

# **GWT**

長城科技股份有限公司  
**Great Wall Technology Company Limited**

Stock Code : 0074



INTERIM REPORT

**2008**

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## CORPORATE INFORMATION

Company Name in Chinese	:	長城科技股份有限公司
Company Name in English	:	Great Wall Technology Company Limited
Place of Registration	:	No. 2 Keyuan Road Technology & Industry Park Nanshan District Shenzhen
Tel	:	(0755) 2672 8686
Fax	:	(0755) 2650 4493
Postal Code	:	518057
Executive Directors	:	Lu Ming (Chairman) Tam Man Chi Wang Jincheng Yang Jun Su Duan Fu Qiang
Independent Non-executive Directors	:	Li Sanli Kennedy Ying Ho Wong Wang Qinfang
Supervisors	:	Lang Jia Kong Xueping Song Jianhua
Company's Legal Representative	:	Lu Ming
Company's Secretary	:	Siu Yuchun
Authorized Representative	:	Lu Ming Siu Yuchun
International Auditor	:	Ernst & Young
Domestic Auditor	:	Ernst & Young Hua Ming
Legal Advisor (as to Hong Kong law)	:	Jones Day
Place of H Shares Listing	:	The Stock Exchange of Hong Kong Limited
Stock Short Name	:	Great Wall Tech
Stock Code	:	0074
H Shares Registrar and Transfer Office	:	Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor Hopewell Center 183 Queen's Road East Wanchai, Hong Kong

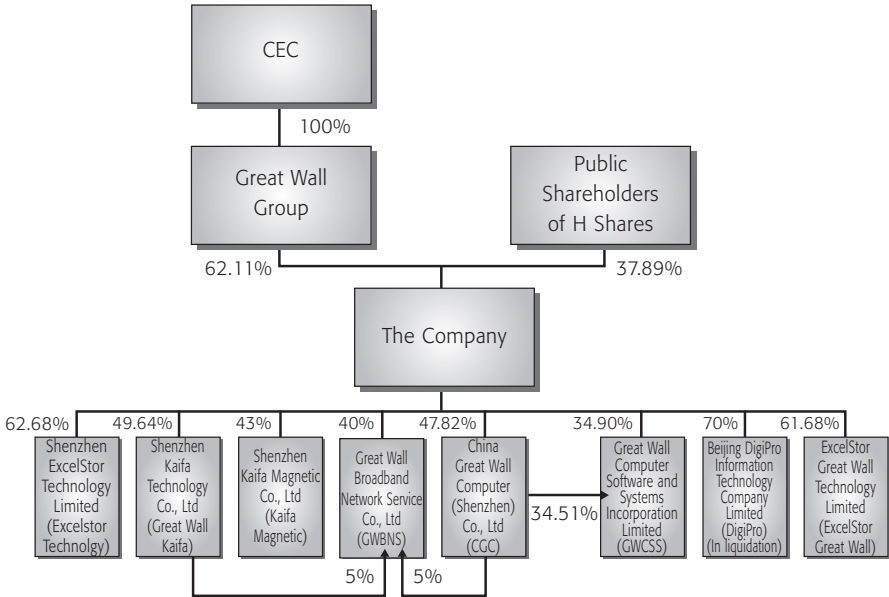
## GROUP STRUCTURE

China Great Wall Computer Group Company (the "Great Wall Group") was the sole promoter of Great Wall Technology Company Limited (the "Company"). The Company was formally established in Shenzhen, China on 20 March 1998 with a registered capital of RMB743,870,000 and was listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 5 August 1999. Currently, the registered capital of the Company is RMB1,197,742,000. The Company was classified as "Information Technology Stock" in May 2000 by the Hong Kong Hang Seng Index Services Limited.

Great Wall Group is wholly owned by China Electronics Corporation ("CEC") which becomes the ultimate shareholder of the Company with its control of 62.11% over the Company. CEC is an enterprise directly administered by State-owned Assets Supervision and Administration Commission of the State Council. It is principally engaged in the design and manufacturing of integrated circuits, software and integrated system services and research, development and manufacturing of other communication products.

The business of the Company and its subsidiaries (hereinafter collective referred to as the "Group") covers the following major fields, including computer components, computer manufacturing, GSM, CDMA mobile phones, software and system integration and broadband networks and value-added services.

## GROUP STRUCTURE



Notes: China Great Wall Computer (Shenzhen) Co., Ltd. (abbreviated as “CGC”), Shenzhen Kaifa Technology Co., Ltd (abbreviated as “Great Wall Kaifa”), Shenzhen Kaifa Magnetic Recording Co. Ltd (abbreviated as “Kaifa Magnetic”), Shenzhen ExcelStor Technology Limited (abbreviated as “ExcelStor Technology”), ExcelStor Great Wall Technology Limited (abbreviated as “ExcelStor Great Wall”), Great Wall Computer Software and Systems Incorporation Limited (abbreviated as “GWCSS”), Great Wall Broadband Network Service Co., Ltd (abbreviated as “GWBNS”).

The board of directors (the "Board") of the Company hereby announces to the shareholders the unaudited condensed consolidated results of the Group for the six months ended 30 June 2008 (the "Reporting Period") together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee ("Audit Committee").

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		<b>For the six months ended 30 June</b>	
		<b>2008</b>	<b>2007</b>
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Notes		
REVENUE	5	11,689,956	10,571,284
Cost of sales		(11,123,827)	(9,977,077)
Gross profit		566,129	594,207
Other income and gains	6	174,519	150,241
Selling and distribution costs		(150,558)	(133,727)
Administrative expenses		(208,666)	(285,847)
Other expenses		5,571	(93,855)
Finance costs	7	(34,651)	(20,030)
Gain on disposal of available-for-sale investments		–	434,365
Share of profits and losses of associates		14,282	(7,177)
PROFIT BEFORE TAX	8	366,626	638,177
Tax	9	(40,960)	(73,465)
PROFIT FOR THE PERIOD		<u>325,666</u>	<u>564,712</u>
ATTRIBUTABLE TO:			
Equity holders of the parent		195,517	263,861
Minority interests		130,149	300,851
		<u>325,666</u>	<u>564,712</u>
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	10	<u>16.32 cents</u>	<u>22.03 cents</u>
DIVIDEND PER SHARE	11	<u>Nil</u>	<u>Nil</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		<b>30 June 2008</b>	<b>31 December 2007</b>
		(Unaudited)	(Audited)
	Notes	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	2,216,492	2,197,616
Investment properties	13	883,920	883,920
Prepaid land lease payments		97,695	88,396
Intangible assets		3,061	3,375
Interests in associates		582,508	448,183
Long-term pledged deposit	16	13,962	15,602
Prepayments		14,135	17,253
Available-for-sale investments		791,634	1,148,207
Deferred tax assets		87,567	67,305
<b>Total non-current assets</b>		<b>4,690,974</b>	<b>4,869,857</b>
<b>CURRENT ASSETS</b>			
Inventories		1,131,520	913,370
Trade and bills receivables	14	2,300,888	2,898,602
Prepayments, deposits and other receivables		327,020	371,885
Due from associates	17(b)(ii)	33,398	4,651
Due from fellow subsidiaries	17(b)(iii)	2,362	5,343
Pledged deposits	16	94,927	23,937
Cash and cash equivalents	16	2,451,497	2,719,237
<b>Total current assets</b>		<b>6,341,612</b>	<b>6,937,025</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	2,450,152	3,027,224
Other payables and accruals		581,189	700,105
Interest-bearing bank borrowings		1,067,415	865,000
Tax payable		202,928	222,620
Provisions		60,259	59,773
Due to associates	17(b)(ii)	4,528	13,625
Due to fellow subsidiaries	17(b)(iii)	33,217	24,418
Due to the intermediate holding company	17(b)(i)	3,581	2,445
<b>Total current liabilities</b>		<b>4,403,269</b>	<b>4,915,210</b>
<b>NET CURRENT ASSETS</b>		<b>1,938,343</b>	<b>2,021,815</b>

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2008

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
Notes	RMB'000	RMB'000
NET CURRENT ASSETS	1,938,343	2,021,815
TOTAL ASSETS LESS CURRENT LIABILITIES	6,629,317	6,891,672
NON-CURRENT LIABILITIES		
Financial guarantee contracts	8,713	12,886
Deferred tax liabilities	72,960	59,703
Other long term payables	30,868	23,640
Total non-current liabilities	112,541	96,229
Net assets	6,516,776	6,795,443
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	1,197,742	1,197,742
Reserves	2,496,728	2,509,071
	3,694,470	3,706,813
Minority interests	2,822,306	3,088,630
Total equity	6,516,776	6,795,443



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Goodwill reserve	Statutory reserve	Available-for-sale investments revaluation reserve	Exchange fluctuation reserve	Retained profits	Asset revaluation reserve	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	1,197,742	997,498	(28,155)	820,767	148,919	(14,325)	437,370	-	3,559,816	2,955,910	6,515,726
Exchange realignment	-	-	-	-	-	(6,977)	-	-	(6,977)	(3,101)	(10,078)
Disposal of available-for-sale investments	-	-	-	-	(113,488)	-	-	-	(113,488)	(115,596)	(229,084)
Total income and expense recognised directly in equity	-	-	-	-	(113,488)	(6,977)	-	-	(120,465)	(118,697)	(239,162)
Net profit for the period	-	-	-	-	-	-	263,861	-	263,861	300,851	564,712
Total income and expense for the period	-	-	-	-	(113,488)	(6,977)	263,861	-	143,396	182,154	325,550
Share of reserves from associates	-	-	-	-	-	(1,639)	-	-	(1,639)	(1,787)	(3,426)
Dividends attributable to minority shareholders	-	-	-	-	-	-	-	-	-	(199,002)	(199,002)
Transferred from retained profits	-	-	-	6,045	-	-	(6,045)	-	-	-	-
At 30 June 2007	<u>1,197,742</u>	<u>997,498</u>	<u>(28,155)</u>	<u>826,812</u>	<u>35,431</u>	<u>(22,941)</u>	<u>695,186</u>	<u>-</u>	<u>3,701,573</u>	<u>2,937,275</u>	<u>6,638,848</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Goodwill reserve	Statutory reserve	Available- for-sale investments revaluation reserve	Exchange fluctuation reserve	Retained profits	Asset revaluation reserve	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	1,197,742	997,498	(28,155)	907,620	(25,287)	(36,459)	659,285	34,569	3,706,813	3,088,630	6,795,443
Exchange realignment	-	-	-	-	-	(24,058)	-	-	(24,058)	(13,763)	(37,821)
Changes in fair value of available-for-sale investments	-	-	-	-	(170,454)	-	-	-	(170,454)	(185,995)	(356,449)
Total income and expense recognised directly in equity	-	-	-	-	(170,454)	(24,058)	-	-	(194,512)	(199,758)	(394,270)
Net profit for the period	-	-	-	-	-	-	195,517	-	195,517	130,149	325,666
Total income and expense for the period	-	-	-	-	(170,454)	(24,058)	195,517	-	1,005	(69,609)	(68,604)
Share of reserves from associates	-	-	-	-	-	(13,348)	-	-	(13,348)	(14,042)	(27,390)
Dividends attributable to minority shareholders	-	-	-	-	-	-	-	-	-	(182,673)	(182,673)
Transferred from retained profits	-	-	-	11,019	-	-	(11,019)	-	-	-	-
At 30 June 2008	<u>1,197,742</u>	<u>997,498</u>	<u>(28,155)</u>	<u>918,639</u>	<u>(195,741)</u>	<u>(73,865)</u>	<u>843,783</u>	<u>34,569</u>	<u>3,694,470</u>	<u>2,822,306</u>	<u>6,516,776</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	125,533	149,946
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(361,115)	(968,316)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<u>(19,489)</u>	<u>429,463</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(255,071)	(388,907)
Cash and cash equivalents at beginning of period	2,719,237	2,980,882
Effects of foreign exchange rate changes, net	<u>(12,669)</u>	<u>(6,473)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>2,451,497</u>	<u>2,585,502</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>2,451,497</u>	<u>2,585,502</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

### 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also included HKASs and Interpretations, that affect the Group and are adopted for the first time for the current period’s financial statements.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

#### (a) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) Interpretation 11 also addresses the accounting for share based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or performance of the Group.

#### (b) HK(IFRIC)-Int 12 Service Concession Arrangements

This interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

## 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

### (c) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The adoption of these standards and interpretations did not have any material effects on the financial position or the performance of the Group.

## 3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs relevant to the condensed consolidated financial statements, that have been issued but are not yet effective.

HKAS 1(Revised)	Revised Presentation of Financial Statements <sup>2</sup>
HKAS 23(Revised)	Borrowing Costs <sup>2</sup>
HKAS 27(Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 1 and HKAS 32(Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2(Amendment)	Share-based payments – Vesting Conditions and Cancellations <sup>2</sup>
HKFRS 3(Revised)	Business Combination <sup>3</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, HKAS 1 introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when these costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

### **3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS** (continued)

HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3R and HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation becomes effective for annual periods beginning on or after 1 January 2009, the same effective date as amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation. The purpose of amendments is to maintain international convergence arising from the revision of IAS 32 and IAS 1 by the International Accounting Standards Board (IASB). In response to requests from entities around the world, the IASB issued a short-term, limited scope amendment to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liabilities, rather than equity. The Group does not have such types of financial instruments, therefore, does not expect significant implications on its accounting for financial instruments.

HKFRS 2 restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group currently has not entered into share-based payment schemes, HKFRS 2 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

##### **Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

##### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

##### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

##### *Impairment of non-financial asset*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

##### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## 5. SEGMENT INFORMATION

### Business segments

The following tables present revenue, profit and expenditure information for the Group's business segments for the six months ended 30 June 2008 and 2007.

	<b>Electronic parts and components</b>	<b>Computer</b>	<b>Property investment</b>	<b>Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2008</b>						
<b>Segment revenue:</b>						
Sales to external customers	10,862,025	414,038	53,162	360,731	-	11,689,956
Other income and gains	60,878	3,734	2	71	-	64,685
Intersegment sales	101,829	5,497	14,581	-	(121,907)	-
	<u>11,024,732</u>	<u>423,269</u>	<u>67,745</u>	<u>360,802</u>	<u>(121,907)</u>	<u>11,754,641</u>
Total	<u>11,024,732</u>	<u>423,269</u>	<u>67,745</u>	<u>360,802</u>	<u>(121,907)</u>	<u>11,754,641</u>
<b>Segment results</b>						
	<u>231,943</u>	<u>(32,046)</u>	<u>35,964</u>	<u>13,245</u>	<u>(3,156)</u>	245,950
Interest and dividend income and unallocated gains						99,784
Corporate and other unallocated expenses						31,211
Finance costs						(34,651)
Share of profits and losses of associates	9,159	5,123	-	-	-	14,282
Gain on disposal of equity investment at fair value through profit or loss	10,050	-	-	-	-	10,050
Profit before tax						366,626
Tax						(40,960)
Profit for the period						<u>325,666</u>



## 5. SEGMENT INFORMATION (continued)

### Business segments (continued)

	<b>Electronic parts and components</b>	<b>Computer</b>	<b>Property investment</b>	<b>Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended</b>						
<b>30 June 2007</b>						
<b>Segment revenue:</b>						
Sales to external customers	9,618,623	600,559	46,802	305,300	-	10,571,284
Other income and gains	37,597	3,630	-	3,624	-	44,851
Intersegment sales	153,060	14,487	15,912	-	(183,459)	--
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	9,809,280	618,676	62,714	308,924	(183,459)	10,616,135
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Segment results</b>	159,750	2,603	46,921	(17,014)	(11,687)	180,573
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Interest and dividend income and unallocated gains						105,390
Corporate and other unallocated expenses						(54,944)
Finance costs						(20,030)
Share of profits and losses of associates	5,634	1,528	-	(649)	(13,690)	(7,177)
Gain on disposal of available- for-sale investments	434,365	-	-	-	-	434,365
						<u>          </u>
Profit before tax						638,177
Tax						(73,465)
						<u>          </u>
Profit for the period						564,712
						<u>          </u>

## 6. OTHER INCOME AND GAINS

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	(Unaudited) RMB'000	(Unaudited) RMB'000
Royalty income	–	8,570
Interest income	29,375	47,869
Dividend income from unlisted investments	42,617	57,521
Dividend income from listed investments	27,792	–
Government grants	–	5,209
Sale of scrap materials	1,484	23,666
Compensation income	51,737	–
Gain on disposal of equity investment at fair value through profit or loss	10,050	–
Others	11,464	7,406
	<u>174,519</u>	<u>150,241</u>

## 7. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	(Unaudited) RMB'000	(Unaudited) RMB'000
Interest on bank loans, wholly repayable within five years	<u>34,651</u>	<u>20,030</u>

## 8. PROFIT BEFORE TAX

Profit before tax was determined after charging/(crediting) the following:

		<b>For the six months ended</b>	
		<b>30 June</b>	
		<b>2008</b>	<b>2007</b>
		(Unaudited)	(Unaudited)
Notes		RMB'000	RMB'000
	Depreciation	182,524	163,717
	Amortisation of intangible assets	1,237	1,140
	Amortisation of prepaid land lease payments	1,666	1,248
	Employee benefits expense		
	Wages and salaries	391,970	335,465
	Foreign exchange differences, net	38,476	9,235
	Impairment of property, plant and equipment	–	3,004
	Impairment of trade receivables	3,434	22,096
	Reversal of trade receivables impairment	(6,162)	–
	Impairment of loans to an associate	–	50,000
	Reversal of loans to an associate impairment	(36,500)	–
	Write-down of inventories to net realisable value	27,534	7,019
	Reversal of inventories provision	(417)	(6,711)
	Interest income	(29,375)	(47,869)
	Dividend income from unlisted investments	(42,617)	(57,521)
	Dividend income from listed investments	(27,792)	–
	Gain on disposal of property, plant and equipment	(2,708)	(403)
	Gain on disposal of available-for-sale investments	–	(434,365)
	Compensation income	(51,737)	–
	Gain on disposal of equity investment		
	at fair value through profit or loss	(10,050)	–

**9. TAX**

	<b>For the six months ended 30 June</b>	
	<b>2008</b> (Unaudited) RMB'000	<b>2007</b> (Unaudited) RMB'000
Current – Hong Kong profits tax	2,231	3,358
Current – PRC corporate income tax	45,050	66,643
Deferred	(6,321)	3,464
	<hr/>	<hr/>
Total tax charge for the period	<u>40,960</u>	<u>73,465</u>

Taxation in Mainland China is calculated at the rate prevailing in Mainland China.

Certain subsidiaries operating in Mainland China are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years.

Hong Kong profits tax is calculated at a rate of 16.5% of the estimated assessable profit for the period.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an increase of income tax rate applicable to the Group from 15% to 25% gradually (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%). The effect of this change has been reflected in the calculation of deferred income tax as at 30 June 2008.

**10. EARNINGS PER SHARE**

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of RMB195,517,000 (six months ended 30 June 2007: RMB263,861,000), and the weighted average number of 1,197,742,000 (six months ended 30 June 2007: 1,197,742,000) ordinary shares in issue during the period.

No diluted earnings per share have been presented because there was no dilutive potential ordinary share in existence during the six months ended 30 June 2008 and 2007.

**11. DIVIDEND**

The Board does not recommend the payment of an interim dividend to shareholders in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired assets with a cost of RMB257,983,000 (six months ended 30 June 2007: RMB315,411,000) on additions to property, plant and equipment.

Assets with a net book value of RMB7,957,000 were disposed of by the group during the six months ended 30 June 2008 (six months ended 30 June 2007: RMB3,670,000), resulting in a net gain on disposal of RMB2,708,000 (six months ended 30 June 2007: RMB403,000).

## 13. INVESTMENT PROPERTIES

At 30 June 2008, the directors considered the carrying amount of the Group's investment properties and estimated that the carrying amounts do not differ significantly from that which would be determined using fair value at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognized in the current period.

## 14. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months, extending up six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Current to 90 days	2,040,121	2,853,824
91 to 180 days	136,150	19,718
181 to 365 days	109,405	4,304
Over 365 days	15,212	20,756
	<hr/>	<hr/>
	<b>2,300,888</b>	<b>2,898,602</b>
	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of trade and bills receivables approximates to their fair value.

## 15. TRADE AND BILLS PAYABLES

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 90 days	2,287,616	2,786,141
91 to 180 days	74,427	78,763
181 to 365 days	39,103	128,298
Over 365 days	49,006	34,022
	<hr/>	<hr/>
	2,450,152	3,027,224
	<hr/> <hr/>	<hr/> <hr/>

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The carrying amount of trade and bills payables approximates to their fair value.

## 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Cash and bank balances	1,545,329	1,372,296
Time deposits	1,015,057	1,386,480
	<hr/>	<hr/>
	2,560,386	2,758,776
Less: Current pledged deposits		
Pledged for bank facilities	8,391	8,933
Pledged for contracts execution	86,536	15,004
	<hr/>	<hr/>
	94,927	23,937
Non-current pledged deposits		
Pledged for contracts execution	12,791	13,430
Pledged for others	1,171	2,172
	<hr/>	<hr/>
	13,962	15,602
Cash and cash equivalents	<hr/> <hr/>	<hr/> <hr/>
	2,451,497	2,719,237

## 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB2,081,526,000 (2007: RMB2,111,955,000) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

## 17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended	
		30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Intermediate holding company:			
License fees	(i)	1,107	1,372
Associates:			
Sale of products	(ii)	127,366	102,025
Purchase of components and parts	(iii)	295,186	307,569
Rental income	(iv)	30,426	27,566
Royalty income		–	2,794
Management fee		–	5,776
Processing fee income		–	7,750
Interest income		19	13,994
Interest expense		719	–
Fellow subsidiaries:			
Sale of products	(ii)	12,110	7,513
Purchases of components and parts	(iii)	186,458	291,526
Rental income	(iv)	6,218	8,053

**17. RELATED PARTY TRANSACTIONS** (continued)

(a) (continued)

Notes:

- (i) The license fee paid to the intermediate holding company was based on a rate of 0.15% of the revenue from the products under the brand of "Great Wall".
  - (ii) The sales to the associates and the fellow subsidiaries were made accordingly to the published prices and conditions offered to the major customers of the Group.
  - (iii) The purchases from the associates and the fellow subsidiaries were made according to the published prices and conditions offered by the associates and the fellow subsidiaries to their major customers.
  - (iv) The rental income from the property leased to the associates and the fellow subsidiaries were made according to the market rate offered to the third parties.
- (b) Outstanding balances with related parties:
- (i) As disclosed in the condensed consolidated balance sheet, the Group had outstanding other payables to its intermediate holding company of RMB3,581,000 (2007: RMB2,445,000), as at the balance sheet date. The amount was unsecured, interest-free and has no fixed terms of repayment.
  - (ii) As disclosed in the condensed consolidated balance sheet, the Group had outstanding trade receivables from and trade payables to the associates of RMB33,398,000 (2007: RMB4,651,000) and RMB4,528,000 (2007: RMB13,625,000), respectively, as at the balance sheet date. They are repayable on similar credit term to those offered to the major customers of the Group and those offered by associates to their major customers.
  - (iii) As disclosed in the condensed consolidated balance sheet, the Group had outstanding receivables and other payables to the fellow subsidiaries of RMB2,362,000 (2007: RMB5,343,000) and RMB33,217,000 (2007: RMB24,418,000), respectively, as at the balance sheet date. The other payables are unsecured, interest-free and have no fixed terms of repayment.

**18. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had the following capital commitments:

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	63,440	94,536
Plant and machinery	66,202	65,039
	129,642	159,575
	129,642	159,575



## 19. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the condensed interim financial statements were as follows:

	<b>30 June 2008</b>	<b>31 December 2007</b>
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Guarantees given to banks in connection with facilities granted to:		
Associates	350,000	450,000
Third parties	73,113	56,680
	<u>423,113</u>	<u>506,680</u>

## 20. PLEDGE OF ASSETS

As at 30 June 2008, the Group has pledged some land and buildings with a net book value of approximately RMB44,038,000 (31 December 2007: RMB47,096,000) to acquire guarantee for bank loans from Beijing Zhongguancun Science Technology Guarantee Co., Ltd..

As at 30 June 2008, certain trade receivables with a carrying amount of RMB126,172,000 (31 December 2007: RMB131,799,000) were pledged to secure the guarantee from Beijing Zhongguancun Science Technology Guarantee Co., Ltd. for the loans.

As at 30 June 2008, the Group has pledged some land and buildings with a net book value of approximately RMB151,852,000 (31 December 2007: nil) to secure bank loans RMB120,000,000 granted to the Group.

## 21. POST BALANCE SHEET EVENTS

On 22 July 2008, Kaifa Technology (HK), a subsidiary of the Company, entered into agreements with each of Able Success Limited, Pearl Wealth Limited and Beijing Pacific Lu Lu Tung Network Technology Co. Ltd, all being shareholders of Kaifa Magnetic, to acquire from them an aggregate of 15% of the issued share capital of Kaifa Magnetic for a total consideration of RMB99,999,583. Upon completion of the acquisitions, the Group's shareholdings in Kaifa Magnetic will be increased from 63.85% to 71.29%.

## 22. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation and accounting treatment.

## 23. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed interim financial statements were approved and authorised for issue by the Board on 26 August 2008.

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GREAT WALL TECHNOLOGY COMPANY LIMITED**

*(Incorporated in the People's Republic of China with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 5 to 24, which comprise the condensed consolidated balance sheet of Great Wall Technology Company Limited (the "Company") and its subsidiaries (together the "Group") as of 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and the explanatory notes. The Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

#### **Ernst & Young**

*Certified Public Accountants*

18th Floor, Two International Finance Centre, 8 Finance Street, Central  
Hong Kong

26 August 2008

## CHAIRMAN'S STATEMENT

During the Reporting Period, the profit after tax attributable to the shareholders of the Company was RMB195,517,000, while that of the corresponding period last year was RMB263,861,000. The core businesses of the Group continued to develop at a stable and healthy pace. During the Reporting Period, the Group achieved an operating profits before tax of RMB366,626,000, while the operating profits before tax realized in the corresponding period last year was RMB638,177,000. The sales for the Reporting Period was RMB11,689,956,000, a 10.6% growth as compared to the corresponding period in the last year.

### Business Review

During the Reporting Period, despite the difficulties and increased uncertainties in the general economic development, each member of the Group maintained its operation strategy of "quality first" and "prudent while aggressive" and continued the management measures characterized by "high-end positioning, precision management, strengthened international cooperation and IEMS manufacture". During the Reporting Period, the Group recorded a turnover of RMB11,689,956,000, a 10.6% growth as compared to that of the corresponding period last year. The timely adoption of the effective contingency measures enabled the Group to offset part of the risks arose from various unfavorable factors such as the appreciation of RMB, soaring prices of raw materials, snow and freeze disasters and earthquakes. The Group managed to improve its economic effectiveness and achieved a total profit before tax of RMB366,626,000 in the first half year of 2008.

During the Reporting Period, all members of the Group carried out with effort the spirit of the annual work meeting of CEC. Under leadership of the Board and endeavor of the management team, the production and operation of the Group functioned smoothly. These featured relentless product innovation by "weeding through the old to bring forth the new", "balanced development situation", expansion of business scale as well as strengthening market exploration. Following the completion of construction of the Suzhou production base of Great Wall Kaifa in 2006 and 2007, the phase one of Beihai base of CGC was put into production in January 2008. In May 2008, CGC and state-owned Changhai Electrical Plant (長海電器廠) formed a joint equity venture Guilin Changhai Development Co., Ltd. (長海科技有限責任公司) in Guilin of Guangxi Province to engage in R&D and production of safe computers and special computers under the brand of "Great Wall", for unceasingly extending the market share of the Group's self-owned brand product in China and public information security area. The Group is fundamentally endowed with the following strengths:

1. Brand advantage: The Group is a top-100 enterprise in the electronic industry in China. The trademark of "Great Wall" is one of the renowned brands in China. Great Wall Technology owns three branded products in the PRC, namely micro-computer, notebook computer, server under the brand name of "Great Wall". Great Wall Computer has passed the "China Branded Product Re-examination" for three times. At The USA International Consumer Electronics Show (abbreviated as CES) held in Las Vegas Convention Center in the USA in January 2008, "Great Wall" was again awarded "China Top-Ten Leading Brands of Consumer Electronic Products" after it reaped this laurel last year. In March 2008, Great Wall Kaifa, Great Wall Computer and ExcelStor Technology were named "Shenzhen Top-100 Enterprise". In June 2008, the Group's subsidiaries Great Wall Computer and ExcelStor Technology, were named the "Leading Enterprise of proprietary and innovation industry in Shenzhen", such that they will enjoy prioritized support from the relevant authorities in respect of project approval, land examination and approval and grant of loan and so on. In July 2008, China Construction Bank entered into a strategic cooperation agreement with Great Wall Technology to provide a loan facility of RMB4.5 billion to Great Wall Technology.
2. Innovation strength: During the first half of 2008, the Group had applied for a total of 148 patents, 60 of which were invention patents, and established a new research and development center. The amendments to the national hard disk standards initiated by ExcelStor Technology had been approved by the National Committee for Information Technology Standards. The 160G hard disk project had been accepted by the National Development and Reform Commission, while GSTOR secured storage devices had been issued with the secured computer product sales permit by the Ministry of Public Security. At the same time of perfecting the product and engineering technology center in Shenzhen, ExcelStor Technology established the "Information Storage System and Engineering Technology Research Center" jointly with Huazhong University of Science and Technology in Beijing, being an American scientific research center to reinforce frontline technological research. ExcelStor Technology won the title of "superior enterprise with intellectual property in Shenzhen" in April 2008. ExcelStor GSTOR Wave, the proprietary hard disk brand, won German mittelstand Innovative Product Award and Singapore Hardware MAG silver medal.

Great Wall Kaifa had achieved significant results in its product research and development by holding fast to the cycle of "production – research – preliminary research". Notwithstanding the market downturn in the first half of 2008, three products with proprietary technology had made remarkable appearance in the market. Great Wall Kaifa had comprehensively upgraded its techniques and technology and reinforced IEMS industry competitiveness. The sales of own-brand products such as smart electricity meters and tax control machines had increased substantially as compared to that in the same period last year.

Great Wall Computer had been increasing its investment in science and technology and had recruited almost one hundred high caliber research and development staff in recent three years. Great Wall Computer showcased over ten kinds of products under its independent research and development, including flat-panel TVs, LCD monitors, energy saving power supplies, desktop computers, notebook computers, electronic photo frames and GPS, at CeBIT2008, the world's largest international information and communication technology expo held in Hanover, Germany on 4 March 2008. Great Wall branded power supplies were exported to Germany, Korea and Ukraine with the export volume increased over ten times comparing to the corresponding period last year. "Great Wall" monitors and "Great Wall" power supplies continued to dominate the domestic market.

3. Management strength: All members of the Group had been actively pursuing intensification of scientific management. In the aspect of corporate management, the continued implementation of precision and information management had further enhanced the management standard. Great Wall Kaifa had further strengthened its information management through effective integration of "SAP system and FIS production site management information system" at its production base in Shenzhen and its operations in Suzhou. At the same time, SAP-HR human resource management system had also been operating successfully at both locations, laying a solid foundation for the sound and fast growth of Great Wall Kaifa.

Kaifa Magnetic Recording had further developed its production information system while stepping up the implementation of IE and the promotion of 6S management means. It had put forward the goal of management enhancement in terms of "shortening production time by one minute and raising pass rates by one percentage point" and achieved good results through various efforts such as exploring its potential, strengthening its management, improving production techniques, enhancing quality and effectiveness, all of which had effectively covered part of the cost increment due to rising labor and energy cost. Currently, substrates, the core product of Kaifa Magnetic Recording, accounts over 25% market share of the global OEM market. CGC had further enhanced its management effectiveness by introducing 6SIGMA management system. GWCSS had further integrated its management and established an efficient management system covering business consultation, management, maintenance, research and development, planning and problem solving. As a result of which, its capability in the area of business expansion had been reinforced, resulting in 45% increase in its contract amount in comparison with the corresponding period last year.

In the area of financial management, the Group had focused on risk prevention through strict control of inventory and receivables as well as proactive mitigation of foreign exchange risk. During the first half of 2008, all members of the Group had proactively mitigated foreign exchange risk by adopting various effective measures such as increasing "loans in US dollar", speeding up "foreign exchange settlement for exports", changing methods of settlement for exports so as to keep minimum level of US dollar position as well as expanding the scale of worldwide purchase of raw materials.

In the area of safety management, the Group was awarded the honorable title of "Advanced Unit with Safe Production" by CEC in July this year.

### **Social Responsibility**

The Group had been pursuing the objective of fulfilling social responsibility while maximizing shareholders' interests, therefore has won extensive public recognition and established good corporate image.

Subsequent to the earthquake in Wenchuan, Sichuan Province on 12 May 2008, the Group appealed to all the staff to show care to the earthquake victims and do their part for disaster relief. The members of the Group and their staff had donated a total of RMB3,170,000. In recognition of its contribution, the Group was awarded the title of "Caring Enterprise" by Shenzhen Electronic Chamber of Commerce in July 2008.

The Group had been actively fulfilling its responsibility in terms of environmental protection and energy saving. By advocating green production and consumption, saving social resources and pursuing recycling economy, the Group had showed its commitment to coordinated development of business and environment as well as its efforts in building a resources saving and environmentally friendly enterprise. The Group had implemented environmental certification standards as prescribed by EU RoHS (the directive restricting use of certain hazardous substances in electronic and electrical equipment) and WEEE "the Waste Electrical and Electronic Equipment Directive" for the entire process of producing its core products, including raw material, parts and finished products. At the same time, the entire product lines of Great Wall monitors, power supplies, PC and notebooks had been certified as energy saving products by the State. ExcelStor Hard Disk had introduced power saving module to save up to 65% electricity. ExcelStor Technology was awarded the title of "Advanced Unit in Waste Reduction in Shenzhen" in May 2008.

## Outlook

From the angle of industry development environment, with the accelerated integration of communication, computer and TV broadcasting networks, that of hardware and software as well as software and services, the information industry will embrace a new round of changes in technology, product and application, creating new and enormous business opportunities for electronic information enterprises in China.

In the second half of 2008, we will continue to carry out scientific development and focus on our core businesses so as to strengthen and expand computer and key parts and components businesses. The Group will pursue the development strategy of “mid to upstream shifting of business, mid to high-end development of technology” by strengthening corporate autonomy and innovation, vertically lengthening business chain and horizontally expanding scale of marketing, all under the goal of achieving effectiveness and sustainable development. Through the above efforts, the Group will promote the reform of corporate technology and building of production bases, thus further upgrade its business and product structures. In addition, the Group will further expand into international, domestic as well as emerging markets. The corporate operational efficiency will be enhanced by way of strengthened corporate scientific management, energy saving and waste reduction. The risk prevention system will be further perfected to strictly control corporate operational and financial risks. All the above initiatives are aimed at continuously enhancing the Group’s core competitiveness.

I firmly believe that the outstanding management and the loyal and dedicated staff of the members of the Group as well as the Group’s long-term friendly and cooperative business partners have been the most valuable intangible assets of the Group and the driving force of the Group’s development. I would like to take this opportunity to express my gratitude to the board of directors and all the staff of the Group for their hard work, loyal services and contribution during the period, as well as to all the shareholders and business partners for their long-term support and help to the Group.

By order of the Board

**Lu Ming**  
Chairman

Shenzhen, PRC  
26 August 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the Reporting Period, the Group realised a turnover of RMB11,689,956,000, representing an increase of 10.6% as compared to the corresponding period of last year, and interim profit after tax attributable to the shareholders of the Company amounted to RMB195,517,000 as compared to the interim profit of RMB263,861,000 for the corresponding period last year.

### Liquidity and Financial Resources

As at 30 June 2008, the Group's total cash and cash equivalent amounted to RMB2,451,497,000 and the Group's total bank borrowings amounted to RMB1,067,415,000. The structure of such borrowings was as follows:

- (1) 82.8% was denominated in Renminbi;
- (2) 93.6% was made on fixed interest rates.

No such borrowings will be expired and repayable within 2 to 5 years.

As at 31 December 2007, the Group's total cash and cash equivalent amounted to RMB2,719,237,000 and the Group's total bank borrowings amounted to RMB865,000,000. The structure of such borrowings was as follows:

- (1) 100% was denominated in Renminbi;
- (2) 25% was made on fixed interest rates.

No such borrowings will be expired and repayable within 2 to 5 years.

### Gearing Ratio

As at 30 June 2008, the Group's total bank borrowings and shareholders' equity were RMB1,067,415,000 and RMB3,694,470,000 respectively, as compared to RMB865,000,000 and RMB3,706,813,000 respectively as at 31 December 2007.

The gearing ratio as at 30 June 2008 was 28.89%. The gearing ratio as at 31 December 2007 was 23.34%. The gearing ratio is defined as the ratio between total bank borrowings and shareholders' equity.



## **Current Ratio and Working Capital**

As at 30 June 2008, the Group's current assets and current liabilities were RMB6,341,612,000 and RMB4,403,269,000 respectively, while the Group's working capital was RMB1,938,343,000. The current ratio was 1.44.

As at 31 December 2007, the Group's current assets and current liabilities were RMB6,937,025,000 and RMB4,915,210,000 respectively, while the Group's working capital was RMB2,021,815,000. The current ratio was 1.41.

## **Charge of Group Assets**

As at 30 June 2008, the Group had pledged to banks its bank savings of approximately RMB8,391,000 to secure general banking facilities for the Group. As at 30 June 2008, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

As at 31 December 2007, the Group had pledged to banks its bank savings of approximately RMB8,933,000 as a pledge of banks' general finance for the Group. As at 31 December 2007, no borrowings were guaranteed by CEC, the ultimate holding company of the Group.

## **Contingent Liabilities**

The Group's contingent liabilities are set out in detail in note 19 to the financial statements.

## **Exchange Rate Fluctuation**

During the Reporting Period, approximately 83.03% of the turnover of the Group was received in US dollars. The loans of the Group were mainly denominated in Renminbi. Any rise of the exchange rate of the US dollar against the Renminbi will have a positive impact on the Group. Any fall of the exchange rate of the US dollar against the Renminbi will have an adverse impact on the Group.

## **Major Events**

At the shareholders' meeting of GWBNS, a associate of the Company, held on 7 April 2008, all the shareholders resolved that the registered capital of GWBNS shall be increased from RMB600,000,000 to RMB900,000,000. Of the increased registered capital of RMB300,000,000 of GWBNS, 50%, being RMB150,000,000 shall be contributed by the Company. The capital contribution was completed on 10 April 2008. Upon completion of the capital contribution, the equity interest of the Company in GWBNS increased from 35% to 40%, whereas the Group's total equity interest in GWBNS remains unchanged at 50% after the capital contribution.

**Event Subsequent to Balance Sheet Date**

On 22 July 2008, Kaifa Technology (HK), a subsidiary of the Company, entered into agreements with each of Able Success Limited, Pearl Wealth Limited and Beijing Pacific Lu Lu Tung Network Technology Co. Ltd, all being shareholders of Kaifa Magnetic, to acquire from them an aggregate of 15% of the issued share capital of Kaifa Magnetic for a total consideration of RMB99,999,583. Upon completion of the acquisitions, the Group's shareholdings in Kaifa Magnetic will be increased from 63.85% to 71.29%.

**Business Risks and Risk Management Policies**

The Company's associate, GWBNS, was established in 2000. Up to the date of this interim report, GWBNS is owned as to 50% by Midinfo Network Limited, and the Company also holds a 40% direct interest in GWBNS and each of Great Wall Kaifa and CGC both of which are subsidiaries of the Company, holds a 5% interest in GWBNS.

Due to intense competition in the broadband industry and substantial capital requirement, as at 30 June 2008, GWBNS has recorded an accumulated loss of approximately RMB1,116 million in its unaudited management accounts. As at the date of this interim report, the Company has provided a guarantee in respect of the loan granted to GWBNS, which amounted to approximately RMB350 million and provided a loan of approximately RMB443 million to GWBNS. Due to intense competition in the inland broadband industry and the impact of macro economic policy adjustment, there are certain risks inherent to the above guarantee and loan.

**Employees**

As at 30 June 2008, the number of employees of the Group was approximately 17,000 (as at 31 December 2007: approximately 17,000). The salaries of the employees were determined according to the rank in and contribution to the respective company of any individual employee with reference to the remuneration and incentive system of the respective company.

## **OTHER INFORMATION**

### **PRINCIPAL ACTIVITIES**

The Group's business covers various fields, including computer components and parts, computer manufacturing, GSM and CDMA mobile phones, software and system integration, broadband networks and value-added services. The Group's computer parts and components products include magnetic heads, disk substrates, hard disk drives (HDDs), monitors, switching power supplies and cards etc.. Computer supply products include personal computers, notebook computers, servers, ATMs, tax controlling cashing machines, projectors, digital TV sets, and network smart electronic meters. In the field of software and system integration, our products include large information systems oriented to applications for the public security, taxation, industry and commerce, and financial sectors. Regarding broadband network and value-added services, we have set up a broadband network covering 30 large cities in China. The Group is one of the leading providers of diversified information products in China. Such businesses were mainly undertaken by the subsidiaries and associates of the Company.

### **PROFIT DISTRIBUTION PLAN DURING THE PERIOD AND ITS IMPLEMENTATION**

On 19 June 2008, the Company convened its annual general meeting for the year 2007. Due to the accumulative losses of result prepared in accordance with generally accepted accounting principles in the PRC, the Company did not adopt any profit distribution plans for the year 2007.

### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

## SHARE CAPITAL STRUCTURE

As at 30 June 2008, the total share capital of the Company amounted to RMB1,197,742,000, divided into 1,197,742,000 shares of RMB1.00 each. The share capital of the Company as at 30 June 2008 was as follows:

	<b>As at 30 June 2008</b> (Unaudited) Number of shares	<b>As at 31 December 2007</b> (Audited) Number of shares
State-owned legal person shares	743,870,000	743,870,000
Oversea listed foreign shares (H Share)	453,872,000	453,872,000
Total shares	<u>1,197,742,000</u>	<u>1,197,742,000</u>

*Note:* There was no change in the share capital structure of the Company during the Period and during the period from 30 June 2008 up to the date of this interim report.

## DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2008, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined under Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors and chief executives of the Company were deemed or taken to have under such provisions of the SFO) or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") adopted by the Company were as follows:

### 1. Personal Interests

<b>Name of Director</b>	<b>Number of Shares held</b>	<b>Approximate percentage of total registered share capital of the relevant entities</b>
Mr. Lu Ming	83,952 shares of CGC (L)	0.0183%
Mr. Tam Man Chi	1,113,878 shares of Great Wall Kaifa (L)	0.12%

## 2. Corporate Interests

Name of Director	Number of Shares held	Approximate percentage of total registered share capital of the relevant entities
Mr. Tam Man Chi	73,389,587 shares of Great Wall Kaifa (Note 1)(L)	8.34%

*Note:*

1. Broadata (H.K.) Limited ("Broadata") held approximately 8.34% of these shares. Flash Bright International Limited held approximately 67.96% shares in Broadata. Mr. Tam and his spouse held in aggregate 100% equity shares in Flash Bright International Limited.

The letter "L" denotes a long position.

Save as disclosed above and so far as the Directors, supervisors and chief executives of the Company are aware, as at 30 June 2008, none of the Directors, supervisors and chief executive officers of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, supervisor or chief executive officers is taken or deemed to have under such provisions of the SFO) of which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code adopted by the Company.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors, supervisors and chief executives of the Company are aware, as at 30 June 2008, the following persons (other than the Directors, supervisors and chief executives of the Company) had an interest or short position in the Company's shares or underlying shares which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Class of shares	Number of the Company's shares held	Approximate shareholding percentage of the issued State-owned legal person shares	Approximate shareholding percentage of the issued H shares
Great Wall Group	State-owned legal person shares	743,870,000	100%	–
HKSCC NOMINEES LIMITED	H shares	449,361,900	–	99.01%

Save as disclosed above and so far as the Directors, supervisors and chief executives of the Company are aware, as at 30 June 2008, no other person (other than the Directors, supervisors or chief executives of the Company) had an interest or short position in the Company's shares or underlying shares which are required to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## PURCHASE, SALE AND REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY OR ANY OF ITS SUBSIDIARIES

The Company did not purchase, sell or redeem any listed securities of the Company or its subsidiaries during the 6 months' period ended 30 June 2008.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all independent non-executive directors concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Directors are in the opinion that the existing independent non-executive directors are independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

## **THE PURCHASE AND SALE OF SHARES BY THE DIRECTORS AND SUPERVISORS**

During the six months ended 30 June 2008, the Company had not granted any right to any Directors or supervisors and their spouses or children less than 18 years of age to subscribe for shares in the Company. The interests of the Directors and supervisors of the Company in the shares of the Company, its subsidiaries or its associated corporation are set out in the section headed "Directors', Supervisors' and the Company's Chief Executives' Interests and Short Positions in the shares, underlying shares and debentures of the Company".

## **OTHER DISCLOSURES**

### **Litigation**

As at 11 September 2008, being the latest practicable date ("Latest Practicable Date") for ascertaining certain information referred to in the interim report prior to printing of this interim report, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### **GUARANTEE FOR INDEPENDENT THIRD PARTIES**

As at 30 June 2008, the Group had provided a guarantee of approximately RMB73,113,000 in respect of bank facilities granted to third parties, of which Great Wall Kaifa, the Company's subsidiary, and China National Machinery & Equipment Import & Export Corporation ("CMEC") have collaborated on the export of Italy ENEL Smart Meter. The Bank of China had issued a performance bond for the said project with CMEC as the applicant of the bond.

### **GUARANTEE FOR AN ASSOCIATED COMPANY**

As at 30 June 2008, the Group had provided guarantee of approximately RMB350,000,000 in respect of bank facilities granted to GWBNS, an associated company.

Balance sheet of the above associated company is extracted from its unaudited management accounts as at 30 June 2008 and is set out as follows:

	RMB'000
Non-current assets	1,222,530
Current assets	282,317
Current liabilities	1,342,365
Shareholders' equity	<u>162,482</u>

## ADVANCE TO ASSOCIATED COMPANIES

As at 30 June 2008, the balance of advance of approximately RMB521,515,000 represented the amount due from associated companies. The balances were incurred from the ordinary course of business of the Group. The above advance balance bore interest, of which RMB78,959,000 bore a interest rate of 5.05% and of which RMB442,556,000 bore interest rate of 5.58% to 6.57%. Combined balance sheet of the associated companies is extracted from their management accounts as at 30 June 2008 and is set out as follows:

	RMB'000
Non-current assets	1,404,093
Current assets	326,788
Current liabilities	1,387,313
Non-current liabilities	153,413
Shareholders' equity	<u>190,155</u>

## PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

## SUFFICIENCY OF PUBLIC FLOAT

According to the public information that is available to the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the Latest Practicable Date.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company, currently and within the Reporting Period, adopted and applied the principles of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules.

## INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

For the six months ended 30 June 2008, the Company has complied with the provisions of Rules 3.10(1) and 3.10(2) of the Listing Rules that sufficient number of independent non-executive directors be appointed by listed issuers and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. For details of the independent non executive directors of the Company, please refer to the 2007 Annual Report of the Company.



Furthermore, in compliance with the requirements of the CG Code and Rules 3.21 of the Listing Rules, an Audit Committee was established in December 1999. The principal duties of the Audit Committee include the review of the Company's financial reporting program, internal controls and financial reporting matters of the Group. Since 29 June 2007, the Audit Committee comprises three independent non-executive directors, namely Mr. Kennedy Ying Ho Wong (the chairman of Audit committee), Mr. Li Sanli and Ms. Wang Qinfang.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed, with the management, the accounting principles and policies, audit, internal controls and financial reporting adopted by the Group, and the unaudited interim financial report for the six months ended 30 June 2008 and recommended its adoption by the Board. In addition, Ernst & Young has reviewed the unaudited interim financial results in accordance with Hong Kong Standard on Review Engagements 2410 issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 was approved by the Board on 26 August 2008.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS' OF LISTED ISSUERS**

For the six months ended 30 June 2008, the Company has adopted a code of conduct regarding directors' and supervisors' securities transactions on terms no less exacting than the required standard set out in the Model Code For Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to Directors and supervisors, and its Directors and supervisors have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers and the relevant Code of Conduct regarding directors' securities transactions.