduced. Therefore, retained profit as at the beginning of 2001 was decreased by RMB 25,419,399.27. The Company has made adjustment on the accounting data as at the beginning of 2001 and re-prepared the accounting statement for 2000.

3. There is no difference in the net profit as of the year 2001 as audited under Chinese Accounting Standards and International Accounting Standards.

IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

1. Change in share capital

Unit: share

Items	Amount at the year-begin	Increase or decrease in this year	Amount at the year-end
I. Unlisted Shares			
1. Promoters' shares	313,986,245	-139,036,499	174,949,746
Including:			
Domestic juristic person's shares	174,949,746	0	174,949,746
Foreign juristic person's shares	139,036,499	-139,036,499	0
Total unlisted shares	313,986,245	-139,036,499	174,949,746
II. Listed Shares			
1. Domestically public shares (A shares)	224,198,704	0	224,198,704
2. Domestically listed foreign shares (B shares)	63,801,403	+139,036,499	202,837,902
3. Others			
Total listed shares	288,000,107	+139,036,499	427,036,606
III. Total shares	601,986,352	0	601,986,352

Note: In the report year, there existed no bonus shares, capitalization of public reserve, shares allotment or additional issuance of new shares.

2. Issuance and listing of shares

In 1999, the Company implemented the work of 1998 Capitalization Public Reserve: based on the total share capital of 389,383,603 shares at the end of the year 1998, capital public reserve was transferred into 77,876,719 shares at the rate of 2 for 10. The rights record date was Aug. 20, 1999. Of the transferred shares, 47,573,673 shares were for juristic person's shares, 20,636,167 shares for A shares in circulation, and 9,666,879 shares for B shares in circulation. Transferred shares for A shares in circulation were listed in Shenzhen Stock Exchange on Aug. 25, 1999 (13,867 shares held by senior executive were frozen temporarily); Transferred shares for B shares in circulation were listed in Shenzhen Stock Exchange on Aug. 26, 1999. Thus the total shares capital was increased to 467,260,322 shares after capitalization public reserve.

Approved by CSRC with ZJFXZ [1999] No. 140 Document, the Company additional issued 80 million A shares between Oct. 1999 and Nov. 1999. The additional issuance price is RMB 15.50 per share. The date of issuance is Nov. 1, 1999. The said 80 million shares were listed for trade in Shenzhen Stock Exchange dated Nov. 10, 1999. (4.19 million shares subscribed by organization investor were frozen temporarily until Feb. 2000.) Thus the total share capital was increased to 547,260,322 shares after additional issuance.

In July 2000, the Company fulfilled 1999 Dividends Distribution Plan: the dividends were distributed at the rate of 1 bonus share for every 10 shares with RMB 4.00 dividend in cash (including the tax, dividends of B-share were distributed in Hong Kong dollars). Thus the total share capital was increased to 601,986,352 shares after bonus share.

In 2001, approved by CSRC, 139,036,499 non-listed foreign shares were transferred into listed foreign share in circulation. The said shares were listed for trade in Shenzhen Stock Exchange dated June 21, 2001.

There exists no employee's unlisted share except 42,096 shares held by senior executives.

3. Particulars about shareholders

(1) Ended Dec. 31, 2001, the Company had totally 178,139 shareholders, including 163,093 ones of A-share and 15,046 ones of B-share.

(2) Shareholding of main shareholders

No.	Shareholder's name	Number of holding share at the year-end (share)	Proportion in total shares at the year-end (%)
01	Overseas Chinese Town Group Company	174,949,746	29.06
02	Overseas Chinese Town (Hong Kong) Co., Ltd.	86,703,338	14.40
03	Hong Kong China Travel Service (Group) Co., Ltd.	46,357,616	7.70
04	Huaya International Investment Co., Ltd.	4,529,083	0.75
05	Longxin International Co., Ltd.	2,628,355	0.44
06	TOYO SECURITIES ASIA LIMITED-A/C CLIENT	2,368,907	0.39
07	NOMURA TB/NOMURA ITM	1,372,400	0.23
08	China High-tech Investment Group Co.	1,000,017	0.17
09	Neiteng Securities Co., Ltd.	610,964	0.10
10	LI YE QIANG	539,828	0.09

Note: Overseas Chinese Town Group Company is a large state enterprise held by work union of the enterprise of the CPC Central Committee; Overseas Chinese Town (Hong Kong) Co., Ltd. is the wholly owned subsidiary of Overseas Chinese Town Group Co. registered in Hong

Kong.

(3) Particulars about legal person shareholder holding over 5% of total shares of the Company

Name	Item	Type of holding share	Type of enterprise	Legal representative	Dated of foundation	Registration capital (RMB'000)	Main business lines
Overseas Chinese Town Group Company		Domestic juristic person's share	State sole corporation	Ren Kelei	May 1986	RMB 200,000	industrial, tourism, real estate, finance and commerce
Overseas Chinese Town (Hong Kong) Co., Ltd.		Foreign share for circulation	Wholly-owned foreign subsidiary company	Zheng fan	Oct. 1997	RMB 455,000	to introduce into technical equipment, import & export trade and tourism
Hong Kong China Travel Service (Group) Co., Ltd.		Foreign share for circulation	State foreign corporation	Che Shujian	Oct. 1985	HKD 700,000	tourism, industrial investment, capital construction, real estate, hotel management, passenger-cargo transportation and import & export trade

V. SENIOR EXECUTIVE AND STAFF

1. Particulars about directors, supervisors and senior executives

No.	Name	Gender	Age	Title	Office term	Number of holding shares (share)	
						Amount at the year-begin	Amount at the year-end
1	Ren Kelei	Male	51	Chairman of the Board	Apr. 2001-Apr. 2004	0	0
2	Zhang Zhengkui	Male	57	Director	Apr. 2001-Apr. 2004	0	0
3	Liang Rong	Male	37	Director, General Manager	Apr. 2001-Apr. 2004	13550	13550
4	He Shilin	Male	61	Director	Apr. 2001-Apr. 2004	0	0
5	Xiao Zhuoji	Male	68	Director	Apr. 2001-Apr. 2004	0	0
6	Wei Qing	Male	49	Director	Apr. 2001-Apr. 2004	0	0
7	Chen Shirong	Male	42	Director	Apr. 2001-Apr. 2004	25289	25289
8	Nie Guohua	Male	59	Chairman of the Supervisory Committee	Apr. 2001-Apr. 2004	0	0
9	Wang Ruquan	Male	48	Supervisor	Apr. 2001-Apr. 2004	0	0
10	Wang Xinzong	Male	53	Supervisor	Apr. 2001-Apr. 2004	0	0
11	Hou Songrong	Male	33	Standing Deputy General Manager	Feb. 2001-Feb. 2003	0	0
12	Chen Xuri	Male	43	Deputy General Manager, Secretary of the Board	Jan. 2000-Feb. 2002	0	0
13	Yang Guobin	Male	32	Chief Financial Supervisor	Jan. 2000-Feb. 2002	0	0
14	Wang Youlai	Male	41	Deputy General Manager	Jan. 2000-Feb. 2002	2640	2640
15	Huang Zhongtie	Male	41	Deputy General Manager	Jan. 2000-Feb. 2002	514	514
16	Huang Weigang	Male	39	Deputy General Manager	Jan. 2000-Feb. 2002	0	0
17	Lin Hanhui	Male	38	Deputy General Manager	Jan. 2000-Feb. 2002	95	95

2. Particulars about the annual salary as of the year 2001 and changes in director, supervisor or senior executive

(1) The determinative process and basis of the payment for directors, supervisors and senior executives: Reformation Plan on Encouraging Mechanisms of Operating Group passed by the 7th meeting of 3rd Board of Directors in Jan. 2000; Management System on Basic Annual Salary of Operating Group passed by the 9th meeting of 3rd Board of Directors in Apr. 2000; etc. The Company fixed the salary taking into consideration of following factors: ① engagement content and responsibility shouldered ② prevailing salary level in the same industry and area; ③ actual profit status of the Company; ④ others.

(2) For the year 2001, the salary of directors, supervisors and senior executives totaled RMB 1,610,000 (including basic salary, reward, welfare, subsidy, housing allowance and others). Two persons enjoyed the annual salary between RMB 100,000 and RMB 150,000 respectively; four between RMB 150,000 to RMB 180,000; and four between RMB 180,000 to RMB

210,000. Total amount of the annual salary of the top three directors was RMB 370,000 that of the top three senior executives was RMB 570,000.

(3) Ren Kelei, Zhang Zhengkui, He Shilin, Xiao Zhuoji, Wei Qing, Nie Guohua and Wang Ruquan receive no pay from the Company.

(4) Approved in the 11th meeting of 3rd Board of Directors on Feb. 21, 2001, Hou Songrong was engaged as Deputy General Manager. Approved in the 2nd meeting of 4th Board of Directors on June 27, 2001, Liang Rong was engaged as General Manager and Hou Songrong was engaged as Standing Deputy General Manager. Chen Weirong no longer hold the post of General Manager and drew no pay from the Company since July 1, 2001.

3. About staff

Ended Dec. 31, 2001, the Company has a staff of 17, 054 persons. There are 2369 persons in Shenzhen headquarters and 7827 persons in branch companies including 1141 persons in Mudanjiang Konka, 817 person in Shannxi Konka, 1792 persons in Anhui Konka, 407 persons in Chongqing Konka, 2107 persons in Dongguan Konka, 394 persons in Changshu Konka and 200 persons in Chongqing Qingjia. In Shenzhen headquarter, there are 593 production personnel, 325 salespersons, 960 technicians, 80 financial personnel, 250 administrative personnel and 161 retirees; 755 persons graduated with bachelor degree or above, including 15 post doctor and doctor, 129 masters and 611 bachelors.

VI. ADMINISTRATION STRUCTURE

(I) Administration Status

In order to establish modern enterprise system and practically protect the rights and interests of numerous investors, the Company further improved the administration structure according to the Administration Rules of Listed Companies (hereinafter referred to as the Rules) as well as the actual conditions and needs. The improvement was shown in following respects:

1. The Company treated all shareholders equally and protected the legal rights and interests of shareholders.

(1) The Company disclosed the material events promptly, accurately and completely in the newspapers and website designated by CSRC for information disclosure according to the laws and administrative legislations so as to ensure the numerous shareholders enjoy rights of knowing facts, participating and making decisions.

(2) The Company treats all shareholders fairly, especially medium and small shareholders, and consistently prohibits inside trading or correlative transaction that damages the interests of the Company and shareholders.

(3) The Articles of Association of the Company made it clear that the Shareholders' General Meeting was the Company's organization of power, and gradually established and improved the Rules of Procedures of the Shareholders' General Meeting and the procedures of decision-making.

(4) Constantly standardized the relationship between the control shareholder and the Company: The control shareholder conducted the rights of investor strictly according to regulations of the law, did not abuse its special position for extra profits; the Company's significant decisions were made by the Shareholders' General Meeting absolutely according to law; Election of directors and supervisors and engaging and dismissal of senior executives were all strictly in

compliance with the stipulated procedures of laws, administrative legislations and the Articles of Association; The Company pursued “Five Separations” from its control shareholder in terms of business, assets, personnel, organization and finance, and they did business accounting and undertook responsibilities and risks respectively and independently.

(5) In the report, there existed no occupation or transferring of the Company’s assets, funds and other resources by shareholders by any means, neither did the Company provide guarantee to shareholders or other correlative parties.

2. The Board of Directors seriously performed its obligations and responsibilities as being honest, reliable and diligent.

(1) The Board of Directors consistently held itself responsible to the Shareholders’ General Meeting, performed its duties and rights in accordance with laws, administrative legislations and the Articles of Association, and treated all shareholders equally.

(2) The Board of Directors implemented the Rules of Procedures of the Board of Directors seriously, made it clear that the Board of Directors was the Company’s executive body, and decided on the Company’s management investment and internal administration. The Board of Directors held meetings regularly, and held provisional meetings once there was a need so as to ensure work efficiency and scientific decision-making.

(3) In order to smoothly realize its strategic shift in pattern, in 2001, the Company established the System of Work and Meeting for the Board of Directors, and the Board of Directors studied periodic work with the management team regularly, and decided on and resolved management strategies, measures and significant issues.

(4) The secretary of the Board of Directors recorded and sorted out proposals of the board meetings seriously, carried out the system of signing names on meeting minutes by directors and recorders who attended the meeting, urged and fed back implementation of corresponding items, and kept meeting minutes well.

(5) Complying with relevant laws, legislations and the Articles of Association, the Board of Directors strictly implemented the prospectus and promises made in other ways.

3. The Supervisory Committee fully performs its duty in supervision.

(1) The Supervisory Committee held itself responsible to all shareholders, concurrently supervised the duty performance of directors and other senior executives focusing on financial supervision in concrete work, reduced financial and management risks, protected assets, and safeguarded the legal rights and interests of the Company and shareholders.

(2) The Supervisory Committee formulated and implemented the Rules of Procedures of the Supervisory Committee, and made definite that the Supervisory Committee should supervise the decision-making of the Board of Directors; held meetings of the Supervisory Committee regularly, called provisional meetings once there was a need, and carried out work strictly according to the rules and procedures.

(3) The members of the Supervisory Committee possessed knowledge of law, finance and accounting, were capable of communicating with shareholders, employees and other parties of related interests in a wide range, and ensured the implementing of superintendence work.

(4) The Company carried out the system of signing names on meeting minutes by directors and recorders who attended the meeting, and kept meeting minutes properly.

4. The Company disclosed its information carefully.

Strictly according to the requirements of contents and forms for disclosing information as stipulated in the laws, legislations and the Articles of Association, the Company disclosed the

information that could have substantial impact on decision-making of numerous investors in a timely, factual, accurate and complete manner.

(II) Duty Performance of Independent Directors

The Company engaged an external director in December 2001 as exploration for establishing independent director system, and after one year's trial, the Company improved administrative structure, accumulated experience and laid good foundation for regular implementation in the future. The Board of Directors will establish and perfect the independent director system before June 30, 2002 according to the requirement by CSRC, and will further improve the Company's administrative structure.

(III) Separation from Control Shareholder in Business, Assets, Organization and Finance

The Company was separated from the big shareholder who had pragmatic control power in terms of business, assets, personnel, organization and finance. The Company was independent in personnel, finance, organization, and had complete assets as well as independent and complete production and management capabilities.

1. Independence in Assets and Business

The Company had its own independent assets and independent system of production, supplying and marketing, and was separated from its big shareholder Overseas Chinese Town in business. The Company had processed the transfer of ownership of fixed assets etc., with which the control shareholder bought the Company's shares. The Company possessed its own production system, auxiliary production system and facilities, industrial property right, and non-patent technologies. There was no competition lying between the control shareholder and the Company for production and management of same products.

2. Independence in Personnel and Organization

(1) The Company pursued president responsibility system under the leadership of the Board of Directors, was absolutely independent in management of labor, human affairs, and salaries, and engaged the control shareholder's legal representative of Overseas Chinese Town, Mr. Ren Kelei as the chairman of the Board of Directors. Senior executives and financial personnel neither took positions in the control shareholder's company nor did part-time job outside the Company.

(2) The control shareholder Overseas Chinese Town recommended directors, senior executives according to legal procedures and effectively implemented decisions of engaging and dismissing persons made by the Board of Directors and the Shareholders' General Meeting, and did not interfere in the decisions on engaging and dismissing persons already made by the Board of Directors and the Shareholders' General Meeting.

3. Independence in Finance

The Company set up independent account in the bank, and didn't share the same bank account with the control shareholder, never deposited funds in the financial companies or accounts in financial settlement center controlled by big shareholder or other correlative parties; The Company paid taxes independently according to law, and didn't provide guarantee to the big shareholder; The Company set up financial center, established independent and healthy financial business accounting system, and kept standardized and independent financial accounting system and financial administration system for branch companies and subsidiaries; The Company was able to make financial decisions independently, and there was no interference in application of funds by the control shareholder.

(IV) Performance Assessment and Encouragement Mechanism for Senior Executives

The Company formulated the Detailed Work Rules for General Manager and various concrete work systems, restricted work and behavior of senior executives, and decided on senior executive's remuneration through basic annual salary plus floating bonus based on the year-end assessment as well as accomplishment of targets so as to invigorate work enthusiasm. Performance of senior executives was assessed by the Board of Directors, and supervised by the Supervisory Committee.

VII. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

In the report year, the Company held one shareholders' general meeting: The 2000 Shareholders' General Meeting was held in Huaxia Arts Center of Overseas Chinese Town on April 24, 2001. There were 47 shareholders (including shareholders' proxies) attended the meeting, who represented 312,690,362 shares, taking 51.94% of the Company's total 601,986,352 shares. The following resolutions were reviewed and passed through voting:

1. 2000 Work Report of the Board of Directors;
2. 2000 Work Report of the Supervisory Committee;
3. 2000 Auditing Work Report of Accountants;
4. Proposal on 2000 Profit Distribution and Distribution of Bonuses and Dividends;
5. Proposal on Election of the Next Board of Directors;
6. Proposal on Election of the Next Supervisory Committee;
7. Proposal on Modifying of the Articles of Association;
8. 2001 Proposal on Objects of Share Allotment;
9. 2001 Proposal on Share Allotment Ratio and Sum of Rights Share;
10. 2001 Proposal on Share Allotment Price;
11. 2001 Proposal on Application of Proceeds Raised through Share Allotment;
12. 2001 Proposal on Validity Period of Shares Allotment;
13. Proposal on Authorization to the Board of Directors;
14. Proposal on Engaging of Counselor-at-law for the Company;
15. Proposal on Engaging of Financial Auditors for the Company.

The public notice on the resolutions of the Shareholders' General Meeting was published in China Securities, Securities Times and Hong Kong Ta Kung Pao dated April 25, 2001.

VIII. REPORT OF THE BOARD OF DIRECTORS

(I) Business Highlights

1. Main business scope and the operation

(1) Presently, the Company is under the classification of electronic and tele-communication industry.

The Company is principally engaged in the production and sales of color TV, digital mobile phone and internet-relevant products represented by LCD screen, concurrently engaged in the production and sales of refrigerator, air conditioner, washing machine, cordless phone as well as the supported products (including high frequency connector, mould, molding, packaging, etc.).

In the year 2001, also the first year of its strategic transforming, the Company introduced the development principal of "steadily develop the main business of color TV, greatly promote the mobile communication business, actively cultivate the competitive products, search for the new profit growth point " and actively reformed to lay a quite sound foundation for its strategic

transforming regardless of the difficulties. However, the operation environment of the Company was continually worsened due to the restructure of household electrical appliances industry home and abroad on one hand; and on the other hand, production of the previous years was over increased, exceeding substantially the sales, which resulted in large amount of losses from devaluation. Therefore, the Company suffered a deficit in 2001 as the first time since its listing in 1992. In the report period, the Company realized sale revenue of RMB 6,748,122,042.36, a decrease of 24.63% over the same period of previous year; suffered a calculated deficit of RMB 699,791,454.32.

(2) Income and profit from main business lines in the report period

Main business	Industry	Sales revenue		Profit	
		Revenue	Proportion	Net profit	Proportion
Color TV	Household electrical appliance manufacture	5,982,181,414.80	88.65%	(631,420,848.36)	90.22%
Mobile phone	Communication manufacture	528,070,814.59	7.83%	(57,011,158.19)	8.15%
Total		6,510,252,229.39	96.48%	(688,432,006.55)	98.37%

(3) Highlights of products generating large proportion of revenue and profit

Main business	Turnout		Sales		Sales cost (RMB)	Gross profit rate (%)
	Turnout (set)	Increase (%)	Sales (set)	Increase (%)		
Color TV for domestic sales	3,224,252	(26.17%)	3,686,403	(23.16%)	1,252.52	4.51%
Color TV for export	243,438	(71.95%)	631,311	(9.88%)	797.43	0.14%
Mobile phone	545,848	90.33%	521,702	183.51%	905.50	10.54%
Total	4,013,538	—	4,839,416	—	—	—

2. Operation and achievement of major wholly owned and partially controlled subsidiaries

- (1) With registered capital as RMB 120 million, Shenzhen Konka Telecommunication Technology Co., Ltd., whose 100% equity is held by the Company directly or indirectly, is mainly engaged in the sales of mobile communication products. By the end of the report period, total assets of the company reached RMB 376,413,519.46, sale revenue and net profit realized in the year 2001 amounted to RMB 528,070,814.59 and RMB-57,011,158.19 respectively.
- (2) With registered capital as RMB 200 million, Dongguan Konka Electronics Co., Ltd., a wholly owned subsidiary of the Company, is mainly engaged in production and sales of color TV and acoustics etc. By the end of the report period, total assets of the company reached RMB 310,143,049.51, sale revenue and net profit realized in the year 2001 amounted to RMB 39,599,846.08 and RMB-31,091,847.49 respectively.
- (3) With registered capital as RMB 60 million, Mudanjiang Konka Industrial Co., Ltd., whose 60% equity is held by the Company, is mainly engaged in the production and sales of color TV. By the end of the report period, total assets of the company reached RMB 288,201,554.18, sale revenue and net profit realized in the year 2001 amounted to RMB

424,552,084.87 and RMB-7,689,618.09 respectively.

- (4) With registered capital as RMB 69.5 million, Shannxi Konka Electronic Co., Ltd., whose 60% equity is held by the Company directly or indirectly, is mainly engaged in the production and sales of color TV. By the end of the report period, total assets of the company reached RMB 150,252,244.50, sale revenue and net profit realized in the year 2001 amounted to RMB 506,384,001.75 and RMB 1,838,723.66 respectively.
- (5) With registered capital as RMB 140 million, Anhui Konka Electronic Co., Ltd., whose 65% equity is held by the Company, is mainly engaged in the production and sales of color TV. By the end of the report period, total assets of the company reached RMB 315,788,256.35, sale revenue and net profit realized in the year 2001 amounted to RMB 1,240,479,547.29 and RMB1,838,723.66 respectively.
- (6) With registered capital as RMB 45 million, Chongqing Electronic Co., Ltd., whose 60% equity is held by the Company, is mainly engaged in the production and sales of color TV. By the end of the report period, total assets of the company reached RMB 98,115,284.67, sale revenue and net profit realized in the year 2001 amounted to RMB 285,558,571.52 and RMB-2,501,988.52 respectively.
- (7) With registered capital as HKD 40 million, Shenzhen Huali Packing Trade Co., Ltd., whose 70% equity is held by the Company, is mainly engaged in the production and sales of cardboard and carton. By the end of the report period, total assets of the company reached RMB 221,185,232.73, sale revenue and net profit realized in the year 2001 amounted to RMB 273,855,411.94 and RMB 22,595,038.63 respectively.
- (8) With registered capital as RMB 14.5 million, Shenzhen Konka Fine Mould Manufacture, whose 100% equity is held by the Company directly or indirectly, is mainly engaged in the production of various kinds of moulds. By the end of the report period, total assets of the company reached RMB 82,617,270.59, sale revenue and net profit realized in the year 2001 amounted to RMB 46,543,476.55 and RMB 5,320,135.06 respectively.

3. Major suppliers and customers

In the year 2001, the calculated purchase amount to the top five suppliers accounts for 65.08% of the total purchase amount of the Company; and the calculated sales amount to the top customers accounts for 2.94% of total sales amount of the Company.

(II) Major Work in the report period

Centering the strategic transformation, the Company adopted a swift operation theory to reinforce its work in respects of business integration, product R&D, administration restructure, cost control and capital circulation with preliminary favorable effect, in the year 2001.

1. Optimize the distribution network and improve the efficiency

Meeting the need of the strategic transformation, the Company optimized its distribution network. Based on the principal of focusing the resources into the key markets, the Company integrated the sales channels, administrative structure and business flow concerning the color RV and mobile phone business; it also made adjustment on the sales mode and capital settlement on its overseas business. Thus, operation of the distribution network was improved and sales expenses were minimized.

2. Reduce the inventory

The Company settled its inventory with specified focus and effective results in 2001. The

inventory of complete sets of color TV and materials at the end of the year was reduced by 31% and 60% respectively over the same period of previous year to a rational proportion. The reduction in inventory accelerated the circulation of fund and reduced the operation risks and devaluation losses.

3. Cut down the cost effectively through increase in gains and decrease in expenses

The Company moved the product lines of headquarter to Dongguan Konka at the first half year and reduced the product lines of other product base, successively stopping seven color TV product lines. Also, it dismissed the idle the product workers to cut down the labor cost and reduce the manufacture expense, more than 3000 employees were disengaged during the year in its sales system optimizing and organization adjusting. Additionally, the company reinforced its management on raw material purchase and the purchase cost at the year-end was reduced by over 15% compared with year-begin.

4. Develop new business

While consolidating the business of color television and mobile phone, the Company is actively searching for the new business and new point of profit increase. Currently, the company has appointed the internet relevant products as the third principle business, starting with the production and sales of LCD, which enjoys a favorable potentiality.

(III) Problems and Difficulties occurred in the Production and Operation, Causes of the Deficits

With the slowing development in world economy and influenced by the world industrial adjustment caused by the emerge of new economy featured with internet technology, many international enterprises engaging in household electrical appliance suffered a falling in sales or even deficits due to short demand. For domestic household electrical appliance industry, high speed expand in the previous years caused the over keen competition and continue price war, resulting in the continually decreased profitability for enterprises.

In respect of the Company itself, due to the excessive optimization in estimating the market especially the country market, the company expanded too haste in its production, thus caused a high inventory rate; while the keen market competition and price war shortened the life cycle of the product, price of raw materials including the color teletron and semi-conductor continued to fall, so the Company suffered large amounts of devaluation of inventory. In the year 2001, the Company cleaned up the color TVs and other stocks more than 1,500,000 pieces, losses from devaluation of which accounted for 50.07% of the total deficits as of the previous year. Moreover, overseas business in over expansion generated unfavorable results. Furthermore, operation cost and expenses of the Company's distribution network was quite high due to the ineffective management during the over expanding in the previous years. All these internal reasons together with unfavorable external environment made it happened that the Company suffered significant falling in sales and material deficits in operation.

The Board of Directors should undertake an unshakable responsibility for the Company's deficits in 2001 in terms of decision-making and supervision. Firstly, the Board failed to effectively promote the adjustment on the Company's industrial structure and products mix; shortsighted in the Company's transforming from sole color TV manufacture to a comprehensive company with high content of technology for the purpose of long-term development. Secondly, the Board failed to conduct forceful supervision on the management group, lost close control and inspection in issues including material investment projects, material purchase, overseas business development and personnel appointment and did not

correct the mistakes timely.

The management group should undertake the main responsibility for the Company's deficits in 2001. Firstly, the group expanded the production scale and network sightlessly to certain extent, simply emphasizing the scale production of color TV, which resulted in low return on equity of partial investment projects. Secondly, the group explored the overseas markets without sufficient studying the target market and preparation in terms of personnel, experiences, market information and capital, which resulted in the negative status of partial overseas markets. Thirdly, fundamental management was no in line with the rapid development of the Company and the supervision on the sales, accounting and capital management of the branches was not enough.

Under such internal and external circumstances, the Company had prepared and implemented a series of effective reform measures to turn the disadvantageous status from the beginning of 2001, entering into the strategic transforming period. Detailed measures was stated in the (II) and (VI).

(IV) Investment

In the report period, the Company did not conduct any material investment or raised proceeds.

(V) Financial highlights

The form of financial comparison in the report year

Unit: in RMB

Item	Dec. 31, 2000 Before adjustment	Dec.31, 2000 After adjustment	Dec.31 2001	+/-	Main causes
Total assets	10,063,013,806.96	9,980,417,959.42	7,211,736,823.48	-28.33%	
Receivables, net	960,046,740.39	947,685,653.19	530,069,584.62	-44.79%	Reinforcement in recover of due accounts
Inventory, net	4,939,615,741.51	4,920,630,066.38	2,825,931,894.54	-42.79%	Reduction in production and inventory
Long-term investment, net	98,270,546.15	103,822,564.11	239,216,162.54	143.43%	Increase in investment (in real estate and medium)
Fixed assets, net	1,220,612,403.83	1,210,007,539.28	1,264,481,319.46	3.59%	Completion of construction in progress
Long-term liabilities	90,099,497.46	90,099,497.46	89,216,966.17	-0.98%	Return of loan
Shareholders' equity	3,614,840,673.89	3,583,066,424.80	2,893,912,961.21	-19.94%	Deficits as of the year
Item	2000 Before adjustment	2000 After adjustment	2001	+/-	Main causes
Profit from principle business	1,485,091,536.84	1,479,006,460.60	566,414,837.14	-61.70%	Decrease in revenue exceeding reduction in cost
Net profit	224,883,253.48	214,392,305.38	(699,791,454.32)	-426.41%	Decrease in revenue and increase in cost

Notes: The Company started to implement the eighth items of Enterprise Accounting Standard and Enterprise Accounting Regulations latest released by the Ministry of Finance and adjusted the accounting data as at the beginning of the year according to the relevant regulation concerning the cohesion in accounting policies and the actual situation of the Company.

(VI) Management Plan for the New Year

The year 2002 is the 2nd year of the tenth "Five-Year Plan" for construction of national economy, and national macro-economy is progressively welcoming a new period of growth after a period time of adjustment. Moreover, China's entry into WTO will give a forceful boost to the growth of Chinese economy, and will create favorable condition for domestic enterprises to open up overseas market. On one hand, in view of industry, the releasing of a series of industrial policies and measures will be helpful to push information industry forward so as to continuously keep a high growth. In aspect of the Company's improvement after the operation strategy adjustment in 2001, net cash flows as of 2001 was up to RMB 723 million and the assets-liabilities ratio was decreased to 56.26%; provisions for devaluation of assets as well as the product and raw materials inventory were reduced by great margin, all these fully release

the Company's burden from high risk and improve its financial status.

On the other hand, China's entry into WTO resulted in reducing of tariffs, gradual elimination of trade barriers, and drop in prices of imported raw materials by a wide margin. Besides, the market competition will get even more drastic because of participation of numerous foreign capital and brands so that price war cannot be avoided. Therefore, the year 2002 is a year full of opportunities and challenges. The Company will continuously pursue the management strategy of being even more quick than others, reduce costs, raise gross profit level, expedite the pace of strategic change in mode, and realize the goal of eliminating deficits and making profits.

Concretely speaking, the Company will adopt the "4-wheel Driving" measure, namely, to increase income and raise efficiency, to reduce expenditure and consumption, to enhance management and to seek cooperation so as to boost the Company's achievements and reconstruct the Company's image.

1. To increase Income:

(1) To expedite technical innovation, reinforce promotion of new businesses and actively cultivate new point of increasing profits. In the new year, the Company will further strengthen outside technical cooperation in its mobile phone business, and progressively realize the market strategy of focusing on medium and high grade products by means of participating in the product market with high technical contents. At the same time when emphasizing on increasing varieties and series of liquid crystal monitors in the information network business, the Company will expedite diversifying products and strive to enlarge the business as soon as possible. As for color TV business, the Company on one hand will try hard to increase percentages of high-grade products and highly value-added products, and increase gross profits and ratio of output value of new products, on the other hand will strengthen research and development of products with individuality and diversity and color TVs for commercial use so as to broaden production lines.

(2) Confronting with the new situation and the big tendency in globalization of economy since China's entry into WTO, in 2001, the Company will implement new marketing strategy and diversified marketing modes with brand-new concept for sale aboard, highlight target market by pursuing agency system, and carry out production for OEM orders etc. so as to enhance Konka Brand and international market competitiveness of its products.

2. To reduce expenditure

(1) The Company will further reduce costs, control expenses and raise management efficiency. Under the prerequisite of fulfilling needs of production and marketing, the Company will reduce expenses and costs, and reinforce its cost competitiveness by means of inviting public biddings for purchasing raw materials, simplifying organization and personnel, and adjusting salaries etc.

(2) The Company will integrate channel resources, increase rate of repeat use of network, and reduce operation costs so as to make the sales network become a forceful guarantee for heightening management efficiency. The Company will integrate the resources of its color TV branch and mobile branch, further reduce sales costs and raise network efficiency through channel integration and personnel optimization. Meanwhile, the Company will reform the operation mode and business procedures of the sales branch, and fundamentally raise the branch's management administration level and profit-making capability.

3. To enhance management:

The Company will further reinforce its internal management innovation and strengthen its vitality and competitiveness. The Company will devote itself to reinforce systemized management in flowing of materials, funds and information in the processes of researching and developing products, production, purchasing, marketing and servicing, constantly establish and perfect various rule of standardized enterprise administration, and raised its administrative level. The Company will reinforce management of human resources, practice internal administration hard by pursuing the binding and encouragement mechanism that defines clear responsibility, right and interest as well as taking the advantage of strategic adjustment, and enhance contingency capability and stamina for sustained development.

4. To reinforce cooperation:

(1) To make full use of the Company's production capability and advantages of manufacturing and bands, actively seek absorption of external funds and cooperation with foreign manufacturers, try hard to enhance and enlarge Konka's business, and strive to develop an important processing and manufacturing base of a world famous brand.

(2) In 2002, with the support of the big shareholder Overseas Chinese Town, the Company will seek new profit sources by means of assets re-organization and joint development; On one hand, the Company will re-organize the assets of its subsidiaries, and obtain investment profits by optimizing asset structure; On the other hand, the Company will obtain large income from non-main business lines taking full advantages of the abundant resources of Overseas Chinese Town and by purchasing shares of real estate projects invested by Overseas Chinese Town.

(VII) Routine Work of the Board of Directors

1. Meetings of the Board of Directors and Resolutions in the Report Year

The 11th to 13th Meetings of the 3rd Board of Directors were held in the report year, as well as the 1st to 5th Meeting of the 4th Board of Directors. Reports and proposals including 2001 Management Goal, 2000 Annual Report and 2001 Interim Report etc. were reviewed respectively in the following terms:

- (1) Passed the work rules of financial auditing committee and rules of financial approval authorization limits;
- (2) The 2000 dividends distribution plan defined the distribution of RMB 1.50 (including tax) for every 10 shares;
- (3) Proposed on holding 2000 Shareholders' General Meeting;
- (4) Agreed to let Mudanjiang Konka Industrial Co., Ltd. to consolidate and absorb Mudanjiang Konka Electrical Appliance Co., Ltd.;
- (5) Agreed to add four items of provision for devaluation, namely, fixed assets, engineering projects in process, intangible assets, and entrustment of loans etc. in addition to the items of provision for devaluation of assets.
- (6) Postponed share allotment work of 2001 temporarily;
- (7) Proposed to establish Shenzhen Konka Information Network Co., Ltd to enlarge the business of liquid crystal monitors;
- (8) Proposed to purchase shares as investment in Shenzhen Overseas Chinese Town Media Investment Co., Ltd;
- (9) Proposed to engage Shenzhen Dahua Tiancheng Certified Public Accountants as temporary auditors;

(10) Proposed to invest the 3rd phase of Jinxiu Garden real estate project.

The resolutions of the 12th and 13th Meeting of the 3rd Board of Directors and the 1st, 3rd, 4th and 5th Meeting of the 4th Board of Directors were published respectively on March 24, April 7, April 25, August 29, November 27, and December 29, 2001 in the newspapers designated by CSRC for information disclosure.

2. The Board's Implementation of Resolutions of the Shareholders' General Meeting

(1) According to the resolutions of 2000 Shareholders' General Meeting, the Board of Directors finished distributing bonuses and dividends of 2000 at the rate of RMB 1.50 (including tax) for every 10 shares in cash. B share dividends were paid in Hong Kong dollars at the exchange rate of HK\$ 1: RMB 1.0612, and the ex-dividend date was June 25, 2001.

(2) The 2001 share allotment plan and the proposal on authorization to the Board of Directors were passed in the 2000 Shareholders' General Meeting. Due to changes of the business results, the Company decided to postpone share allotment of 2001, which was discussed in the 3rd Meeting of the 4th Board of Directors, and proposed to let the next shareholders' general meeting to discuss this decision on termination of share allotment of 2001.

(VIII) Preplan of Profit Distribution and Capital Public Reserve Transferring into Share Capital for 2001

Profit Distribution Preplan for 2001 was examined and approved in the 12th Meeting of the 3rd Board of Directors dated March 22, 2001 pursuant to relevant regulations. While due to deficits occurred in 2001, it was decided to amend the preplan, canceling the plan of interim dividend distribution and capital public reserve transferring into share capital for 2001, after examination in the 3rd Meeting of the 4th Board of Directors dated Aug. 27, 2001. Since the Company's business experienced no fundamental improvements, it was decided in the 6th Meeting of the 3rd Board of Directors dated April 9, 2002 that neither profit distribution nor capital public reserve transferring into share capital shall be conducted for 2001. This plan is subject to the approval of the Shareholders' General Meeting.

(IX) Profit Distribution or Capital Public Reserve Transferring into Share Capital Preplan for 2002

Neither profit distribution nor capital public reserve transferring into share capital shall be conducted for 2002, which is subject to the approval of the Shareholders' General Meeting.

(X) Other matters

The Company designated China Securities, Securities Times and Ta Kung Pao as the newspapers for disclosing the Company's information.

IX. REPORT OF THE SUPERVISORY COMMITTEE

In 2001, the Company held two meetings of the Supervisory Committee, the members of which attended all Board meetings, work meetings of the Board and shareholders' general meetings in the following terms:

- (1) Reviewed the 2000 Work Report of the Supervisory Committee;
- (2) Inspected the Company's financial operation;
- (3) Assigned supervision and investigation work to senior executives;
- (4) Reviewed the supervision and investigation report on standardized operation according to law and implementation of self-inspection and self-correction work;
- (5) Elected Mr. Nie Guohua the chairman of the Supervisory Committee.

1. Operation According to Law

In 2001, the Company operated in compliance with the relevant laws, legislations as stated in the PRC Company Law, Securities Law and Rules for Stock Listing as well as the Articles of Association. The directors and senior executives could implemented various resolutions of the Shareholders' General Meeting and the Board of Directors, worked diligently and responsibly, ran the business and made decisions in a scientific and reasonable way, and further improved internal control. The directors and senior executives neither violated national laws, legislations or the Articles of Association when performing their duties, nor damaged the Company's interests on purpose.

The Company suffered serious deficits in 2001 because of many factors including adjustment and risk release, etc. It also demonstrated, on one hand, the Company's shortcomings in operation, management, and investment decision-making; and on the other hand, the Supervisory Committee did not exercise its duty fully. Therefore, the Supervisory Committee will further reinforce its supervisory function.

2. Financial Inspection

The Supervisory Committee made serious and careful inspection on the financial system and financial status, and believed that the 2001 financial report factually reflected the Company's financial status and management results and the auditors' report issued by Shenzhen Dahua Tiancheng Certified Public Accountants as well as the assessment towards relevant issues were objective and fair.

3. Application of Raised Capital

The actual investment project with funds raised last time accorded with the promised one.

4. Purchases or Sales of Assets

In the report year, the Company had no events of purchase and sale of assets.

5. Correlative Transactions

The correlative transactions were fair and didn't damage the interests of listed companies. There was no inside trading.

X. SIGNIFICANT EVENTS

1. There was no material lawsuit or arbitration in the report.

2. Purchases or Sales of Assets

In the report year, the Company had no events of purchase and sale of assets.

3. Significant Correlative Transactions

(1) The Company signed a contract on October 21, 2001 with Overseas Chinese Town, OCT Holding Co., Ltd, and Shenzhen Windows of the World Co., Ltd on jointly establishing Shenzhen OCT International Media Investment Co., Ltd. This company registered RMB 50 million of capital, and will mainly engage in making, copying and issuing of synthetic arts, special subjects and animated cartoons, issuing of TV plays, and investment of culture and entertainment and media industry of film and television etc. The Company invested RMB 12.50 million with its own funds, making up 25% of the total registered capital.

Overseas Chinese Town held directly 29.06% equity rights of legal person shares, and held 68.60% equity rights in OCT Holding Co., Ltd. OCT Holding Co., Ltd. held 49% equity rights in Shenzhen Windows of the World Co., Ltd.

(2) The Company signed the Agreement on Cooperative Management of the 3rd Phase Real

Estate Project of OCT Jinxiu Garden on November 30, 2001 with OCT Real Estate Co., Ltd, which decided on investing the 3rd phase project of OCT Jinxiu Garden. The project started in October of 2001 with total input of RMB 500 million. The Company input 40% of the total investment in cash while OCT Real Estate Co., Ltd input 60%.

(3) In 2001, the Company conducted correlative transactions with its control shareholder - OCT's subsidiary. The transactions included paying warehouse rents, estate management fees, water and electricity fees, land use fees as well as purchasing goods, which were all fair transactions based on regular market prices and didn't damage the interests of the Company and other shareholders.

4. Material Contracts and Implementation

(1) In the report year, the Company had never kept as custodian, contracted or leased any other company's assets and vice versa.

(2) In the report year, the Company had never offered guarantee to other parties.

(3) In the report year, the Company had never entrusted any party to manage the assets.

5. In the report year, the Company or the shareholders holding over 5% of total shares had never disclosed commitments in the designated newspapers or on the website.

6. About Certified Public Accountants and Remuneration

In the report year, since the original financial auditors Zhongtianqin Certified Public Accountants was banned from operation, the Company decided to change auditors and re-engage Shenzhen Dahua Tiancheng Certified Public Accountants as its temporary auditors and to be in charge of its auditing affairs in 2001, which was discussed in the 5th Meeting of the 4th Board of Directors. This resolution was subject to approval by the Shareholders' General Meeting.

Financial auditing fees paid to Certified Public Accountants in 2001 were RMB 350,000 for domestic auditors (A shares) and RMB 450,000 for international auditors (B shares).

7. Other Significant Events

In the report year, neither the Company nor its directors or senior executives had been punished by securities supervision and administration authorities.

XI. FINANCIAL REPORT

(I) The Whole Text of the Auditors' Report (Please refer to the attachment)

(II) Financial Statements (Please refer to the attachment)

XII. DOCUMENTS FOR REFERENCE

1. The annual report text carried with the signature of the chairman of the Board of Directors;
2. The financial statement carried with signatures and seals of the legal representative, finance controller and accountants in charge;
3. The mater copy of domestic (for A shares) and international (for B shares) auditors' reports carried with seals of Certified Public Accountants as well as signatures and seals of the accountants;
4. All the originals of the Company's documents and master copies of public notices that were publicly disclosed in the designated newspapers of CSRC in the report year;

5. The Articles of Association.

**Board of Directors of
KONKA GROUP CO., LTD.**
April 11, 2002

Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)
Report of the auditors and financial statements
for the year ended December 31, 2001

Report of the auditors to the members of
Konka Group Co., Ltd.
(Incorporated in the People's Republic of China)

We have audited the financial statements on pages 2 to 27, which are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the Group as at December 31, 2001 and the results and its cash flows of the Group for the year then ended in accordance with International Accounting Standards.

K. C. Oh & Company
Certified Public Accountants
Hong Kong : April 9, 2002

Konka Group Co., Ltd.

Consolidated income statement for the year ended December 31, 2001

	Note	2001 RMB'000	2000 RMB'000
Turnover	6	6,748,122	
	9,012,733		
Cost of sales		(6,180,730)	(7,526,020)
Gross profit		567,392	1,486,713
Other revenue		45,718	54,372
Distribution costs		(934,246)	(948,095)
Administrative expenses		(286,440)	(223,057)
Other operating expenses		(977)	(1,621)
Operating profit/(loss)		(608,553)	368,312
Finance costs		(84,285)	(71,570)
Share of profit/(loss) from associates		(448)	585
Profit/(loss) before taxation	7	(693,286)	297,327
Taxation	8	(7,206)	(49,634)
Profit/(loss) before minority interests		(700,492)	247,693
Minority interests		(6,526)	(28,079)
Profit/(loss) attributable to shareholders		(707,018)	219,614
Accumulated profits at beginning of year		47,371	62,734
Accumulated profit/(loss) available for appropriations		(659,647)	282,348
Appropriations :			
Transfers from/(to) statutory surplus reserves	21	3,178	(22,488)
Transfers from/(to) statutory public welfare fund	21	3,177	(22,488)
Transfers to surplus reserves		-	(44,977)
Cash dividends		-	(90,298)
Issue of bonus shares		-	(54,726)
		6,355	(234,977)
Accumulated profit/(loss) at end of year		(653,292)	47,371
Earnings/(loss) per share - basic		(RMB1.17)	RMB0.36

The calculation of the basic earnings/loss per share is based on the current year's loss of RMB707,018,000 (2000 - profit of RMB219,614,000) attributable to the shareholders and on the weighted average number of 601,986,352 shares in issue during the year.

Konka Group Co., Ltd.
Consolidated statement of recognised gains and losses
for the year ended December 31, 2001

	Note	2001 RMB'000	2000 RMB'000
Net loss not recognised in the consolidated income statement			
Exchange differences arising on translation of the overseas entities' financial statements that are denominated in foreign currencies	21	(1,342)	(348)
Net profit/(loss) for the year		<u>(707,018)</u>	<u>219,614</u>
		<u>(708,360)</u>	<u>219,266</u>

Konka Group Co., Ltd.
Consolidated balance sheet as at December 31, 2001

	Note	2001 RMB'000	2000 RMB'000
Non-current assets			
Property, plant and equipment	9	1,575,761	1,569,543
Goodwill	10	17,435	18,577
Intangible assets	11	7,157	9,238
Interests in associates	12	41,332	24,354
Other investments	13	<u>112,290</u>	<u>26,030</u>
		<u>1,753,975</u>	<u>1,647,742</u>
Current assets			
Tax recoverable		1,688	-
Inventories	14	2,825,932	4,939,616
Properties held for sale	15	3,944	4,229
Account receivables	16	528,540	960,047
Prepayments, deposits and other receivables	17	304,686	292,301
Note receivables		769,525	742,644
Cash and bank balances		<u>994,857</u>	<u>1,426,065</u>
		<u>5,429,172</u>	<u>8,364,902</u>
Current liabilities			
Tax payable		-	(34,697)
Account payables		(818,972)	(1,148,461)
Other payables and accrued expenses		(702,687)	(479,597)
Note payables		(1,579,358)	(2,749,259)
Short-term bank loans	18	<u>(816,000)</u>	<u>(1,561,300)</u>
		<u>(3,917,017)</u>	<u>(5,973,314)</u>
Net current assets		<u>1,512,155</u>	<u>2,391,588</u>
Total assets less current liabilities		<u>3,266,130</u>	<u>4,039,330</u>
Non-current liabilities			
Long-term bank loans	19	(55,127)	(77,301)
Deferred income		(10,483)	-
Other long-term liabilities		<u>(34,090)</u>	<u>(12,218)</u>
		<u>(99,700)</u>	<u>(89,519)</u>
Minority interests		<u>(260,490)</u>	<u>(257,562)</u>
Net assets employed		<u>2,905,940</u>	<u>3,692,249</u>
Financed by :			
Share capital	20	601,986	601,986
Reserves	21	<u>2,303,954</u>	<u>3,090,263</u>
Shareholders' equity		<u>2,905,940</u>	<u>3,692,249</u>

Konka Group Co., Ltd.
Consolidated cash flow statement for the year ended December 31, 2001

	2001	2000
	RMB'000	RMB'000
Cash flow from operating activities		
Operating profit/(loss) before taxation	(693,286)	297,327
Adjustment items :		
Interest income	(26,912)	(24,889)
Interest expenses	84,285	98,595
Dividend income	-	(51)
Depreciation	133,604	138,260
Provision for impairment loss of property, plant and equipment	8,018	-
Loss on disposal of property, plant and equipment	3,649	430
Amortization of goodwill	2,489	2,351
Loss on disposal of subsidiary	535	-
Loss on dissolution of subsidiary	-	7,126
Amortization of intangible assets	3,058	1,066
Intangible assets written off	-	3,713
Share of results in associates	448	(585)
Profit on disposal of other investments	(3,681)	-
Provision for diminution in value of inventories	61,204	-
Provision for doubtful debts on account receivables	21,132	-
Provision for doubtful debts on other receivables	<u>4,940</u>	<u>-</u>
 Net operating cash inflow/(outflow) before movements in working capital	 (400,517)	 523,343
Exchange reserve movement	(1,342)	(482)
(Increase)/decrease in inventories	2,039,251	(244,943)
Decrease in properties held for sale	285	1,007
Decrease in account receivables	404,349	379,822
Increase in prepayments, deposits and other receivables	(18,063)	(104,040)
Decrease in account payables	(317,844)	(64,374)
Increase/(decrease) in other payables and accrued expenses	<u>227,475</u>	<u>(118,611)</u>
 Cash generated from operations	 1,933,594	 371,722
Interest paid	(84,285)	(98,595)
Corporate and profits tax paid	<u>(43,591)</u>	<u>(43,285)</u>
 Net cash inflow from operating activities	 <u>1,805,718</u>	 <u>229,842</u>
Investing activities		
Dividend received	-	51
Interest received	26,912	24,889
Purchases of property, plant and equipment	(381,289)	(451,988)
Proceeds from disposal of property, plant and equipment	226,739	78,384

Purchases of intangible assets	(1,015)	(8,501)
Additional investment in associates	(23,773)	(7,300)
Acquisition of other investments	(101,604)	(11,485)
Proceeds from disposal of other investments	<u>19,025</u>	<u>-</u>
Net cash outflow from investing activities	(235,005)	(375,950)
Financing activities		
Dividend paid	(81,119)	(216,504)
Contributions from minority shareholders on formation of new subsidiary	-	20,600
Dividend paid to minority shareholders	-	(10,550)
Advance/(withdrawal) from minority shareholders	(565)	2,574
Net cash outflow on disposal of a subsidiary	(7,483)	-
Receipts/(repayments) from/(to) associates	6,347	(5,002)
Increase in note receivables	(27,081)	(461,089)
Increase/(decrease) in note payables	(1,169,901)	114,813
Bank loans raised/(repaid)	(754,474)	307,099
Increase in deferred income	10,483	-
Other long-term liabilities raised	21,872	5,359
Donations received	<u>-</u>	<u>466</u>
Net cash outflow from financing activities	(2,001,921)	(242,234)
Decrease in cash and cash equivalents	(431,208)	(388,342)
Cash and cash equivalents at beginning of year	<u>1,426,065</u>	<u>1,814,407</u>
Cash and cash equivalents at end of year	<u>994,857</u>	<u>1,426,065</u>

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

1. Company background

Konka Group Co., Ltd. (the "Company"), formerly known as Shenzhen Konka Electronic Group Co., Ltd, obtained approval from Shenzhen Municipal People's Government to reorganise into a stock company limited in 1991. On the approval of the People's Bank of China, Shenzhen Branch, the Company issued A shares and B shares, which have been listed on the Shenzhen Exchange since 1992. On August 29, 1995, the Company changed its name in Konka Group Co., Ltd.

The Group's principal activities include the manufacture and sale of colour television, stereo recorders, Hi-Fi component systems, facsimile machines and telecommunication products, property development and investment.

2. Basis of presentation

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 December 31, 2001 and on the operating results for the year then ended are included in note 26 to the financial statements.

3. Adoption of International Accountants Standards

In the current year, the Group has adopted the International Accounting Standards IAS 10 (Revised) "Events after the Balance Sheet Date" and IAS 38 "Intangible Assets" for the first time.

Revisions to a number of other IAS also took effect in 2001. These revisions concerned matters of detailed application which have no significant effect on amounts reported for the current or prior accounting periods.

In accordance with IAS 10 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively.

IAS 38 Intangible assets specify more rigorous criteria for the recognition of intangible assets. Consequently, adoption of IAS 38 has resulted in the derecognition of pre-operating expenditures, which were reported as deferred expenditure in prior financial statements. This change in accounting policy has been applied retrospectively.

The effects can be summarized as follows :

	Retained earnings RMB'000	Dividend reserve RMB'000	Net equity RMB'000
Dividends declared after balance sheet date	-	92,698	92,698
Pre-operating expenditure written-off	<u>(23,051)</u>	—	<u>(23,051)</u>
Adjustment at January 1, 2001	<u>(23,051)</u>	<u>92,698</u>	<u>69,647</u>

4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries made up to December 31 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 Group has a long-term interest and the power to govern its financial and operating policies so as to obtain benefits from its activities. As at December 31, 2001, the Group held the following subsidiaries :

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
Shenzhen Huali Packaging Co., Ltd.	PRC	HKD40,000	70	-	Manufacture and sale of carton box
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

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

4. Basis of consolidation (cont'd)

a) Subsidiaries (cont'd)

Name of the company	Place of incorporation /registration	Registration capital RMB'000	Percentage of interest held		Principal activities
			Direct	Indirect	
			%	%	
Chongqing Konka Electronic Co., Ltd.	PRC	RMB45,000	60	-	Manufacture and sale of TV sets
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 & Electrical Equipment Co., Ltd.	PRC	RMB8,300	73	27	Manufacture and sale of electronic 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	PRC	RMB9,500	49	51	Production

of

Injected Plastic Manufactory Co., Ltd.					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 plastic products
(Hong Kong) Hong Din International Trade Limited	Hong Kong	HKD500	-	100	International trade
(Hong Kong) Hong Din Investment Development Limited	Hong Kong	HKD500	-	100	Investment holding
Indonesia Konka Trading Limited	Indonesia	USD500	-	100	Trading of electronic products
Mudanjiang Konka Electrical Equipment Co., Ltd.	PRC	RMB40,000	-	100	Manufacture and sale of electronic products

of

4. Basis of consolidation (cont'd)

a) Subsidiaries (cont'd)

Name of the company	Place of incorporation /registration	Registration capital RMB'000	Percentage of interest held		Principal activities
			Direct %	Indirect %	
Mudanjiang Huali Packaging Co., Ltd.	PRC	RMB10,000	-	85	Manufacture and sale of carton box
Konka Electronics (India) Co., Ltd.	India	USD1,116	-	70	Production of colour TV sets
Shanxi Kong Xing Electronic Parts Co., Ltd.	PRC	RMB1,500	-	70	Manufacture and sale of electronics parts
Changshu Konka Electronic Co., Ltd.	PRC	RMB24,650	-	60	Manufacture and sale of electronics products
Shanghai Huali Packaging Co., Ltd.	PRC	RMB55,000	-	60	Manufacture and sale of carton boxes
Boluo Konka Printed Co., Ltd.	PRC	RMB40,000	-	51	Manufacture and sale of printed board

of	Panyu Huali-Youde	PRC	RMB3,000	-	51	Production
	Colourful Printings					colourful
	Co., Ltd.					printings

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 December 31, 2001 are shown in note 12 to the financial statements.

5. 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	9-13%
Electronic equipment	18-25%
Motor vehicles	18-25%

The valuation of the property, plant and equipment include 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 sales 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. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

(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. Construction in progress is not depreciated until completion of construction. Costs on completed construction works are transferred to the

relevant category of property, plant and equipment.

5. Significant accounting policies (cont'd)

(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 their 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 expected useful life of 5 years.

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.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

5. Significant accounting policy (cont'd)

(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

Deferred tax assets and liabilities are calculated using the liability method. Liabilities arising from timing differences, which are probable to be crystallized in the foreseeable future, are recognized as deferred tax liabilities.

(i) Deferred income

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

(h) Cash and cash equivalents

Cash and 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 from bank deposits 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.

5. Significant accounting policy (cont'd)**(1) Foreign currency translation**

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated at the rates ruling on the date of transactions. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on 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 income statement.

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

6. Turnover

	2001 RMB'000	2000 RMB'000
The People's Republic of China	6,535,098	8,523,513
America	165,736	187,628
India	16,568	109,984
Southeast Asia	16,188	142,971
Australia	8,759	13,431
Hong Kong	<u>5,773</u>	<u>35,206</u>
Total	<u>6,748,122</u>	<u>9,012,733</u>

7. Profit/loss before taxation

	2001	2000
	RMB'000	RMB'000
Profit/loss before taxation has been arrived at :		
after charging :		
Auditors' remuneration	800	793
Directors' emoluments	320	320
Depreciation - leased assets	-	2,117
Depreciation - owned assets	133,604	136,143
Provision for impairment loss of property, plant and equipment	8,018	-
Loss on disposal of property, plant and equipment	3,649	430
Amortization of goodwill	2,489	2,351
Loss on disposal of subsidiary	535	-
Loss on dissolution of subsidiary	-	7,126
Amortization of intangible assets	3,058	1,066
Intangible assets written off	-	3,713
Provision for diminution in value of inventories	61,204	-
Provision for doubtful debts	26,072	-
Interest expenses	84,285	-
98,595		
Research and development expenditure	2,844	18,272
Rentals of land and buildings	52,929	63,081
Staff costs	298,279	269,792
Retirement benefit contributions	<u>-</u>	<u>20,532</u>
and after crediting :		
Interest income	26,912	24,889
Dividend income from investments	-	51
Income from government grant	1,497	-
Profit on disposal of other investments	<u>3,681</u>	<u>-</u>

8. Taxation

	2001	2000
	RMB'000	RMB'000
PRC corporate tax	6,090	49,178
Hong Kong profits tax	<u>1,116</u>	<u>456</u>
	<u>7,206</u>	<u>49,634</u>

PRC corporate tax is determined by reference to the profit reported in the audited financial statements under PRC Accounting Standards, and after adjustments for income and expense items that are not assessable or deductible for income tax purposes.

It is provided at the rate of 15% (2000 - 15%) on the estimated assessable income for the year. Hong Kong profits tax is calculated at 16% (2000 - 16%) of the estimated assessable profits for the year.

9. Property, plant and equipment

	Land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Machinery & equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction- in-progress RMB'000	Total RMB'000
Cost/valuation								
As at January 1, 2001	26,505	581,667	13,994	787,445	294,810	118,573	310,321	2,133,315
Additions	1,000	79,112	1,571	106,905	18,505	5,338	168,858	381,289
Disposals	(676)	(21,586)	-	(5,437)	(6,393)	(16,017)	(198,922)	(249,031)
Eliminated on disposal of a subsidiary	-	(1,230)	(857)	(3,315)	-	(1,046)	-	(6,448)
As at December 31, 2001	<u>26,829</u>	<u>637,963</u>	<u>14,708</u>	<u>885,598</u>	<u>306,922</u>	<u>106,848</u>	<u>280,257</u>	<u>2,259,125</u>
Accumulated depreciation								
As at January 1, 2001	(1,057)	(87,899)	(4,776)	(277,679)	(139,629)	(52,732)	-	(563,772)
Additions	(454)	(18,872)	(9,057)	(51,940)	(40,884)	(12,397)	-	(133,604)
Disposals	-	1,798	-	4,009	3,605	9,231	-	18,643
Eliminated on disposal of a subsidiary	-	642	507	1,541	-	697	-	3,387
Provision for impairment loss	-	(1,248)	-	(4,051)	(2,408)	(311)	-	(8,018)
As at December 31, 2001	<u>(1,511)</u>	<u>(105,579)</u>	<u>(13,326)</u>	<u>(328,120)</u>	<u>(179,316)</u>	<u>(55,512)</u>	<u>-</u>	<u>(683,364)</u>
Net book value								
As at December 31, 2001	<u>25,318</u>	<u>532,384</u>	<u>1,382</u>	<u>557,478</u>	<u>127,606</u>	<u>51,336</u>	<u>280,257</u>	<u>1,575,761</u>
As at December 31, 2000	<u>25,448</u>	<u>493,768</u>	<u>9,218</u>	<u>509,766</u>	<u>155,181</u>	<u>65,841</u>	<u>310,321</u>	<u>1,569,543</u>
Analysis of cost and revaluation :								
Cost	25,318	-	1,382	-	-	-	280,257	306,957
Revaluation	-	532,384	-	557,478	127,606	51,336	-	1,268,804

Total	<u>25,318</u>	<u>532,384</u>	<u>1,382</u>	<u>557,478</u>	<u>127,606</u>	<u>51,336</u>	<u>280,257</u>	<u>1,575,761</u>
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Certain property, plant and equipment of a subsidiary with a net book value of approximately RMB197,357,000 have been pledged to secure general banking facilities granted to the Group.

In preparation for the reorganization of the Company into a Sino-foreign joint stock limited company, the Company's property, plant and equipment as at July 31, 1991 were revalued on an open market value basis by Zhonghua (Shenzhen) Certified Public Accountants, a registered valuer in Shenzhen. The surplus of RMB29,203,000 arising from the revaluation was capitalized as share capital.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

10. Goodwill

	RMB'000	RMB'000
Cost		
As at January 1, 2001		23,576
Prior period adjustment from capital reserve		2,016
Eliminated on disposal of a subsidiary		(811)
As at December 31, 2001		24,781
Amortization		
As at January 1, 2001	(4,999)	
Charged for the year	(2,489)	
Eliminated on disposal of a subsidiary	<u>142</u>	
As at December 31, 2001		(7,346)
Net book value		
As at December 31, 2001		<u>17,435</u>
As at December 31, 2000		<u>18,577</u>

11. Intangible assets

	Trademarks RMB'000	know-how RMB'000	Technical Total RMB'000
Cost			
As at January 1, 2001	1,386	11,076	12,462
Additions	38	977	1,015
Eliminated on disposal of a subsidiary	<u>-</u>	(300)	(300)
As at December 31, 2001	<u>1,424</u>	<u>11,753</u>	<u>13,177</u>
Amortization			
As at January 1, 2001	(49)	(3,175)	(3,224)
Charged for the year	(186)	(2,872)	(3,058)
Eliminated on disposal of a subsidiary	<u>-</u>	<u>262</u>	<u>262</u>
As at December 31, 2001	(235)	(5,785)	(6,020)
Net book value			
As at December 31, 2001	<u>1,189</u>	<u>5,968</u>	<u>7,157</u>
As at December 31, 2000	<u>1,337</u>	<u>7,901</u>	<u>9,238</u>

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

12. Interests in associates

	RMB'000	2001 RMB'000	2000
Share of net assets	70,048	46,723	
Amounts due from associates	1,561	1,530	
Amounts due to associates	(30,277)	(23,899)	
	<u>41,332</u>	<u>24,354</u>	

As at December 31, 2001, the Group held the associates as follows :

<u>Company name</u>	<u>Place of registration</u>	<u>Effective equity held by the Company</u>		<u>Principal activities</u>
		<u>Directly</u>	<u>Indirectly</u>	
Long Feng Design Limited *	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%	-	Investment in industrials field, etc.
Shenzhen Dekon Electronics Co., Ltd.	PRC	-	30%	Manufacture & sale of electronic parts
Shenzhen Konka Energy Technology Co., Ltd.	PRC	-	30%	Manufacture & sale of electronic products
Luoding Luokon Electronic Ironware Co., Ltd.	PRC	-	30%	Sale of ironware and parts
Panyu Yikon Electronic Ironware Co., Ltd.	PRC	-	30%	Sale of ironware and parts
Chongqing Jingkang Plastics Material Co., Ltd.	PRC	-	25%	Production of moulds
Shenzhen New Teamwork Precision Moulding Co., Ltd.	PRC	-	20%	Production of moulds

* No operating results attributed to the Group.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

13. Other investments

	2001	2000
	RMB'000	RMB'000
Listed shares, at cost *	9,805	19,210
Unlisted shares, at cost	1,885	6,220
Joint venture project	100,000	-
Government debentures	2,000	2,000
Provision for impairment loss	(1,400)	(1,400)
	<u>112,290</u>	<u>26,030</u>

* These listed shares are issued exclusively to legal entities and can only be transferred between legal entities. The market value of such shares is not generally available.

14. Inventories

	2001	2000
	RMB'000	RMB'000
Raw materials	777,129	1,877,132
Work-in-progress	66,520	66,563
Finished goods	2,081,415	3,033,849
Provision for diminution in value	(99,132)	(37,928)
	<u>2,825,932</u>	<u>4,939,616</u>

15. Properties held for sale

	2001	2000
	RMB'000	RMB'000
Cost b/f	4,229	5,236
Disposals	(285)	(1,007)
	<u>3,944</u>	<u>4,229</u>

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

16. Account receivables

	2001	2000
	RMB'000	RMB'000
Account receivables	593,106	1,003,481
Provision for doubtful debts	(64,566)	(43,434)
	<u>528,540</u>	<u>960,047</u>

As at December 31, 2001, the aging of account receivables is analyzed as follows :

	2001	2000
	RMB'000	RMB'000
Within one year	382,174	871,201
In the second year	113,914	64,308
In the third year	46,442	43,307
Over three years	<u>50,576</u>	<u>24,665</u>
	<u>593,106</u>	
		<u>1,003,481</u>

17. Prepayments, deposits and other receivables

	2001	2000
	RMB'000	RMB'000
Advance payments	130,391	93,348
Prepayments	71,179	117,101
Other receivables	110,826	85,540
Others	<u>933</u>	<u>15</u>
	313,329	296,004
Provision for doubtful debts	(8,643)	(3,703)
	<u>304,686</u>	
		<u>292,301</u>

18. Short-term bank loans

	2001	2000
	RMB'000	RMB'000
Bank loans, unsecured	685,000	1,488,719
Bank loans, secured	84,000	72,000

Short-term portion of long-term bank loans (note 19)	<u>47,000</u>	<u>581</u>
	<u>816,000</u>	
<u>1,561,300</u>		

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

19. Long-term bank loans

	2001	2000
	RMB'000	RMB'000
Bank loans, secured	5,127	7,882
Bank loans, unsecured	<u>97,000</u>	<u>70,000</u>
	<u>102,127</u>	<u>77,882</u>
	2001	2000
	RMB'000	RMB'000
Aging of bank loans :		
Within one year	47,000	581
In the second year	55,127	70,713
In the third to fifth years, inclusive	-	2,419
Over five years	<u>-</u>	<u>4,169</u>
	102,127	77,882
Amount due for settlement within one year	<u>(47,000)</u>	<u>(581)</u>
Amount due for settlement over one year	<u>55,127</u>	
<u>77,301</u>		

20. Share capital

	2001	2000
	RMB'000	RMB'000
Registered, issued and paid-up		
“A” shares of RMB1 each	399,148	399,148
“B” shares of RMB1 each	<u>202,838</u>	
<u>202,838</u>		
	<u>601,986</u>	
<u>601,986</u>		
“A” shares, listed and tradable	224,199	224,199
“B” shares, listed and tradable	<u>202,837</u>	<u>63,801</u>
	427,036	
288,000		
Listed but temporarily not tradable	<u>174,950</u>	
<u>313,986</u>		
	<u>601,986</u>	<u>601,986</u>

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.

The Company obtained the approval of China Securities Regulatory Commission to trade 139,036,499 temporarily not tradable shares held by foreign entity investors on June 21, 2002.

21. 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. The capital reserves are normally used for issue of new shares.

The Company is required to transfer an amount of not less than 10% of the profit after making up the accumulated loss as statutory surplus reserve until it is up to 50% of the registered share capital. Statutory surplus reserve can be used to cover current year loss or for issue of new shares. The amount of statutory surplus 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 year are as follows :

	Capital reserve RMB'000	Surplus reserves RMB'000	Accumulated Profit/(loss) RMB'000	Dividend reserve RMB'000	Exchange reserve RMB'000	Total RMB'000
As at January 1, 2001	1,811,143	1,139,399	70,422	-	(348)	3,020,616
As originally stated						
Pre-operating expenditure written off (1)	-	-	(23,051)	-	-	(23,051)
Dividend proposed subsequent to balance sheet date (2)	-	-	-	92,698	-	92,698
As restated	1,811,143	1,139,399	47,371	92,698	(348)	3,090,263
Loss for the year	-	-	(707,018)	-	-	(707,018)
Transfer from reserves (2)	-	-	-	(81,119)	-	(81,119)
Proposed final dividend for 2001 (3)	-	(6,355)	6,355	-	-	-
Goodwill reclassification (4)	3,170	-	-	-	-	3,170
Exchange difference arising from translation of foreign operations	-	-	-	-	(1,342)	(1,342)
As at December 31, 2001	<u>1,814,313</u>	<u>1,133,044</u>	<u>(653,292)</u>	<u>11,579</u>	<u>(1,690)</u>	<u>2,303,954</u>

- (1) In accordance with IAS 38 the Group's pre-operating expenditure is required to write-off in the period incurred. In prior periods, such pre-operating expenditure was recognized as deferred assets on balance sheet and was amortized on a straight-line basis. IAS 38 required retrospective adjustments; the net book value of pre-operating expenditure was written-off in income statement in periods incurred.
- (2) In accordance with IAS 10 (Revised), dividends proposed or declared after the balance sheet date are disclosed as a separate component of equity on the face of balance sheet. In prior periods, dividends declared subsequent to the balance sheet date are recognized as a liability on the balance sheet. IAS 10 (Revised) required retrospective adjustment; dividends payable at January 1, 2001 was transferred to dividend reserve which was a component of shareholders' equity. In 2001, the Group had paid dividends of prior period of RMB81,119,179, whilst the unpaid dividend of RMB11,578,774 remained in dividend reserve.
- (3) With reference to the consolidated financial statements for the year ended December 31, 2001 prepared in accordance with PRC accounting principles, the opening adjustment to surplus reserve was required to transfer RMB6,355,000 to accumulated deficits.
- (4) In accordance with the Group's accounting policy, goodwill arising from consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid over the fair values attributable to the underlying assets acquired and is amortized on a straight-line basis over 10 years. The goodwill attributable to the subsidiary Shanxi Konka Electronics Co., Limited was written-off against capital reserve in prior periods. In 2001, the goodwill from this subsidiary was restated and recognized as an asset on consolidation.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

22. Disposal of a subsidiary

	2001	2000
	RMB'000	RMB'000
Property, plant and equipment	3,061	-
Intangible assets	38	-
Inventories	13,229	-
Account receivables	6,026	-
Prepayments, deposits and other receivables	738	-
Note receivables	200	-
Cash and bank balances	10,774	-
Account payables	(11,645)	-
Other payables and accrued expenses	(3,231)	-
Short-term bank loans	<u>(13,000)</u>	<u>-</u>
	6,190	-
Attributable goodwill	669	-
Minority interests	(3,033)	-
Loss on disposal of a subsidiary	<u>(535)</u>	<u>-</u>
Satisfied by cash	<u>3,291</u>	<u>-</u>

The subsidiary which was disposed of during the year did not have any significant impact on the Group's cash flows and operating results.

23. Commitments

	2001	2000
	RMB'000	RMB'000
Capital commitments :		
- contracted for but not provided in the financial statements	-	64,487
- authorized but not contracted for	<u>-</u>	<u>57,944</u>
	<u>-</u>	<u>122,431</u>
Commitments under non-cancellable operating leases :		
	2001	2000
	RMB'000	RMB'000
Within one year	-	49,546
In the second to fifth years, inclusive	-	41,705
Over five years	<u>-</u>	<u>2,483</u>

- 93,734

24. Contingent liabilities

At December 31, 2001, the Group did not have any significant contingent liabilities.

25. Related party transactions

The Company had the following transactions with Overseas Chinese Town Holdings Co., a major shareholder of the Company, with details as follows :

		2001	2000
		RMB'000	RMB'000
Overseas Chinese Town Holdings Co.	Guarantee fee paid	6,976	6,976
	Operating lease paid	503	518
	Utilities and building management fee paid	11,938	15,482
	Warehouse charge paid	10,277	13,836
Shenzhen OCT Machinery Industry Co., Ltd.	Purchase of merchandises	61	384
Overseas Chinese Town (HK) Co., Ltd.	Purchase of merchandises	91,803	381,721

26. Impact on loss attributable to shareholders and net asset value as reported by the PRC Certified Public Accountants

	attributable to shareholders	Loss Net asset value
	RMB'000	RMB'000
As reported by PRC Certified Public Accountants	(699,791)	2,893,912
Adjustments to conform to IAS :		
Prior year adjustment on capital reserve	-	(6,977)
Prior year adjustment on surplus reserve	-	17,909
Dividend payable	-	11,579
Government grant recognized as deferred income	-	(11,980)
Government grant amortization	1,497	1,497
Prepaid assets written off	(15)	-
Under provision of taxation in prior years	(1,194)	-
Provision for impairment loss of property, plant and equipment	(7,515)	-
As restated in conformity with IAS	<u>(707,018)</u>	
	<u>2,905,940</u>	

27. Financial instruments

Financial assets of the Group include cash and bank balances, bills receivable, accounts receivable and prepayments, deposits and other receivables. Financial liabilities include bank overdrafts, bank loans, finance lease payables, bills payable, accounts payable, other payables and amounts due to related companies.

(a) 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 counterparty. The major concentrations of credit risk arise from exposures to a substantial number of account receivables mainly in the PRC.

(b) Fair value

The fair value of cash and bank balances, bills receivable, accounts receivable, prepayments, deposits and other receivables, bank overdrafts, bills payable, accounts payable and amounts due to related companies are not materially different from their carrying amounts.

The carrying values of short term loans and finance lease payables are estimated to approximated their fair values based on the nature or short term maturity of these instruments.

The fair values of long term bank loans are estimated by applying a discounted cash flow using carrying market interest rates for similar financial instrument, to approximate their carrying values.

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.

Konka Group Co., Ltd.

Notes to the financial statements for the year ended December 31, 2001

(cont'd)

28. Language

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

29. Comparative figures

Certain comparative figures have been reclassified so as to conform to the current year's presentation.