KONKA GROUP CO., LTD.
’99 ANNUAL REPORT

Important: The Board of Directors of KONKA GROUP COMPANY, LIMITED (hereinafter referred to as the Company) hereby confirms that there are no important omissions, fictitious statements or serious misleading contents in the information carried in this report, and shall take all responsibilities, individual and / or joint, for the reality, accuracy and completion of the whole contents. This report is written both in Chinese and English versions. In convenient for investors’ reading, the Chinese and English Financial Report are audited in accordance with Chinese Accounting Standard and International Accounting Standard respectively. The other parts of English version are the translation of Chinese version. Should there be any difference in interpretation of the text of the two versions, the Chinese version shall prevail.

Ⅰ. About the Company

1. Legal name both in Chinese and English and Abbreviation:
   Name in Chinese: **康佳集团股份有限公司**
   Name in English: KONKA GROUP COMPANY, LIMITED
   Short Form in English: KONKA GROUP CO., LTD.

2. Legal Representative: Mr. Ren Kelei, Chairman of the Board

3. Secretary of the Board of Directors: Mr. Chen Xuri
   Liaison Address: KONKA GROUP COMPANY LIMITED, Overseas Chinese Town, Shenzhen, Guangdong Province, China
   Tel: (86755) 6608866
   Fax: (86755) 6600082
   E-mail: chenxuri@konka.com
   Authorized Representatives in Charge of Securities of the Company:
   Mr. Chen Xuri and Mr. Yang Guobin

4. Registered (Office) Address: East of the Industrial Zone, Overseas Chinese Town, Shenzhen, Guangdong Province, China
   Post Code: 518053
   Internet Web Site of the Company: http://www.konka.com
   E-mail: szkonkas@sz.gd.cninfo.net

5. Newspaper Chosen for Disclosing the Information:
   China Securities, etc ,Securities Times.
   Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed:
   Secretariat of the Board of Directors

6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock Name: SHEN KONKA - A, SHEN KONKA - B
   Stock Code: 0016, 2016

Ⅱ. Financial Highlights

1. Financial Data Summary (In RMB)

Total profit:	624,658,889.08
Net profit:	497,527,792.65
Net profit after deducting the non-recurring gains and loss:	502,050,963.47
Profit from main business lines:	1,874,905,423.48

Profit from other business lines:	1,412,728.46
Operating profit:	602,453,509.51
Investment income:	-2,680,358.98
Subsidy income:	152,429.60
Net amount of non-operating income and expenditure:	24,733,308.95
Net amount of cash flows arising from operating activities:	383,913,844.87
Net increase in cash and cash equivalents:	660,196,953.51

Notes:

(1) The Company is a listed company of A- and B-share. In the year 1999, the Company's net profit as audited according to the Chinese Accounting Standards (CAS) was RMB 497,528 thousand and as audited according to the International Accounting Standard (IAS) was RMB 484,640 thousand. The difference between the two by RMB 12,888 thousand is mainly due to the fact that in accordance with the provisions as specified in the Accounting Standards for Joint Stock Limited Companies (Document of the State Ministry of Finance CKZ (1999) No. 35), the Company made retroactive adjustment over the losses and gains as of the previous years because of the change of the accounting policies and other reasons. On the financial statements as audited according to CAS, the net profit was added by RMB 8,481 thousand because of the payment of the value added tax in arrears for the year 1998 in joint clearing, the net profit was added by RMB 8,043 thousand in adjusting the provision for price falling of the inventories and the net profit was reduced by RMB 3,636 thousand in adjusting the provision for doubtful debts. The total net profit was RMB 12,888 thousand more than that as audited according to IAS.

(2) Deduction of non-recurring gains and loss and the amounts involved

Items	**Amount (In RMB)**
Gains on disposal of assets	155,169.29
Loss on disposal of assets	-2,851,501.78
Subsidy income	152,429.60
Interest of the frozen fund as applied for subscribing new shares	1,083,071.60
Consolidated price differences as included in	-3,062,339.53
Total	-4,523,170.82

2. Accounting and Financial Highlights Over the Past Three Years Prior to the End of the Report Period: (In RMB, except otherwise indicated)

Year / Items	1999	1998		1997	
		Before Adjustment	After Adjustment	Before Adjustment	After Adjustment
Income from main business lines	10,127,098,593.31	8,573,886,611.13	8,573,886,611.13	6,343,372,250.64	6,343,372,250.64
Net profit	497,527,792.65	429,165,782.81	431,915,706.43	346,935,255.12	331,297,390.55
Total assets	9,769,410,621.91	7,183,323,011.84	7,174,729,288.36	5,385,980,767.89	5,366,958,527.04
Shareholders' equity	3,475,067,642.44	2,147,982,956.30	2,135,095,015.35	1,594,261,424.71	1,578,623,560.14
Earnings per share	0.9091	1.1022	1.1092	0.9490	0.9062
Weighted earnings per share	1.0832	1.1490	1.1564	0.9490	0.9062
Earnings per share after deducting the non-recurring gains and loss	0.9174	1.1035	1.1105	0.9107	0.8679
Net asset per share	6.35	5.52	5.48	4.36	4.32
Net asset per share after adjustment	6.15	5.34	5.31	4.09	4.05
Net cash flows per share from operating activities	0.70	3.12	3.12	--	--

Net asset-income ratio	14.32%	19.98%	20.23%	21.76%	20.99%

Notes:

(1) The major financial data are calculated according to the following formula:

Earnings per share = Net profit / Total number of ordinary shares at end of the year

Net asset per share = Shareholders' equity at end of year / Total number of ordinary shares at end of year

Net asset per share after adjustment = [Shareholders' equity at end of year - net accounts receivable over more than three years - expenses to be apportioned - net loss in the assets (circulating and fixed) in suspense - organization expenses - long-term expenses to be apportioned - negative amount of housing revolving fund] /total number of ordinary shares at end of year

Net cash flows per share from operating activities = Net cash flows from operating activities / Total number of ordinary shares at end of year

Net asset–income ratio = Net profit / Shareholders' equity at end of year × 100%

Weighted earnings per share = Net profit as of current period / [Total number of shares at end of the period / (1 + allotment proportion or proportion of new shares issued additionally) + total number of shares at end of the period / (1 + allotment proportion or proportion of new shares issued additionally) × allotment proportion or proportion of new shares issued additionally × number of months from next month of the closing date of payment to the month at end of the period / 12]

(2) Due to the change of the accounting policy, the Company used the retroactive adjustment method and adjusted the corresponding items in '99 consolidated accounting statements according to the relevant stipulations in Document FA Zi [1999] No.35 issued by the Ministry of Finance.

(3) About the Changes in Shareholders' Equity (in RMB)

Items	Share Capital	Capital Public Reserve	Surplus Public Reserve	Statutory Public Welfare Fund	Undistributed Profit	Total Shareholders' Equity
Beginning of the period	389,383,603.00	777,289,321.38	832,525,405.03	171,796,543.06	135,873,847.53	2,135,095,015.35
Increase as of the year	157,876,719.00	1,121,393,237.90	199,011,117.07	49,752,729.27	497,527,792.65	1,975,942,688.86
Decrease as of the year	--	77,876,719.00	--	--	558,093,342.47	635,970,061.77
End of the period	547,260,322.00	1,820,805,840.28	1,031,536,522.10	221,549,322.33	75,308,297.71	3,475,067,642.44

Note: Reasons of the foregoing changes: the increase of the share capital by RMB 157,876,791.00 is due to the capitalization of the capital public reserve by 77,876,719 shares and the issuance of new A shares by 80,000,000 shares. Increase of the capital public reserve is due to that the additional issuance of 80 million A-share which caused increase of the stock premium. Decrease of the same is due to the increase of the share capital as converted. Increase of the surplus public reserve and statutory public welfare fund is due to the allotment of public reserve and statutory public welfare fund prior to the profit distribution of the report year. Increase of the undistributed profit is due to the profit as of the report year carried forward and decrease of the same is due to the profit distribution of the report year.

Ⅲ. Changes in Share Capital and Particulars about Shareholders

1. Changes in Share Capital

(1) Changes in Shares

In Share

	Beginning of Year	Increase/ Decrease (+ / -) as of The Year						End of Year
		Shares allotted	Bonus shares	Public reserve capitalization	Increased shares	Others	Sub-total	
Ⅰ. Shares Unlisted								

1. Promoters' shares Including:	237,868,369	----	----	47,573,673	----	----	47,573,673	285,442,042
Domestic legal person shares	132,537,687	----	----	26,507,537	----	----	26,507,537	159,045,224
Foreign legal person shares	105,330,682	----	----	21,066,136	----	----	21,066,136	126,396,818
2. Others	----	----	----	----	----	----	----	----
Total shares unlisted	237,868,369	----	----	47,573,673	----	----	47,573,673	285,442,042
Ⅱ. Shares Listed								
1. Ordinary RMB shares	103,180,837	----	----	20,636,167	80,000,000	----	100,636,167	203,817,004
2. Domestically listed foreign shares	48,334,397	----	----	9,666,879	----	----	9,666,879	58,001,276
3. Others	----	----	----	----	----	----	----	----
Total shares listed	151,515,234	----	----	30,303,046	80,000,000	----	110,303,046	261,818,280
Ⅲ. Total Shares	389,383,603	----	----	77,876,719	80,000,000	----	157,876,719	547,260,322

Note: In the report period, the Company issued 80 million A-share additionally, including 20 million shares placed to organization investors including 15.81 million shares placed to the fund and 4.19 million shares placed to other organization investors and 60 million shares issued to investors for on-line subscription. The new shares for on-line subscription and placed to the fund were listed on Nov. 10, 1999. The new shares placed to other organization investors were listed on Feb. 14, 2000.

(2) Issuing and Listing

Since 1997, the Company has raised proceeds through offering at the securities market twice, i.e. one was A-share placement in 1998 and the other was issuance of new A-share in 1999.

In 1997, the Company conducted no activities in connection with distributing bonus shares, increase of share capital, issuance of additional shares or share allotment and the total number as well as the structure of the Company's shares remained unchanged.

In 1998, the Company implemented the plan on allotment of A-share. The date of record was July 15, 1998. The Company placed 23,810,962 shares for A-share at the price of RMB 10.50 per share and listed them in Shenzhen Stock Exchange on Sep. 25, 1998 (including 21,250 senior executives' shares were temporarily frozen). Thus, the total shares of the Company were increased from 365,572,641 shares to 389,383,603 shares.

In 1999, the Company implemented the plan of public reserve capitalization. On the basis of total share capital of 389,383,603 shares at end of the year 1998, the Company capitalized the public reserve on 2-for-10 basis. The date of record was Aug. 20, 1999 and totally 77,876,719 shares were capitalized, including 47,573,673 legal person shares, 20,636,167 circulating A-share and 9,666,879 circulating B-share. The circulating A-share were listed on Aug. 25, 1999 in Shenzhen Stock Exchange (including 13,867 senior executives' shares being blocked temporarily). The circulating B-share were listed on Aug. 26, 1999 in Shenzhen Stock Exchange. After the capitalization activity, the total share capital of the Company has increased to 467,260,322 shares.

Approved by China Securities Regulatory Commission (Document CSRC IS Zi [1999] No.140), the Company issued 80 million new A-share during the period from October to November, 1999 at the issuance price of RMB 15.50 per share. The issuance date was Nov. 1, 1999. The newly issued shares were listed in Shenzhen Stock Exchange on Nov. 10, 1999 (including 4.19 million shares placed to institution investors being temporarily frozen). The total number of share capital of the Company after the additional issuance increased to 547,260,322 shares.

Except 83,206 shares held by senior executives, the Company has never had any unlisted employees' shares so far.

2. About the Shareholders

(1) Ended Dec.31, 1999, the Company had totally 128,448 shareholders, including 126,049 of A-share and 2,399 of B-share.

(2) Shares Held by the Top Ten Shareholders

No.	Name of Shareholders	Increase/decrease in	Shares Held at	Types

		shares in the year	End of the Year	
01	Overseas Chinese Town Group Company	+26,507,537	159,045,224	Domestic legal person shares
02	Overseas Chinese Town (HK) Co., Ltd.	+63,966,136	120,396,818	Foreign legal person shares
03	Haoda Industry Co., Ltd.	+4,548,280	6,360,000	B-share
04	Kong Wah Electronic Group Co., Ltd.	-762,220	6,000,000	Foreign legal person shares
05	Anshun Securities Investment Fund	+5,220,163	5,220,163	A-share
06	Xinghe Securities Investment Fund	+3,529,337	3,529,337	A-share
07	Xinghua Securities Investment Fund	+3,415,795	3,415,795	A-share
08	Taiji Investment Co., Ltd.	+567,240	3,403,440	B-share
09	FI-CLIBLUXS/A THE BATTERYMARCH GEM FUND	+3,116,079	3,116,079	B-share
10	Quanguang Investment Co., Ltd.	+503,573	3,021,439	B-share

Note: Overseas Chinese Town (HK) Co., Ltd. is a subsidiary wholly funded by Overseas Chinese Town Group Company (OCT Group). OCT Group has mortgaged its legal person shares totaling 132,537,687 A-share for the bank loan. There is no other pledge with the shares as held by other shareholders.

(3) Brief Introduction to Legal Person Shareholders

The legal representative of OCT Group is Mr. Ren Kelei. The company is engaged in industry, tourism, real estate, finance, commerce, etc.

The legal representative of Overseas Chinese Town (HK) Co., Ltd. is Mr. Ren Kelei. The said company is engaged in the businesses of introducing technology and equipment, developing import & export and tourism, etc.

(4) There was no change in the control shareholder in the report year.

Ⅳ. Shareholders' General Meeting

1. The 8th Shareholders' General Meeting

The 8th Shareholders' General Meeting was held in Overseas Chinese Town Huaxia Art Center, Shenzhen China at 9:30 a.m. of June 30, 1999, and the meeting notice had been published on the newspapers as designated by China Securities Regulatory Commission for disclosing information dated May 29, 1999. There were 43 shareholders/authorized representatives attending the meeting, representing 242,008,369 shares. The meeting passed "'98 Work Report of Board of Directors", "'98 Work Report of the Supervisory Committee", "'98 Auditors' Report", "'98 Profit and Dividends Distribution Proposal", "Proposal on '98 Capitalization of the Capital Public Reserve", "Proposal on Terminating '98 B- Share Allocation Plan", "Proposal on Issuing 80 million New A-share in the Year 1999", "Proposal on Changing Some Directors", "Proposal on Authorizing Board of Directors", "Proposal on Engaging Law Adviser of the Company", "Proposal on Engaging the Financial Auditors of the Company", etc. Mr. Zhang Zhengkui and Mr. Nie Guohua were elected to replace Mr. Wei Qing and Mr. Yao Feng as the Company's directors. The resolutions of the meeting were published on July 1.

2. '99 Extraordinary Shareholders' General Meeting

'99 Extraordinary Shareholders' General Meeting was held at the central meeting room of OCT Group in Shenzhen, China at 9:30 a.m. of September 28, 1999, and the meeting notice had been published on the newspapers as designated by China Securities Regulatory Commission for disclosing information dated Aug 25, 1999. There were 41 shareholders/authorized representatives present at the meeting, representing 294,599,665 shares. The meeting discussed and adopted '99 Interim Profit and Dividend Distribution Proposal, and decided to distribute cash dividend at the rate of RMB 3 for every ten shares (including tax). The meeting's resolution was published on September 29.

Ⅴ. Report of the Board of Directors

1. Operation

The Company is a hi-tech electronic and telecommunication product manufacturer. In 1999, the Company produced altogether 6,320,000 sets of color TV, sold 5,930,000 sets, and achieved sales income of RMB 10.127 billion with a total profit of RMB 624,658,900. The Company is still in the leading position in China's electronic field. Of the top 100 Chinese electronic producers, it ranks the 4th and the 6th respectively in terms of turnover and profit (source: from the Ministry of Information Industry).

The Company mainly produces and sells household appliances, including color TV, and the relevant accessories. At the moment, both production and business situations are good, in which color TV sales volumne and profit account for over 90% of the total sales and profit. Among them, domestic color TV sales and profit amount to over 90% of the total color TV sales and profit.

The Company's principal wholly-owned subsidiary is Dongguan Konka Electronic Co., Ltd. ("Dongguan Konka"), and its holding subsidiaries are Mudanjiang Konka Industrial Co., Ltd. ("Mudanjiang Konka"), Shaanxi Konka Electronic Co., Ltd. ("Shaanxi Konka"), Anhui Konka Electronic Co., Ltd. ("Anhui Konka") and Chongqing Konka Electronic Co., Ltd. ("Chongqing Konka"). Their business operation summary in 1999 is as follows: Dongguan Konka: color TV output: 108,000 sets, sales income: RMB 230,000,000, a loss: RMB 10,450,000; Mudanjiang Konka: color TV output: 1,000,000 sets and sales income: RMB 495,000,000 and net profit: RMB 24,330,000; Shaanxi Konka: color TV output: 1,030,000 sets and sales income: RMB 325,000,000, a net profit: RMB 19,360,000; Anhui Konka: color TV output: 1,550,000 sets and sales income: RMB 581,000,000, a net profit: RMB 22,660,000; Chongqing Konka: color TV output: 416,000 sets and sales income: RMB 158,000,000, with a net profit of RMB 6,110,000.

In 1999, the Company mainly carried out the following work:

(1) Persisting in philosophy of "Technology First". 1999 is Konka's Year of Technology. During the whole year, the Company has developed 168 new products, including 146 items of color TV, while the export color TV development items are an all-time high of 82. On January 7, Konka developed China's first high definition TV, snatching up the future competition advantages and promoting the upgrading of this industry. On September 26, China's first HDTV production line was put into official production in Konka, symbolizing the curtain opening of China's industrialization of color TV digital technology. Besides, the Company has introduced successively such hi-tech products as mirror TV, Little Fairy color TV, technology TV, plasma TV, color TV and DVD "two in one", which "we have but others don't". Among them, artistic TV and color TV and DVD "two in one" have won "Innovation 2000" prize of Las Vegas International Consumer Electronic Exhibition, which have fully shown that Konka is in the leading position in the color TV manufacturing technology and process, gradually setting up the image of hi-tech predecessor among the consumers.

(2) The Company has achieved substantive breakthrough in its diversification strategy. Taking mobile phone as the starting point, the Company has now been involved in the information industry and developed new profit growth. The Company has broken through the traditional development model, insists on the high starting point, self-development, grasps the core technology and follows closely the world latest mobile communication technology. The Company attaches special importance to the high qualified professionals and latest technology and has become the first domestic designated mobile phone terminal producers through its own force. The Company has passed FTA certification of the international authority of GSM network and at the end of the year it officially started China's first mobile phone production line which has its own intellectual property right, laying the prerequisite and foundation for Konka to develop and grow its mobile communication industry.

(3) With brand as the guide, promoting the deep development of "global strategy" and exploiting continuously the domestic and international market, making contributions to the development of China's national industry, the Company deals with the "price war" through high technology and excellent services, and its color TV sales in the domestic retail market rank the first in China, while Konka Brand ranks number 6 among the Chinese most valuable brands by RMB 7.887 billion. In the aspect of the international market, the Company has broken the traditional trading mode and

established overseas production base, greatly developing the business of outgoing material processing and directly competing with the world famous brands. It participates comprehensively in the international competition, with export color TV ranking first among the Chinese brands, having achieved bi-directional expansion in both domestic and international market.

(4) With a view to enhancing the capital operation, the Company additionally issued 80 million A-share in the report year, raised proceeds amounting to RMB 1.2 billion and achieved great success in market creation. Following the plan of "investing projects in North China with the funds from Shenzhen", the Company further implemented the plan of "advancing towards the West" for the purpose of quickening the steps of investing Central and North China and forming an industrial structure with mutual compensation of resources. Within the report year, the Company set up Chongqing Konka and India Konka, implemented the strategy of the domestic and overseas expansion at low cost, acquired good assets, formed comprehensive complementary capacity of molds, plastics parts, cartons, components and packing materials. At the same time, the Company further developed the air-condition, washing machine and refrigerator with full use of brand.

(5) Innovating management advantages to introduce world advanced management mode and meet the needs of enterprise internationalization. To achieve a great leap of Chinese famous brand into world famous brand, the Company cooperated with the world famous consultant Mckinsey and established preliminarily business-oriented management mode, paying attention to the examination and inspiration, setting up ERP internal management information system and promoting the modernization of management measures.

During the business operation, the Company faces intensive market competition. The color TV market tends to be saturated and the price continues to drop down. Relying on technical innovation, the Company has jumped out of the pure price competition with such hi-tech products as mirror TV, Little Fairy color TV, etc. With new products which "we have but others don't; others have but ours are better", the Company leads the consumption tide and snatches up the market with high technology in the intensive competition. Its various main economic figures have reached the highest level in history, completing successfully '99 business plan. When the Company issued additional 80 million A-share in 1999, the profit estimation was RMB 496.19 million, but the actual net profit is RMB 497.53 million.

2. Financial Status

Ended December 31, 1999, the total assets of the Company was RMB 9.769 billion, in which long term liability is RMB 455.35 million and shareholders' equity is RMB 3.475 billion, 36.16%, 8.35% and 62.76% increase respectively over the same period of the previous year. The total assets increase is mainly because additional A-share were issued and production/sales scale increased in 1999, the long-term liability increase is mainly because the Company increased long-term loan accordingly for the purpose of expanding scale economy, and the shareholders' equity increase is the result of additional A-share issuing and profit distribution in 1999.

In the year 1999, the profit of the Company from the main business line was RMB 1.875 billion, including net profit: RMB 497.5278 million, 15.66% and 15.19% increase over the same period of the previous year. The profit increase is mainly due to the growth of the product sales volume.

3. Investment

In November 1999, the Company issued 80 million additional A-share, raised proceeds amounting to RMB 1.2 billion. The committed investment projects and amount are: (1) high definition digital TV (HDTV), RMB 500 million; (2) digital mobile phone, RMB 207.5 million; (3) Chongqing Konka Electronic Co., Ltd., RMB 66 million; (4) India Konka Electronic Co., Ltd., RMB 38 million; (5) working fund supplemented by RMB 300 million. The actual investment projects are completely the same as the committed projects, with no change. In 1999, Chongqing Konka's net profit was RMB 6.11 million, while other investment projects like HDTV, mobile phone and India Konka didn't generate any profit in 1999 because it was still too short time when the capital was ready. The actually invested funds in 1999 are (1) HDTV, RMB 90.8 million; (2) mobile phone, RMB 87.52 million; (3) Chongqing Konka, RMB 49.92 million; (4) India Konka, RMB 6.71 million.

4. Influence from China’ s Joint in WTO on the Company

China’ s joint in WTO is the inevitable trend of the world economic development and it will bring great changes on the world economic layout. At the moment, China has completed the bilateral talks with USA, Japan, Canada, Korea, New Zealand, Singapore, etc. It is expected that after China joins WTO, the domestic economic structure will be adjusted accordingly. The speeding-up of China’ s economic increase will also effectively increase the demand of household appliances. Meanwhile, the import duty reduction will help the cost reduction of the color TV import raw materials and elements. In addition, China’ s joint in WTO will be very favorable for Chinese enterprises to explore the overseas market. The investment abroad to set up factories will have long-term notable economic benefit. As for the mobile telecommunications, the gradual duty reduction and cancellation of quantity restriction will bring certain impact on China’ s mobile communication industry.

The Company expects that China’ s joint in WTO is a huge business opportunity. It will take this opportunity to learn continuously the world advanced management experiences, strengthen the cooperation and exchange with world famous enterprises, introduce advanced foreign technology and continuously improve the enterprise’ s comprehensive competitiveness. It will speed up the overseas investment to set up factories abroad. Based on the successful experience of India Konka, it will invest as soon as possible in Mexico and Indonesia, trying to explore the world market and make Konka the world famous brand. In the aspect of mobile communication, it will speed up the technical introduction and absorption and expand its domestic market shares, laying foundations for Konka’ s long-term and stable development.

5. Business Development Plan in the New Year.

With the human being stepping into a new era, the twentieth century was gone with the wind. The twenty-first century will be marked with the new and high technology and innovation, which will be a main guide of the new era. Intellectual economy brings mankind great innovation not only of technology but also concept. In the year of 2000, the Company will steadily develop the market share of color TV, further exploit rural area market, reinforce the overseas marketing, fully develop telecommunication business of mobile phone and continuously improve management mechanism with examination as core, which will be on the basis of making full use of the talented-person and technology. At the beginning of the new era, the Company will strive to realize the enterprise goal of “high technology, diversification, internationalization and modernization.”

(1) Keep expansion of scale economy. Try to reach the aim of the output volume of 10 million sets including 8 million sets of color TV, 1 million sets of mobile phone, 0.2 million sets of washing machine, 0.15 million sets of refrigerator, 0.25 million sets of wireless phone and 50,000 sets of air-conditioner.

(2) Insist on the policy of technology as base. Pay attention to the combination of new economy and new technology. Take advantage of the superiority of information, human resource and technology in technical center established in American Silicon Valley. Make efforts to unite development with market. Quicken the industrialization process of digital TV. Develop the motion communication business. Give more investment to the technical development of motion communication. Import, absorb and digest advanced foreign technology. Expand the production scale of the portable phone quickly. Strive to make the mobile phone the second important business of the Company and realize the turning the Company from ordinary color TV to hi-tech international electronic enterprise as soon as possible.

(3) Face the opportunity and challenge after China joins WTO. Strengthen the establishment of urban-and-country market and improve market share of the Company steadily on the basis of stability of domestic market. Be adaptable of global economic tide. Exploit the abroad market

continuously. Step up the progress of establishment of oversea base. Improve the management level of internationalization of the enterprise. Build the world brand image of "KONKA" and strive to reach the aim of sales volume of 1.2million to 1.5million sets a 100% over the previous year.

(4) According to the proposal put forward by Mckinsey Investment and Consulting Company, the Company will focus on the structure reform and competition for position on the basis of examination of management, further improve the enthusiasm, initiative, creative and work efficiency of the staff. At the same time, the Company will also improve business flow, strengthen the combination of research development, market, production, purchase and sales as well as control cost expenses.

(5) Using the opportunity brought by the Internet and the advantage of the broad marketing system of KONKA and urban resource of its control shareholder OCT, the Company will put more efforts to develop e-commerce. The Company will change the traditional marketing mode with hi-tech reform, expand Internet sales business in the domestic market and enhance Internet economic ratio relying on the sub-branches in home and abroad and distributors as distribution system. At the same time, the abundant recourse of the first control shareholder of the Company--OCT Group Co., will be put into full use, and combine the business of entertainment, tourism, act and real estate of OCT with e-commerce of the Company to establish a comprehensive e-commerce platform and form united advantage.

(6) With a view to developing enterprise on the basis of talented-person, the Company will attach more importance to absorbing hi-tech and economic management personnel from abroad, expand the engagement scope of high and fine technical personnel from America and Korea, promote all-round new and technical management mode during the process of the development of hi-tech industry and implementation of oversea expansion strategy. The Company will open a new era with core of high-level professional personnel so as to develop itself on this basis perennially and steadily.

6. Routine Work of the Board of Directors

(1) Board Meetings and Resolutions

In the report year, the 3rd Board of Directors held the 3rd to 6th board meetings. The meetings reviewed and adopted '98 Work Summary", '99 Business Plan, '98 Annual Report, '99 Interim Report", etc. and decided to:

A. Establish Chongqing Konka Electronic Co., Ltd. by joint venture;

B. Develop mobile communication project;

C. Strengthen the marketing network construction;

D. Carry out '98 Profit Distribution Plan by distributing cash dividend at the rate of RMB 3.00 for every ten shares including tax and bonus shares on 2-for-10 basis.

E. Hold '98 Shareholders' General Meeting;

F. Terminate '98 B- Shares Allotment Plan;

G. Issue 80 million new A- Shares.

H. Implement the '99 Interim Profit Distribution by distributing cash dividend at the rate of RMB3.00 for every 10 shares (including tax).

I. Hold '99 Extraordinary Shareholders' General Meeting.

The resolutions of the 5th and 6th meeting of the 3rd Board of Directors of the Company were published on the newspapers as designated by China Securities Regulatory Commission for disclosing information of the Company respectively dated May 29, 1999 and Aug. 25, 1999.

(2) Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors

In accordance with the resolutions of the 8th Shareholders' General Meeting and '99 Extraordinary Shareholders' General Meeting, the Board of Directors fulfilled the work of '98 Dividends Distribution and Capitalization of the Capital Public Reserve. The cash dividends were distributed at the rate of RMB 3.00 for every ten shares (including the tax. For the B-share, the dividends were distributed in Hong Kong dollars based on the exchange rate of HK$1 = RMB 1.0658). The public reserve was capitalized on 2-for-10 basis. The date of record of A-share (the last trading day of B-share) was Aug. 20, 1998. The Board of Directors terminated '98 B-share Allotment Plan and carried out the plan of issuing 80 million new A-share in the year 1999 at issuance price of RMB 15.5. The issuance date was Nov. 1, 1998. From the offering activity, the Company raised proceeds totaling RMB 1.2 billion. The Board of Directors also fulfilled the work of '99 Interim Dividends Distribution. The cash dividends were distributed at the rate of RMB 3.00 for every 10 shares (including tax. For B-share, the dividends were distributed in Hong Kong dollars with the exchange rate of HK$ 1 = RMB 1.0652). The date of record for A-share (the last trading day of B-share) was Oct. 20, 1999.

7. Management and Employees

(1) Directors, supervisors and senior executives

Name, age, office-term of the directors, supervisors and senior executives of the Company in office; number of shares held by them at beginning and end of the year; increase/decrease of the shares in the year; their total annual salaries.

No.	Name	Sex	Title	Office-term	Shares held at beginning of the year	Shares held at end of the year	Increase / decrease in the year	Reasons for changes	Total annual salaries (In RMB'000)
1	Ren Kelei	Male	Chairman of the Board	March 1998 to April 2001	0	0	--	--	--
2	Chen Weirong	Male	Vice-chairman of the Board and president	March 1998 to April 2001	19159	22990	+3831	Capitalized shares	25.45
3	Zhang Zhengkui	Male	Director	March 1998 to April 2001	0	0	--	--	--
4	Nie Guohua	Male	Director	March 1998 to April 2001	0	0	--	--	--
5	He Shilin	Male	Director	March 1998 to April 2001	0	0	--	--	--
6	Liang Rong	Male	Director and executive vice president	March 1998 to April 2001	10266	12319	+2053	Capitalized shares	20.76
7	Ma Shuixi	Male	Director	March 1998 to April 2001	11830	14196	+2366	Capitalized shares	20.76
8	Feng Zichang	Male	Chairman of the Supervisory Committee	March 1998 to April 2001	0	0	--	--	--
9	Feng Qiuying	Female	Supervisor	March 1998 to April 2001	0	0	--	--	--
10	Cai Gaosheng	Male	Supervisor	March 1998 to April 2001	12821	15385	+2564	Capitalized shares	14.77
11	Chen Xuri	Male	Vice-president and secretary of the Board of Directors	Jan. 2000 to Jan. 2002	0	0	--	--	17.53
12	Yang Guobin	Male	Chief financial supervisor	Jan. 2000 to Jan. 2002	0	0	--	--	14.77
13	Lin Hanhui	Male	Vice president	Jan. 2000 to Jan. 2002	73	87	+14	Capitalized shares	17.53
14	Wang Youlai	Male	Vice president	Jan. 2000 to Jan. 2002	2000	2400	+400	Capitalized shares	17.53
15	Huang Zhongtian	Male	Vice president	Jan. 2000 to Jan. 2002	390	468	+78	Capitalized shares	17.53
16	Huang Weigang	Male	Vice president	Jan. 2000 to Jan. 2002	0	0	--	--	11.60

Note: Ren Kelei, Zhang Zhengkui, Nie Guohua, He Shilin, Feng Zichang and Feng Qiuying enjoyed no pay from the Company.

In the report period, in accordance with the resolutions of the 8th Shareholders' General Meeting, Zhang Zhengkui and Nie Guohua replaced Wei Qing and Yao Feng as directors of the Company and the other directors, supervisors and senior executives remained unchanged.

(2) Employees

Ended Dec. 31, 1999, the Company had total 18,719 employees, including: Mudanjiang KONKA: 1068; Shanxi KONKA: 1600; Anhui KONKA: 2100; Chongqing KONKA: 849, Dongguan KONKA: 2763; Changshu KONKA: 472; Mudanjiang Electrical Appliances: 439; Head Office: 2950. Of the employees of the head office, there were 1488 engaged in production, 455 engaged in marketing, 445 technical personnel, 108 financial personnel, 350 administrative and management personnel and 96 retired personnel. Of them, 879 hold regular college diploma or higher including 14 holding doctors and post-doctors, 118 masters and 413 bachelors.

8. Preplan of Profit Distribution and Capitalization of the Public Reserve

As examined and decided by the 9th meeting of the 3rd Board of directors, the' 99 net profit of the company is distributed as follows: after the allotment of the statutory surplus public reserve by 10%, the Allotment of statutory public welfare fund by 10% and the allotment of discretionary public reserve by 20%. Added with the undistributed profit of the beginning of the year, less the dividend distributed in the middle-term of 1999, the total profit available for shareholders will be distributed bonus share at the rate of 1 for 10 shares and cash dividend 4 (including tax). Based on the total share capital of KONKA at the end of 1999 amounting to RMB 547,260,322 shares. The balance will be carried down to next time. The proposal will be put into practice after being examined an adopted by the shareholder' s general meeting.

9. Other matters necessary to be reported

The Company had chosen Securities Times and China Securities, etc. as the newspapers for disclosing the information.

Ⅵ. Report of the Supervisory Committee

In 1999, the 3rd Supervisory Committee of the Company held two meetings, with the major items on agenda are as follows:

A. Examined ' 98 Work Report of the Supervisory Committee;
B. Inspected the Company' s financial operation status;
C. Arranged supervision over senior executives of the Company;
D. Examined the supervision report on the business operation of the Company

1. Particulars about Operation according to the Laws

In the year 1999, the Company carried out the operation according to the laws and regulations of the state such as Company Law of PRC, Securities Law of PRC, Provisional Regulations Governing Stock Issuance and Trading as well as the Articles of Association of the Company. Directors and senior executives honestly performed their duties, implemented various resolutions of the shareholders' general meeting. They had never performed any act against law, regulations or the Articles of Association of the Company or did anything harmful to the interest of the Company. The Company had established complete internal control system and made decisions in a scientific and high efficiency way.

2. Inspection of the Financial Affairs of the Company

In the year 1999, the international and domestic certified public accountants engaged by the Company produced the standard auditors' report with unqualified opinion respectively for ' 98 Financial Report and ' 99 Interim Financial Report of the Company. In addition, the international certified public accountants produced standard auditors' report with unqualified opinion of ' 99

Financial Report of the Company. The financial report of the Company has truly reflected the Company' s financial status and operation achievements.

3. Application of the Proceeds as Raised through Offering
In the year 1999, the Company issued 80 million new A-share and thus raised proceeds of RMB 1.2 billion. The fund had been placed in the Company' s account in Nov., 1999 and invested in the following projects as promised:
(1) High Definition Television (HDTV);
(2) Digital mobile telephone;
(3) Chongqing KONKA Electronic Co., Ltd.;
(4) Indian KONKA Electronic Co., Ltd.;
(5) Adding the current fund.
The proceeds were invested in exactly the projects as promised without any change.

4. Related Transactions
In 1999, the Company was involved in the related transactions with the subsidiaries of its control shareholders – Overseas Chinese Town Group Company (OCT Group). Such related transactions included: paying house rent, property management fee, water and power charges, and purchase of commodities, etc. They were all carried out according to the market prices in a fair way, without any harm to the interest of the Company or other shareholders.

Ⅶ. Important Events
1. Significant lawsuits and arbitration
There were no significant lawsuits and arbitration in the year.

2. There was no punishment imposed by supervisory or administrative authorities on the directors and senior executives of the Company in the report period.

3. In the report period, there were no changes in the control shareholder, general manager (president) and secretary of the Board of Directors.

4. In the report year, the Company had never been involved in such activities as acquisition, sales, merger or absorption of assets.

5. Important Related Transactions
The Company signed agreements with OCT Group respectively in Dec., 1998 and Feb., 1999 on acquiring 70% equity of Shenzhen Huali Packaging Trading Co., Ltd. (Huali), and 75% equity of Shenzhen Huaning Electronic Co., Ltd., two subsidiaries of OCT Group at the prices of RMB 140 million and RMB 7.7775 million. The payment for the said transactions was all cleared in April and August, 1999. Huali is mainly engaged in producing packing corrugated board and corrugated cartons with different specifications and types and its product quality has been up to the international advanced standard. It is one of "National Top Ten Packing Enterprises" and a "National Model Packing Enterprise". Huaning is mainly engaged in producing and marketing complementary products of household electrical appliances such as power supply transformers. The Company acquired Huali and Huaning aiming at improving the self complementing ability, reducing production costs, improving competitiveness and economic efficiency. In the equity transactions, the par value of the total net assets of Huali and Hualing were RMB 152.6298 million and RMB 9.42 million respectively. After the assets appraisal conducted by Shenzhen Weiming Assets Appraisal Office and Shenzhen Nanfang Certified Public Accountants, the appraised values were RMB 180.8754 million and RMB 10.37 million respectivley.

6. About the "Three Separations" in Terms of Personnel, Assets and Finance between the Company and the Control Shareholder

The Company exercises the president responsibility system under the leadership of the Board of Directors. The Company is absolutely independent in labor, personnel and salary management. Mr. Ren Kelei, the legal representative of OCT Group, the control shareholder of the Company, holds the post of Chairman of the Board of the Company in a concurrent way. Mr. Chen Weirong, vice-Chairman and President of the Company, is the deputy director of Overseas Chinese Town Construction Headquarters. Other senior executives such as vice-president, chief financial supervisor, Secretary of the Board of Directors as well as the financial personnel of the Company have hold no cross-post or concurrent post in the control shareholder.
The Company has its own assets and independent production, supply and marketing system. The fixed assets such as land which was used as the capital contributed by the control shareholder has undergone the procedures of ownership transfer. The Company possesses its own production system, auxiliary production system and complementary facilities, industrial property right and non-patent technology. The control shareholder has never been involved in any competition with the Company in respect of producing and marketing the same products in the same field.
The Company is absolutely independent in finance. The Company has opened independent bank account and never share a single common bank account with the control shareholder. The Company makes independent tax payment and never offers separate guarantee for any major shareholder. The Company has its own financial center, set up independent and complete financial calculation system, has standardized and independent financial and accounting system as well as the financial management system over the branches and subsidiaries.
The Company is absolutely independent in personnel, assets and finance with the control shareholder in practice.

7. In the report year, the Company had never kept as custodian, contracted or rented any other company's assets and vice versa.

8. About Engagement of the Certified Public Accountants
Pursuant to the resolution of the 8h Shareholders' General Meeting, the Company renewed the engagement of Shenzhen Zhongtian (the former "Zhonghua") as the financial auditor of the Company with the term of one year.

9. In the report year, the Company had never changed its company name or short form of its stock.

10. Impact from the Change of the Accounting Policy
In accordance with the relevant provisions as specified in the Document of the State Ministry of Finance CKZ [1999] No. 35 titled "Additional Regulations concerning the Accounting Issues in the Accounting Standards for Joint Stock Limited Companies", the Company changed the following accounting policies commencing on Jan. 1, 1999:
(1) The provision for bad debts used to be allocated based on 3% of the balance of the receivables as at the end of year. Now it has been changed as the provision for bad debts is allocated based on aging accounts of the balance of the receivables (including the accounts receivable and other receivables) as at the end of year.
(2) Inventories as at the end of year used to be priced based on the cost. Now they are prices based on the lower of the cost and the net realizable value and the provision for the price falling of the individual inventories is to be allocated.
Against the aforesaid change of the accounting policy, adjustment has been made for the year beginning retained earnings and the amount of the relevant items on retroactive basis. The amount in the profit and profit distribution statements as of the same period of the previous year has also been adjusted accordingly.
The impact from the change of the accounting policy upon the net profit as of the year 1998 was RMB – 2,749,923.62 (i.e. the amount increased after the adjustment), of which the provision for bad debts as affected was RMB –393,487.93 and the provision for price falling of the inventories as affected was RMB –7,291,182.96. In addition, the payment of the value added tax in arrears for the

year 1998 in joint clearing is RMB 8,480,747.27. The net profit of and prior to the year 1997 as affected by the change of the accounting policy was RMB 15,637,864.56, of which the provision for bad debts as affected was RMB 303,102.45 and the provision for price falling of the inventories as affected was RMB 15,334,762.11. The undistributed profit as at the beginning of 1999 was reduced by RMB 7,732,764.56 after the retroactive adjustment.

Ⅷ. Financial Reports (as attached hereafter)

Ⅸ. Other Relevant Information

1. The first registration date: Oct. 1, 1980
Registration address: Shenzhen City

2. The entity business license registration number: EJSGST Zi No. 100476

3. The tax registration number: ST Zi No. 01028

4. Custodian for unlisted shares: Shenzhen Securities Registration Co., Ltd..

5. The lead underwriter for the newly issued A-share in the report year: China International Finance Co., Ltd.

6. Name of the certified public accountants engaged by the Company:
Shenzhen Zhongtian Certified Public Accountants
Office address: 16/F., Aihua Bldg., Shennan Rd. C., Shenzhen

Ⅹ. List of Documents Available for Inspection

1. Accounting statements carried with the personal signatures and seals of legal representative, chief financial supervisor and person in charge of handling accounting affairs.

2. Original of auditors’ report carried with seal of the Certified Public Accountants as well as personal signatures and seals of certified public accountants.

3. Originals of all documents as disclosed in public on the newspapers as designated by China Securities Regulatory Commission as well as the original manuscripts of the public notices published in the report period.

(The aforesaid documents are placed at the secretariat of the Board of Directors of the Company).

REPORT OF THE AUDITORS

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

We have audited the accompanying balance sheet and consolidated balance sheet of Konka Group Co., Ltd. and its subsidiaries (the "Group") as of 31 December 1999 together with the related consolidated profit and loss account and consolidated cash flow statement for the year ended 31 December 1999. These financial statements are the responsibility of the Company'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. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, 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 statement 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 financial position of the Company and of the Group as at 31 December 1999 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Accounting Standards.

ERNST&YOUNG

Hong Kong
25 April 2000

KONKA GROUP CO., LTD.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1999

	Notes	1999 RMB' 000	1998 RMB' 000
TURNOVER	5	10,127,099	8,573,878
Cost of sales		(8,250,742)	(6,988,403)
Gross profit		1,876,357	1,585,475
Other revenue		32,180	116,342
Distribution costs		(985,458)	(805,576)
Administrative expenses		(195,388)	(197,620)
Other operating expenses		(9,786)	(14,446)
PROFIT FROM OPERATING ACTIVITIES		717,905	684,175
Finance costs		(107,717)	(154,674)
Share of profits less losses of associates		1,583	888
PROFIT BEFORE TAXATION	6	611,771	530,389
Taxation	7	(91,551)	(78,179)
PROFIT BEFORE MINORITY INTERESTS		520,220	452,210
Minority interests		(35,580)	(23,044)
NET PROFIT ATTRIBUABLE TO SHAREHOLDERS		484,640	429,166
Retained profits at beginning of year		143,607	-
Over-appropriation of dividend declared and paid in prior year		-	2,922
RETAINED PROFITS AVAILABLE FOR APPROPRIATIONS		628,247	432,088
Appropriations:	8		
Transfers to reserves		193,856	171,666
Dividends		359,083	116,815
		552,939	288,481
RETAINED PROFITS AT END OF YEAR		75,308	143,607
EARNINGS PER SHARE	9	RMB1.01	RMB0.92

KONKA GROUP CO., LTD.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 1999

	Notes	1999 RMB' 000	1998 RMB' 000
Exchange differences on translation of the financial statements of foreign entities	24	135	-
Net gains not recognised in the consolidated profit and loss account		135	-
Net profit for the year	24	484,640	429,166
		484,775	429,166

KONKA GROUP CO., LTD.

CONSOLIDATED BALANCE SHEET

31 December 1999

	Notes	1999 RMB' 000	1998 RMB' 000
NON-CURRENT ASSETS			
Fixed assets	11	1,334,629	902,464
Goodwill	12	20,928	-
Deferred expenditure	13	18,966	10,056
Interests in associates	15	11,467	31,707
Long term investments	16	21,671	22,726
		1,407,661	966,953
CURRENT ASSETS			
Cash and cash equivalents	17	1,814,407	1,154,208
Bills receivable		281,555	570,112
Accounts receivable		1,339,869	942,749
Inventories	18	4,694,673	3,297,595
Properties held for sale	19	5,236	25,297
Prepayments, deposits and other receivables		188,261	219,072
		8,324,001	6,209,033
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	20	883,610	1,120,469
Bills payable		2,634,446	1,696,247
Accounts payable		1,212,835	993,908
Other payables and accrued liabilities		597,046	505,160
Due to related companies	10	256	19,734
Taxation		28,348	36,124
Dividend payable		218,904	116,815
		5,575,445	4,488,457
NET CURRENT ASSETS		2,748,556	1,720,576
TOTAL ASSETS LESS CURRENT LIABILITIES		4,156,217	2,687,529
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	20	447,892	409,953
Other long term liabilities		6,859	4,229
		454,751	414,182
Minority interests		218,641	117,607
		3,482,825	2,155,740

CONSOLIDATED BALANCE SHEET (continued)

31 December 1999

	Notes	1999 RMB' 000	1998 RMB' 000
EQUITY			
Share capital	23, 24	547,260	389,384
Reserves	24	2,935,565	1,766,356
		3,482,825	2,155,740

. KONKA GROUP CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1999

	1999 RMB' 000	1998 RMB' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	717,905	684,175
Adjustments for:		
Depreciation	113,899	99,385
Loss on disposal of fixed assets	5,389	1,060
Amortisation of goodwill	2,648	-
Amortisation of deferred expenditure	5,743	4,541
Loss/(gain) on sale of properties held for sale	311	(204)
Interest income	(22,129)	(56,187)
Dividend income	(118)	(1,348)
Provision for long term investment	1,400	-
Currency translation differences	135	-
Operating funds before working capital changes	825,183	731,422
Decrease in bills receivable	288,557	257,724
Increase in accounts receivable	(287,477)	(634,600)
Increase in inventories	(1,358,807)	(671,317)
Decrease/(increase) in prepayments, deposits and other receivables	82,058	(15,700)
Decrease in due from an associate	-	100
Increase in bills payable	938,199	1,305,329
Increase in accounts payable	193,677	44,715
Increase in other payables and accrued liabilities	24,647	184,887
Decrease in due to holding company	-	(10,478)
Increase/(decrease) in due to related companies	(19,478)	19,734
Increase in due to an associate	27,244	127
Cash generated from operations	713,803	1,211,943
Taxes paid	(99,327)	(112,565)
NET CASH INFLOW FROM OPERATING ACTIVITIES	614,476	1,099,378

KONKA GROUP CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 1999

	Note	1999 RMB' 000	1998 RMB' 000
NET CASH INFLOW FROM OPERATING ACTIVITIES		614,476	1,099,378
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(458,515)	(207,831)
Proceeds from disposal of fixed assets		19,235	3,188
Payment for deferred expenditure		(14,653)	(1,067)
Net cash outflow from acquisition of subsidiaries	25	(148,899)	-
Additional investment in associates		(5,421)	(2,999)
Purchases of long term investments		(345)	-
Proceeds from sale of properties held for sale		1,650	2,327
Interest received		22,129	56,187
Dividend received		118	1,348
Net cash used in investing activities		(584,701)	(148,847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		1,240,000	-
Proceeds from issue of rights shares		-	250,015
Share issue expenses		(39,505)	(7,893)
Proceeds from new bank loans		1,633,017	1,562,108
Repayment of bank loans		(1,790,232)	(1,745,376)
Capital element of finance lease payments		(5,530)	(6,124)
Increase in other long term liabilities		2,571	1,814
Minority contribution on formation of new subsidiaries		17,050	12,452
Dividend paid to minority shareholders		(26,959)	(4,763)
Donation received		898	136
Interest paid		(107,717)	(154,674)
Dividend paid		(256,994)	(204,795)
Net cash generated from/(used in) financing activities		666,599	(297,100)
NET INCREASE IN CASH AND CASH EQUIVALENTS		696,374	653,431
Cash and cash equivalents at beginning of year		1,118,033	464,602
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,814,407	1,118,033
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,814,407	1,154,208
Bank overdrafts, unsecured		-	(36,175)
		1,814,407	1,118,033

KONKA GROUP CO., LTD.

BALANCE SHEET

31 December 1999

	Notes	1999 RMB' 000	1998 RMB' 000
NON-CURRENT ASSETS			
Fixed assets	11	467,483	274,352
Deferred expenditure	13	5,576	3,633
Interests in subsidiaries	14	211,763	580,534
Interests in associates	15	2,076	27,820
Long term investments	16	21,671	22,726
		708,569	909,065
CURRENT ASSETS			
Cash and cash equivalents	17	1,504,586	907,076
Bills receivable		260,295	468,234
Accounts receivable		1,162,074	708,759
Inventories	18	4,236,917	2,938,454
Properties held for sale	19	5,236	25,297
Prepayments, deposits and other receivables		106,743	129,643
		7,275,851	5,177,463
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	20	460,000	658,432
Bills payable		2,300,200	1,617,174
Accounts payable		664,134	693,790
Other payables and accrued liabilities		391,844	371,191
Due to related companies	10	256	19,734
Taxation		23,102	33,343
Dividend payable		218,904	116,815
		4,058,440	3,510,479
NET CURRENT ASSETS		3,217,411	1,666,984
TOTAL ASSETS LESS CURRENT LIABILITIES		3,925,980	2,576,049
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	20	400,000	400,000
		3,525,980	2,176,049

KONKA GROUP CO., LTD.

BALANCE SHEET (continued)

31 December 1999

	Notes	1999 RMB'000	1998 RMB'000
EQUITY			
Share capital	23, 24	547,260	389,384
Reserves	24	2,978,720	1,786,665
		3,525,980	2,176,049

1. DETAILS OF THE COMPANY AND PRINCIPAL ACTIVITIES OF THE GROUP

The Company was formerly known as Shenzhen Konka Electronic Group Co., Ltd. and was established in 1980 as a Sino-foreign joint venture company between Overseas Chinese Town Holdings Company ("OCT Holdings Co."), formerly known as Shenzhen SEZ Overseas Chinese Town Economic Development Company, and Kong Wah International Company Limited ('Kong Wah"). In August 1991, the Company was reorganised into a Sino-foreign joint stock limited company.

Since January 1992, the Company's A and B shares have been listed on the Shenzhen Stock Exchange.

Pursuant to a share transfer agreement entered into by China Travel Service (Holdings) Hong Kong Limited ("China Travel"), Overseas Chinese Town (HK) Company Limited ("OCT (HK)"), a wholly-owned subsidiary of OCT Holdings Co., and Kong Wah on 25 November 1997, 56,430,682 and 43,900,000 B shares held by Kong Wah were transferred to OCT (HK) and China Travel, respectively. The transfer of shares was confirmed by Shenzhen Securities Central Clearing Co., Ltd. on 23 January 1998.

During the year, OCT (HK) acquired the entire 43,900,000 B shares held by China Travel. As a result, the Group became a subsidiary of OCT Holdings Co., details of which are set out in note 4.

The Group's principal activities include the manufacture and sale of colour televisions, stereo recorders, Hi-Fi component systems, facsimile machines and telecommunication products, property development and investment in the People's Republic of China (the "PRC"). The Group employed 12,566 employees on average during the year.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Accounting Standards ('IAS") issued by the International Accounting Standards Committee.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant accounting principles and financial regulations applicable to joint stock limited companies established by the Ministry of Finance of PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from IAS. The material differences arising from restating the results of operations and financial position to comply with IAS have been adjusted in these financial statements and the major adjustments made to conform to IAS included the following:

(a) Provision for bad and doubtful debts;
(b) Provision for inventory obsolescence; and
(c) Adjustments to the carrying value of long term investments.

The net impact of these IAS adjustments is included in note 30 below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 14 below. All significant intercompany transactions and balances have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over 10 years. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of attributable goodwill which remains unamortised is accounted for in arriving at the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the tangible fixed assets have been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost or valuation of each asset less its estimated residual value over its estimated useful life. The principal annual rates used for this purpose are 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%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases and hire purchase contracts that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases and hire purchase contracts are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases and contracts are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease and contract terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Construction in progress

Construction in progress is stated at cost which includes all direct construction expenditure and other indirect costs attributable to such construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Properties held for sale

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

Deferred expenditure

Deferred expenditure represents pre-operating expenses incurred in the establishment of production facilities and sales outlets, and are amortised over a period of five years commencing from the date of full operations of the production facilities and sales outlets.

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. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is accounted for under the equity method of accounting in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets of the associates less provisions for any permanent diminutions in values deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The Company's interests in associates are stated at cost less provisions for any permanent diminutions in values deemed necessary by the directors.

Long term investments

Investments held on a long term basis are stated at cost less provisions for any permanent diminutions in values deemed necessary by the directors, on an individual investment basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises the actual cost of direct materials and direct labour, together with an appropriate proportion of production overheads, and is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Deferred taxation

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) on the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;

(c) interest, on a time proportion basis; and

(d) dividend, when the shareholders’ right to receive payment is established.

Research and development costs
All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Borrowing costs
Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Foreign currencies
Foreign currency transactions are recorded at the rates of exchange ruling at the transaction dates as quoted by the People’s Bank of China. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date as quoted by the People 担 Bank of China. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates 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 fluctuation reserve.

Retirement benefits
The Group is required to contribute to a retirement insurance fund administered by the Shenzhen Municipal Government for all of its existing PRC employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as the contributions become payable in accordance with the rules of the scheme.

Cash equivalents
For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired , less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. CORPORATE AFFILIATION

During the year, a substantial shareholder of the Company, OCT Holdings Co. , a company registered in the PRC, acquired additional equity interests in the Company and thereafter was considered by the directors to be the ultimate holding company of the Company.

5. TURNOVER

Turnover represents the invoiced value of goods sold, net of value-added taxes, discounts and returns.

The activities of the Group are primarily based in the PRC and substantially all the Group's turnover and contribution to operating profit are derived from the PRC in respect of the sale of colour televisions, stereo recorders, Hi-Fi component systems, facsimile machines and telecommunication products. Accordingly, no segmental analysis by activity and geographical area is provided.

6. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging/(crediting):

	1999 RMB'000	1998 RMB'000
Depreciation:		
Leased fixed assets	2,117	2,445
Owned fixed assets	111,782	96,940
Amortisation of deferred expenditure	5,743	4,541
Interest expense	107,717	154,674
Cost of sales	8,250,742	6,988,403
Staff costs	75,273	67,159
Research and development costs	23,833	14,207
Operating lease rentals in respect of land and buildings	35,959	21,105
Retirement benefit contributions	14,308	11,794
Loss on disposal of fixed assets	5,389	1,060
Exchange losses, net	4,565	3,978
Interest income	(22,129)	(56,187)
Dividend income from investments	(118)	(1,348)

7. TAXATION

Taxation charge for the year comprises:

	1999 RMB'000	1998 RMB'000
Current year provision:		
PRC corporate income tax	91,249	77,804
Hong Kong profits tax	302	375
	91,551	78,179

The corporate income tax in the PRC has been provided at the rate of 15% (1998: 15%) on the estimated assessable profits which were earned in or derived from the PRC during the year. Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits arising in Hong Kong during the year.

No deferred taxation has been provided at the balance sheet date as there were no significant temporary differences.

There is no material difference between the average effective tax rate and the applicable statutory tax rate for each of the years ended 31 December 1998 and 1999.

8. DISTRIBUTION OF PROFITS

Under the company laws of the PRC and the articles of association of the Company, the Company is required to transfer a certain percentage of its profit after taxation, as reported in the statutory financial statements, to the surplus reserves and the statutory public welfare fund.

For the year ended 31 December 1999, the appropriations to the surplus reserves and the public welfare fund amounted to RMB145,392,000 and RMB48,464,000, respectively. These appropriations are based on the statutory audited financial statements for the year ended 31 December 1999 issued by the Company's PRC auditors.

Details of the surplus reserves and the public welfare fund are set out in note 24.

Interim cash dividend of RMB140,179,000, representing RMB0.30 per ordinary share, was paid during the year. The proposed final cash dividend distribution represents RMB0.40 per ordinary share.

Dividends will be declared in Renminbi and for A shares will be payable in Renminbi. Dividends in respect of B shares will be payable in Hong Kong dollars after payment of any appropriate withholding taxes due. The rate of exchange between Renminbi and Hong Kong dollars for the purpose of calculating the amount of dividends payable is determined by the average exchange rate for the week immediately preceeding the announcement of such dividend.

The appropriations to reserves and the proposed dividend distribution are subject to the approval of the shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of RMB484,640,000 (1998: RMB429,166,000) and the weighted average of 478,876,760 (1998: 467,260,322) shares in issue throughout the year.

The comparative figure for earnings per share has been adjusted for the bonus issue of 77,876,719 shares of the Company during the year.

10. RELATED PARTY TRANSACTIONS

During the year ended 31 December 1999, the Group had transactions with certain subsidiaries of OCT Holdings Co., the holding company of the Company, as set out below:

	1999 RMB'000	1998 RMB'000
Purchases of raw materials	577	-

The purchases of raw materials were made according to the published prices and conditions offered to other customers of the related companies.

The balances due to related companies are unsecured, interest-free and have no fixed terms of repayment.

11. FIXED ASSETS

Group	Land use rights RMB' 000	Buildings RMB' 000	Leasehold improvements RMB' 000	Machinery and equipment RMB' 000	Electronic equipment RMB' 000	Motor vehicles RMB' 000	Construction in progress RMB' 000	Total RMB' 000
Cost or valuation:								
At beginning of year	7,737	385,618	12,476	532,936	174,752	60,310	88,654	1,262,483
Additions	13,335	80,559	16,886	8,175	85,879	49,221	204,460	458,515
Disposals	-	(1,859)	-	(18,771)	(7,413)	(15,364)	-	(43,407)
Acquisition of subsidiaries	4,800	22,322	-	59,110	3,321	4,520	-	94,073
Transfer from construction in progress	-	44,528	-	79,683	6,462	-	(130,673)	-
Transfer from properties held for sale	-	18,100	-	-	-	-	-	18,100
At 31 December 1999	25,872	549,268	29,362	661,133	263,001	98,687	162,441	1,789,764
Accumulated depreciation:								
At beginning of year	4,804	58,574	9,481	176,543	82,097	28,520	-	360,019
Provided during the year	431	12,345	4,743	50,848	34,626	10,906	-	113,899
Disposals	-	(149)	-	(15,030)	(2,404)	(1,200)	-	(18,783)
At 31 December 1999	5,235	70,770	14,224	212,361	114,319	38,226	-	455,135
Net book value:								
At 31 December 1999	20,637	478,498	15,138	448,772	148,682	60,461	162,441	1,334,629
At 31 December 1998	2,933	327,044	2,995	356,393	92,655	31,790	88,654	902,464
Analysis of cost or valuation:								
At cost	16,980	504,779	29,362	606,127	246,339	95,824	162,441	1,661,852
At 1991 valuation	-	53,381	-	55,006	16,662	2,863	-	127,912
	16,980	558,160	29,362	661,133	263,001	98,687	162,441	1,789,764

11. FIXED ASSETS (continued)

Company	Land use rights RMB' 000	Buildings RMB' 000	Leasehold improvements RMB' 000	Machinery and equipment RMB' 000	Electronic equipment RMB' 000	Motor vehicles RMB' 000	Construction in progress RMB' 000	Total RMB' 000
Cost or valuation:								
At beginning of year	4,500	125,757	12,476	145,835	61,816	43,535	63,463	457,382
Additions	-	96,990	16,886	19,022	7,095	41,543	111,756	293,292
Disposals	-	(1,783)	-	(14,751)	(2,659)	(2,688)	-	(21,881)
Transfer to a subsidiary	-	(11,082)	-	-	(7,965)	(4,052)	(51,623)	(74,722)
Transfer from construction in progress	-	202	-	2,659	1,657	-	(4,518)	-
Transfer from properties held for sale	-	18,100	-	-	-	-	-	18,100
At 31 December 1999	4,500	228,184	29,362	152,765	59,944	78,338	119,078	672,171
Accumulated depreciation:								
At beginning of year	4,500	28,378	9,481	71,808	45,149	23,714	-	183,030
Provided during the year	-	5,264	4,743	16,126	5,033	14,349	-	45,515
Disposals	-	(142)	-	(9,191)	(1,821)	(984)	-	(12,138)
Transfer to a subsidiary	-	(1,370)	-	-	(7,310)	(3,039)	-	(11,719)
At 31 December 1999	4,500	32,130	14,224	78,743	41,051	34,040	-	204,688
Net book value:								
At 31 December 1999	-	196,054	15,138	74,022	18,893	44,298	119,078	467,483
At 31 December 1998	-	97,379	2,995	74,027	16,667	19,821	63,463	274,352
Analysis of cost or valuation:								
At cost	4,500	174,803	29,362	97,759	43,282	75,475	119,078	544,259
At 1991 valuation	-	53,381	-	55,006	16,662	2,863	-	127,912
	4,500	228,184	29,362	152,765	59,944	78,338	119,078	672,171

11. FIXED ASSETS (continued)

As at 31 December 1999, certain fixed assets of a subsidiary with a net book value of RMB13,998,000 were pledged to banks to secure bank loans granted to the Group.

The net book value of fixed assets of the Group held under finance leases at 31 December 1999 amounted to RMB10,351,000 (1998: RMB12,468,000).

In preparation for the reorganisation of the Company into a Sino-foreign joint stock limited compnay, the Company's fixed assets as at 31 July 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 capitalised as share capital. There is no significant difference between the net book values of these assets based on revalued amounts and their net book values based on historical cost.

In view of the unique circumstance relating to the revaluation of the Company's fixed assets as part of the reorganisation, the Company has no plans to revalue its fixed assets on a regular basis as a matter of accounting policy.

No deferred taxation has been provided on the surplus arising on the revaluation of the fixed assets as there is no difference between the carrying amounts of revalued fixed assets and their tax bases.

12. GOODWILL

	Group	
	1999	1998
	RMB'000	RMB'000
Arising on acquisition of subsidiaries during the year	23,576	-
Amortisation for the year	(2,648)	-
At 31 December	20,928	-

13. DEFERRED EXPENDITURE

	Group 1999 RMB' 000	Group 1998 RMB' 000	Company 1999 RMB' 000	Company 1998 RMB' 000
Cost:				
At beginning of year	22,892	21,825	8,510	7,643
Additions	14,653	1,067	3,436	867
At 31 December	37,545	22,892	11,946	8,510
Accumulated amortisation:				
At beginning of year	12,836	8,295	4,877	3,263
Provided during the year	5,743	4,541	1,493	1,614
At 31 December	18,579	12,836	6,370	4,877
Net book value:				
At 31 December	18,966	10,056	5,576	3,633

14. INTERESTS IN SUBSIDIARIES

	Company 1999 RMB' 000	Company 1998 RMB' 000
Unlisted investments, at cost	464,359	213,705
Due from subsidiaries	444,671	533,145
Due to subsidiaries	(697,267)	(166,316)
	211,763	580,534

Particulars of the subsidiaries at 31 December 1999 are set out as follows:

Company	Place of incorporation/ registration	Percentage of interest held Direct	Percentage of interest held Indirect	Principal activities
Anhui Konka Electronic Co., Ltd.	PRC	65%	-	Manufacture and sale of electronic products

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Percentage of interest held Direct	Indirect	Principal activities
Changshu Konka Electronic Co., Ltd.	PRC	-	60%	Manufacture and sale of electronic parts
Chongqing Konka Electronic Co., Ltd.	PRC	60%	-	Manufacture and sale of electronic products
Dongguan Konka Electronic Co., Ltd.	PRC	100%	-	Manufacture and sale of electronic products
Hong Din International Trade Limited	Hong Kong	-	100%	Trading of electronic parts and products
Hong Din Invest Development Limited	Hong Kong	-	100%	Investment holding
Hong Kong Konka Limited	Hong Kong	100%	-	Trading of electronic parts and products
Khararovsk Konka Limited	Russia	-	100%	Not yet commenced business
Konka Electronics (India) Co., Ltd.	India	-	70%	Manufacture and sale of electronic products
Konka Pacific PTY. Ltd.	Australia	-	100%	Sale of electronic products

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Percentage of interest held Direct	Percentage of interest held Indirect	Principal activities
Konka (U.S.A.) Ltd.	USA	-	100%	Research and development
Mudanjiang Konka Industrial Co., Ltd.	PRC	60%	-	Manufacture and sale of electronic products
Mudanjiang Electrical Equipment Co., Ltd. *	PRC	-	100%	Manufacture and sale of electronic products
Shaanxi Konka Electronic Co., Ltd.	PRC	45%	15%	Manufacture and sale of electronic products
Shanghai Huali Packaging Co., Ltd.	PRC	-	60%	Manufacture and sale of carton boxes
Shenzhen Huali Packing & Trading Co., Ltd	PRC	70%	-	Manufacture and sale of carton boxes
Shenzhen Konka Communication & Electrical Equipment Co., Ltd.	PRC	73%	27%	Manufacture and sale of electronic products
Shenzhen Konka Telecommunications Technology Co., Ltd	PRC	75%	25%	Manufacture and sale of mobile phones
Shenzhen Konka Injected Plastic Factory	PRC	49%	51%	Production of plastic products

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Percentage of interest held Direct	Percentage of interest held Indirect	Principal activities
Shenzhen Konka Precision Mould Factory	PRC	49%	51%	Production of plastic and metal moulds
Shenzhen Shushida Electronics Co., Ltd	PRC	75%	25%	Manufacture and sale of electronic products
Shenzhen Huaning Electronics Co., Ltd.	PRC	75%	-	Manufacture and sale of electronic parts
Xianyang Kang Xing Electronic Parts Co., Ltd.*	PRC	-	70%	Manufacture and sale of electronic parts

* Represents translation from the official Chinese name.

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The subsidiaries acquired during the year has no significant impact on the Group's current year operating result.

15. INTERESTS IN ASSOCIATES

	Group		Company	
	1999	1998	1999	1998
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	-	-	29,447	27,947
Share of net assets other than goodwill	38,838	31,834	-	-
	38,838	31,834	29,447	27,947
Due to associates	(27,371)	(127)	(27,371)	(127)
	11,467	31,707	2,076	27,820

Particulars of the associates at 31 December 1999 are as follows:

Company	Place of incorporation/ registration	Percentage of interest held Direct	Percentage of interest held Indirect	Principal activities
Long Fong Design Limited	Macau	50%	-	Investment holding
Pangyu Yikon Electronic Ironware Co., Ltd. *	PRC	-	30%	Manufacture and sale of electronic parts
Shenzhen Dekon Electronics Co., Ltd.	PRC	-	30%	Manufacture and sale of electronic parts
Shenzhen Konka Energy Technology Co., Ltd. *	PRC	-	30%	Manufacture and sale of electronic parts
Wuhan Konka Air Condition Sales Co., Ltd. *	PRC	30%	-	Manufacture and sale of electronic parts

* Represents translation from the official Chinese name.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

16. LONG TERM INVESTMENTS

	Group and Company	
	1999	1998
	RMB' 000	RMB' 000
Listed investments, at cost	19,211	9,265
Unlisted investments	460	10,161
Government debentures	2,000	2,000
Investment in a joint venture	-	1,300
	21,671	22,726
Market value of listed investments	118,828	44,479

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Cash on hand and at bank	1,492,946	854,208	1,183,125	607,076
Short term deposit	321,461	300,000	321,461	300,000
	1,814,407	1,154,208	1,504,586	907,076

18. INVENTORIES

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Raw materials	1,443,023	773,723	1,245,424	695,237
Work in progress	56,558	30,948	4,544	4,004
Finished goods	3,195,092	2,492,924	2,986,949	2,239,213
	4,694,673	3,297,595	4,236,917	2,938,454

19. PROPERTIES HELD FOR SALE

	Group and Company	
	1999	1998
	RMB' 000	RMB' 000
Cost at beginning of year	25,297	27,420
Transfer to fixed assets	(18,100)	-
Disposals	(1,961)	(2,123)
At the balance sheet date	5,236	25,297

20. INTEREST-BEARING LOANS AND BORROWINGS

Current liabilities

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Bank overdrafts, unsecured	-	36,175	-	-
Short term bank loans, secured	-	8,772	-	-
Short term bank loans, unsecured	881,575	1,069,447	460,000	658,432
Current portion of finance lease payables (note 21)	1,434	5,530	-	-
Current portion of long term bank loans (note 22)	601	545	-	-
Total	883,610	1,120,469	460,000	658,432

Non-current liabilities

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Long term portion of finance lease payables (note 21)	-	1,434	-	-
Long term bank loans (note 22)	447,892	408,519	400,000	400,000
Total	447,892	409,953	400,000	400,000

21. FINANCE LEASE PAYABLES

	Group 1999 RMB' 000	Group 1998 RMB' 000	Company 1999 RMB' 000	Company 1998 RMB' 000
Present value of payments :				
Within one year	1,434	5,530	-	-
In the second year	-	1,434	-	-
Total lease payments	1,434	6,964	-	-
Portion classified as current liabilities	(1,434)	(5,530)	-	-
Long term portion of finance lease payables	-	1,434	-	-

	Group 1999 RMB' 000	Group 1998 RMB' 000	Company 1999 RMB' 000	Company 1998 RMB' 000
Minimum Payments:				
Within one year	1,561	5,997	-	-
In the second year	-	1,555	-	-
Total minimum lease payments	1,561	7,552	-	-
Less: amounts representing finance charges	(127)	(588)	-	-
Present value of minimum lease payments	1,434	6,964	-	-

22. LONG TERM BANK LOANS

	Group 1999 RMB' 000	Group 1998 RMB' 000	Company 1999 RMB' 000	Company 1998 RMB' 000
Secured	8,493	9,064	-	-
Unsecured	440,000	400,000	400,000	400,000
	448,493	409,064	400,000	400,000

The long term bank loans of the Group comprise:

(i) RMB400,000,000 which is interest bearing at 7.11% per annum, unsecured and repayable by 16 November 2001;

(ii) RMB40,000,000 which is interest bearing at 0.5445% per month, unsecured, and repayable by two equal instalments of RMB20,000,000 each on 5 December 2001 and 15 August 2002; and

(iii) RMB8,493,000 which is interest bearing at 9.00% per annum, secured by certain fixed assets of a subsidiary and repayable by instalments with the last instalment due on 2 May 2009.

Both unsecured loans are guaranteed by OCT Holdings Co.

	Group 1999 RMB' 000	Group 1998 RMB' 000	Company 1999 RMB' 000	Company 1998 RMB' 000
Amount repayable:				
Within one year	601	545	-	-
In the second year	420,657	598	400,000	-
In the third to fifth years, inclusive	22,364	401,867	-	400,000
After five years	4,871	6,054	-	-
	448,493	409,064	400,000	400,000
Portion classified as current liabilities	(601)	(545)	-	-
Long term portion	447,892	408,519	400,000	400,000

23. SHARE CAPITAL

	1999 RMB' 000	1998 RMB' 000
Registered, issued and fully paid:		
362,862,228 (1998: 235,718,524) A shares of RMB1 each	362,862	235,719
184,398,094 (1998: 153,665,079) B shares of RMB1 each	184,398	153,665
	547,260	389,384

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, whereas the B shares are held by foreign investors.

On 23 August 1999, 77,876,719 shares of RMB1.00 each were issued by way of bonus issue on the basis of 2 bonus shares for every 10 ordinary shares held to the existing shareholders.

On 8 November 1999, 80,000,000 A shares of RMB1.00 each were alloted and issued for cash at RMB15.50 per share by way of public offering. The excess of the proceeds over the nominal value of shares issued was credited to the capital reserve as share premium. Related share issue expenses were debited to the capital reserve as share premium. The net proceeds from the new issue will be used in investment projects and to provide working capital for the Company.

The directors recommend a bonus issue of new shares of the Company to be distributed among the shareholders of the Company whose names are in the Register of Members of the Company on 31 December 1999 in the proportion of 1 new share for every 10 shares then held by them. Based on the 547,260,322 shares existing as at 31 December 1999, 54,726,032 new shares (the "Bonus Issue") will be issued. The Bonus Issue is conditional upon the approval by shareholders at the forthcoming annual general meeting. Upon approval, these new shares will be issued as fully paid by capitalising the sum of HK$54,726,032 standing to the credit of the retained profits of the Company and will rank pari passu in all respects with the existing issued shares except that they will not be entitled to the proposed final dividend for the year ended 31 December 1999.

24. EQUITY

	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Public welfare fund RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Group							
At 1 January 1998	365,573	548,713	553,144	130,779	-	-	1,598,209
Issue of rights shares	23,811	226,204	-	-	-	-	250,015
Share issue expenses	-	(7,893)	-	-	-	-	(7,893)
Net profit for the year	-	-	-	-	-	429,166	429,166
Over-appropriation of dividend declared and paid in prior years	-	-	-	-	-	2,922	2,922
Donation received	-	136	-	-	-	-	136
Dividend	-	-	-	-	-	(116,815)	(116,815)
Transfer to surplus reserves	-	-	128,750	-	-	(128,750)	-
Transfer to public welfare fund	-	-	-	42,916	-	(42,916)	-
At 31 December 1998 and 1 January 1999	389,384	767,160	681,894	173,695	-	143,607	2,155,740
Issue of bonus shares	77,876	(77,876)	-	-	-	-	-
Issue of new shares	80,000	1,160,000	-	-	-	-	1,240,000
Share issue expenses	-	(39,505)	-	-	-	-	(39,505)
Net profit for the year	-	-	-	-	-	484,640	484,640
Donation received	-	898	-	-	-	-	898
Dividend	-	-	-	-	-	(359,083)	(359,083)
Transfer to surplus reserves	-	-	145,392	-	-	(145,392)	-
Transfer to public welfare fund	-	-	-	48,464	-	(48,464)	-
Currency translation differences	-	-	-	-	135	-	135
At 31 December 1999	547,260	1,810,677	827,286	222,159	135	75,308	3,482,825

The Group's capital reserve represents share premium of RMB1,809,602,000 (1998: RMB766,983,000) and donation received of RMB1,075,000 (1998: RMB177,000).

24. EQUITY (continued)

	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
Company						
At 1 January 1998	365,573	551,842	508,098	124,534	14,204	1,564,251
Issue of rights shares	23,811	226,204	-	-	-	250,015
Share issue expenses	-	(7,893)	-	-	-	(7,893)
Net profit for the year	-	-	-	-	483,433	483,433
Over-appropriation of dividend declared and paid in prior years	-	-	-	-	2,922	2,922
Donation received	-	136	-	-	-	136
Dividend	-	-	-	-	(116,815)	(116,815)
Transfer to surplus reserves	-	-	128,750	-	(128,750)	-
Transfer to public welfare fund	-	-	-	42,916	(42,916)	-
At 31 December 1998 and 1 January 1999	389,384	770,289	636,848	167,450	212,078	2,176,049
Issue of bonus shares	77,876	(77,876)	-	-	-	-
Issue of new shares	80,000	1,160,000	-	-	-	1,240,000
Share issue expenses	-	(39,505)	-	-	-	(39,505)
Net profit for the year	-	-	-	-	507,621	507,621
Donation received	-	898	-	-	-	898
Dividend	-	-	-	-	(359,083)	(359,083)
Transfer to surplus reserves	-	-	145,392	-	(145,392)	-
Transfer to public welfare fund	-	-	-	48,464	(48,464)	-
At 31 December 1999	547,260	1,813,806	782,240	215,914	166,760	3,525,980

The Company's capital reserve represents share premium of RMB1,812,772,000 (1998: RMB770,153,000) and donation received of RMB1,034,000 (1998: RMB136,000).

24. EQUITY (continued)

Under the company laws of the PRC and the articles of association of the Company, the Company is required to appropriate the following percentage of its profit after tax, as reported in its statutory financial statements, to the surplus reserves and the public welfare fund.

		Percentage of profit after tax
(i)	Surplus reserves	10 - 40%
(ii)	Public welfare fund	5 - 10%

The appropriation to the surplus reserves may be discontinued if the aggregate amount of such reserves reaches 50% of the registered capital of the Company. The surplus reserves may only be applied to make up any losses of the Company, for capitalisation by way of fully paid bonus issues of the Company's shares provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the Company, and certain other purposes prescribed by the State Government of the PRC. The public welfare fund can only be used for capital expenditure on staff welfare facilities and is non-distributable other than on liquidation of the Company.

As at 31 December 1999, in accordance with the company laws of the PRC, the amount of RMB1,812,772,000 (1998: RMB770,153,000) standing to the credit of the Company 抯 share premium account was available for distribution by way of capitalisation issues.

According to the Company's articles of association, the amount of retained profits available for distribution is the lower of the amount reported in the statutory financial statements and the amount determined under IAS. As of 31 December 1999,the amount of retained profits available for distribution was RMB166,760,000 (1998: RMB212,078,000) after taking into account of the proposed dividend.

25. NOTE TO THE CASH FLOW STATEMENT

Acquisition of subsidiaries

	RMB' 000
Fixed assets	94,073
Cash	31,993
Accounts receivable	109,643
Inventories	38,271
Prepayments, deposits and other receivables	51,247
Accounts payable	(25,250)
Other payables and accrued liabilities	(67,239)
Long term debt	(59)
Minority interests	(75,363)
	157,316
Goodwill	23,576
Cash consideration paid	180,892
Less: cash of subsidiaries acquired	(31,993)
Cash outflow on acquisition on subsidiaries	(148,899)

The subsidiaries acquired during the year has no significant impact on the Group's cash flows.

26. COMMITMENTS

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Capital commitments:				
Contracted but not provided for	249,369	212,421	231,305	180,919
Authorised but not contracted for	657,930	150,000	657,930	-
	907,299	362,421	889,235	180,919

26. COMMITMENTS (continued)

	Group		Company	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total commitments payable under non-cancellable operating leases in respect of land and buildings:				
Amount due:				
Within one year	23,462	15,974	18,659	15,974
In the second to fifth years, inclusive	19,333	10,888	17,331	10,888
After five years	350	-	220	-
	43,145	26,862	36,210	26,862

27. CONTINGENT LIABILITIES

As at 31 December 1999, the Group and the Company had no significant contingent liabilities.

28. RETIREMENT BENEFITS

In accordance with the regulations of the Shenzhen Municipal Government, all enterprises established in Shenzhen are required to contribute to a retirement insurance fund administered by the Shenzhen Municipal Government. The Company contributes an average rate of 10.3% of the basic salaries for all of its existing PRC staff to this fund. In addition, PRC employees are required to make contributions to this retirement insurance fund based on an average rate of 3.4% of their basic salary.

The retirement insurance fund is fully responsible for payments to retired staff.

29. 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) Interest rate risk

The interest rates and terms of repayment of amounts due to related companies and long term bank loans of the Group are disclosed in notes 10 and 22, respectively.

(b) 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.

Accounts receivable

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 accounts receivable mainly in the PRC.

(c) Fair value

The fair values of cash and bank balances, bills receivable, accounts receivable, prepayments, deposits and other receivables, bank overdrafts, bills payable, accounts payable, other payables 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 approximate 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 instruments, 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.

30. IMPACT OF IAS ON NET PROFIT ATTRIBUTABLE TO SHAREHOLDER AND NET ASSETS

	Net profit attributable to shareholder		Net assets	
	1999	1998	1999	1998
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Group				
As reported in the statutory audited financial statements of the Group prepared in accordance with the relevant PRC accounting regulations	497,528	431,916	3,475,068	2,135,095
Cumulative IAS adjustments, net	(12,888)	(2,750)	7,757	20,645
As restated in these financial statements	484,640	429,166	3,482,825	2,155,740

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2000.